MicroCapital Monitor
THE CANDID VOICE FOR MICROFINANCE INVESTMENT

MARCH 2008 | VOLUME.3 ISSUE.3

MICROCAPITAL BRIEFS | TOP STORIES

CGAP Reveals First Performance Figures on Microfinance Funds

A new Consultative Group to Assist the Poor (CGAP) report reveals an increasingly sophisticated microfinance investment market with a wide spectrum of options, including fixed-income mutual funds, structured finance vehicles and private equity and venture capital companies. Returns range from an average of 8 percent for structured finance vehicles at the highest to as low as zero for some young funds. Foreign fixed-income investment has been dominated by a few funds investing in hard currency in a small number of high-growth, large microfinance institutions (MFIs). Overall equity investment has lagged behind fixed-income investment, as few microfinance institutions are legally structured to take equity and exit options are scarce. Microfinance investment funds grew at an annual rate of almost 80 percent between 2004 and 2007, totaling USD 3.5 billion in 2007. The authors warn that the debt market has "become overheated and pricing does not reflect real risks." They also refer to the under-appreciation of savings as a source of funds for MFIs and to the increasing presence of non-social investors, who may both encourage harsh repayment methods and increase the availability of microfinance to the hitherto unbanked. March 11. 2008

Billionaire Anil Ambani's Reliance Capital Launches Microfinance Initiative in India

Reliance Capital of India (RC), a publicly-traded financial institution, launched a nationwide microfinance initiative on March 3 with loans to MAS Financial Services Limited (MFSL) and Vardan Trust (VT) for on-lending to individuals, self-help groups (SHGs) and other joint liability microfinance structures. MFSL holds total assets equivalent to USD 32.4 million, and its loan portfolio is nearly USD 24.5 million. MFSL has over 250,000 customers and net income of USD 2 million. VT reported total assets of USD 1.1 million and a loan portfolio of USD 843,000. VT's return on assets is 0.60 percent and its debt-equity ratio is 14,000 percent. RC reports total assets of USD 1.5 billion, total income of USD 200 million and a debt-equity ratio of 0.28:1. March 10. 2008

Goldman Sachs to Open $100m Entrepreneurship Academy

Goldman Sachs (GS) has committed USD 100 million over the next five years to educational projects for businesswomen in developing countries, many with help from local microfinance banks. Most have little formal business education and face problems such as access to finance, business education and access to a network of mentors. GS is hoping to create a new model of management education designed to help these women learn everything from writing a business plan to marketing their own business. The company will be teaming up with a coalition of business schools, including Wharton, Columbia and Harvard. March 10. 2008

Nigeria Creates $426m Microcredit Development Fund

Nigerian President Alhaji Musa Yar'Adua announced the creation of a microcredit development fund worth USD 426 million to be administered by the Central Bank of Nigeria (CBN). The new fund will be used to provide existing microfinance institutions (MFIs) with funding for credit creation and operational expenses. The creation of the fund has been expected by the development community for some time. The announcement took place on February 19 at CBN's Banks and the Nigerian Economy conference and was followed by a request whereby Yar'Adua asked states and municipal governments to contribute one percent of their annual budgets to the fund. This comes after MicroCapital reported on a consolidation of the Nigerian banking community that closed down at least 145 MFIs leaving 716 in operation. As of October 2007, CBN reported total assets equivalent to USD 61.4 million. February 22. 2008

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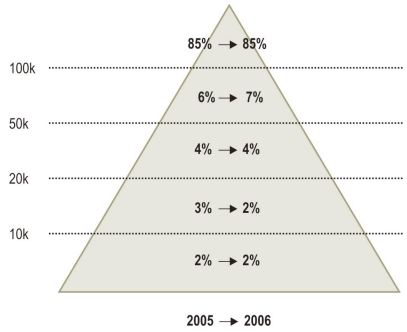
EAST ASIA AND PACIFIC
MFI MARKET SHARE TRENDING 2005 TO 2006
BY MFI SIZE (NUMBER OF ACTIVE BORROWERS)



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MICROCAPITAL BRIEFS

Dexia Micro-Credit Fund of Luxembourg Lends $27m to 9 MFIs

The Consultative Group to Assist the Poor (CGAP) reports that Luxembourg-based Dexia Micro-Credit Fund issued loans of USD 1 million to CCA of Cameroon, USD 1 million to Credo of Georgia, USD 5 million to BancoSol of Bolivia, USD 5 million to FINDESA of Nicaragua, USD 5 million to Azerbaijan's MFBA, USD 3 million to ProCredit Holding, USD 5 million to ProCredit Bank, USD 1.5 million to LOKmicro of Bosnia and USD 500,000 to AMK of Cambodia. The Dexia Micro-Credit Fund reports total assets of USD 298.5 million, of which USD 284.9 million was allocated to 163 active microfinance investments. March 25. 2008

$10b Islamic Solidarity Fund to Focus on Microfinance

The Islamic Development Bank (ISD), a multilateral development financing institution, announced the implementation of a five-year plan to eliminate poverty, reduce illiteracy and fight contagious diseases throughout the Muslim world. The Islamic Solidarity Fund for Development, a USD 10 billion fund, will fuel the development of two programs: the Vocational Literacy Program for Poverty Alleviation (VOLIP) and the Microfinance Support Program (MFSP). Both programs will target pockets of poverty throughout the 56 member nations of the ISD which include developing nations in Africa, the Middle East, Asia and the Commonwealth of Independent States. The primary use of funds, however, will be in the poorest ISD states, 80 percent of which are located in Sub-Sahara Africa. March 20. 2008

MicroCapital Details ACCION's CCM III Conference

This month ACCION International held its third Cracking the Capital Markets conference on microfinance investment. MicroCapital published a 4-part series reviewing several of the conference sessions at MicroCapital.org. March 14 and March 19. 2008

responsAbility Fund Loans $3m to FINCA Kyrgyzstan

The Consultative Group to Assist the Poor (CGAP) reports that Luxembourg-based responsAbility Global Microfinance Fund (GMF) loaned USD 3 million to the Foundation for International Community Assistance (FINCA) Kyrgyzstan in January. GMF has current invested assets totaling USD 200 million. The Fund is managed by Credit Suisse Microfinance Fund Management Company of Luxembourg. The Kyrgyzstan branch of FINCA International has a combined loan portfolio of USD 34 million. FINCA International reported a loan portfolio of USD 166 million for 2006. March 18. 2008

Nigeria's Intercontinental Bank to Launch $25.9m MFI

Blue Financial Services (BFS), a South African microfinance institution (MFI), and Intercontinental Bank Plc, Nigeria's largest commercial and retail bank by assets, are collaborating to launch a Nigerian MFI capitalized at an equivalent USD 25.9 million, the largest such institution in the country. BFS will hold a 55 percent share in the bank, while Intercontinental will maintain 35 percent and US-based private equity investor AIG Capital Partners will hold the remaining ten percent. For the year ending February 2007 BFS reported assets of USD 68.8 million. Its return on assets was 5.52 percent and its debt-equity ratio was 32.63 percent. Last year BFS posted a 472% improvement in year-to-year performance. As of February 2007 the bank had USD 5.7 billion in assets, of which USD 2.1 billion was listed as loans. Its return on assets was 2.15 percent and its debt-equity ratio was 348.15 percent. March 13. 2008

Nigeria Undertakes $27.2m Loan from IFAD

The Federal Executive Council of Nigeria has approved a USD 27.2 million equivalent loan from United Nations agency International Fund for Agricultural Development (IFAD). The loan, along with a USD 400,000 equivalent grant from IFAD is a seven-year plan to strengthen rural microfinance institutions (MFIs) in Nigeria. The goal of RFIBP is to reach 345,000 households and establish increased linkages between MFIs and mainstream financial institutions. March 14. 2008

Disaster Website for Microbanks

The Quick Centre website went live in February 2008 with the goal of facilitating the exchange of documentation and organizational experiences related to the practice of microfinance in disaster situations, such as hurricanes. Financial support for the site comes from Bank Indonesia and Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ), the German development agency. March 12. 2008

Centurion Bank of Punjab Bringing M-Payments to Rural Areas

India's Business Standard reports that Centurion Bank of Punjab (CBoP) is looking to offer mobile banking via short service messages (SMS) on mobile phones. For instance if a farmer wants to purchase fertiliser, he can send an SMS to a fertiliser dealer about his requirement. In turn, the dealer will deliver the required fertiliser to the farmer. The payment would be transferred from the farmer's account to the account of the dealer. CBoP, which is currently funding three microfinance institutions, intends to increase its microfinance exposure. In the next three months, it plans to add 20 branches to its existing network of 392 branches across India. March 12. 2008

Jamaican MFI to Receive $1.6m From Scotiabank and CIDA

Scotiabank Jamaica and the Canadian International Development Agency (CIDA) have committed USD 1.6 million to Micro Enterprise Financing Limited (MEFL), a Jamaican microlender, to fund the distribution of loans to small companies. CIDA is providing USD 930,000, while Scotiabank is fronting USD 680,000. To date, contributions from CIDA and Scotiabank to MEFL have been close to USD 6 million. March 11. 2008

Morgan Stanley and WWB Sum Up Capital Markets Conference

In February nearly 300 people attended a Morgan Stanley and Women's World Banking conference on microfinance and the capital markets. The conference featured a Microfinance Case Study Competition where teams of Morgan Stanley employees worked with MFIs prior to the conference to develop high-level, strategic case studies. First place was awarded to the team working with Findesa, the largest MFI in Nicaragua. March 10. 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!

EBRD Lends $1m to IMON of Tajikistan

The European Bank for Reconstruction and Development (EBRD), a multilateral development bank focused on European and Asian ex-Communist economies, will provide a USD 1 million loan to IMON, a Tajik microfinance institution. EBRD reported EUR 30.7 billion in assets as of yearend 2006, of which EUR 493.5 million was allocated to microfinance investments. IMON's assets totaled TJS 27.3 million (USD 7.9 million as of March 6, 2008; historical currency conversion not available), of which TJS 25 million (USD 7.2 million) was classified as loans. Its return on assets was 7.61 percent and its debt-equity ratio was 601.27 percent. March 7. 2008

US Bank, Haitian Fonkoze Send Remittances

Fonkoze, Haiti's largest microfinance institution, and Central National Bank of Enid (CNB) of the US have partnered to create a stored-value card for managing personal finances and remitting funds to Haiti. The cards will offer standard prepaid card functions plus the ability to send USD 2,500 per day to Haiti for a fee of USD 6. Haitians living abroad sent more than USD 1.65 billion to their country in 2006. Fonkoze has facilitated USD 62 million in remittances over the last six years. CNB, held by Central Services Corporation, reported assets of USD 437 million in 2006. March 7. 2008

Moral Investing Surges in US

A report from the nonprofit Social Investment Forum states that socially responsible investing (SRI) in the US is growing at a faster pace than the broader universe of investment assets under professional management. The report found that from 2005 to 2007 SRI assets increased more than 18 percent, while all investment assets under management edged up by less than 3 percent. The report identifies USD 2.71 trillion in total SRI assets, which is nearly one out of every nine dollars under professional management in the US. March 7. 2008

ABM Suffers in Busy Palestine Exchange

In 2007, Palestine Securities Exchange (PSE) saw a 34.5 percent increase in total number of shares traded. The increase may be partially attributed to the beginning of online trading in April 2007. Al Rafah Microfinance Bank (AMB) is one of six companies listed in the PSE's banking sector. Since it began trading AMB has fallen roughly 21.2 percent, with most of the decline occurring immediately after listing in April 2007. In 2007 it reported net profit margin of 24.4 percent, an average ROA of 1.15 percent and an average ROE of 3.08 percent. The PSE had a total market capitalization of USD 2.1 billion as of August 2007. March 6. 2008

BusinessWeek Discusses "the Next Level" of Microfinance

BusinessWeek, the same US publication which not long ago equated microfinance with "big-box" retailer consumer-goods lending, now reports: "In recent years investors' appetite for microfinance has exploded." March 6. 2008

WSJ & FT Aflutter Over Grameen's $176m for Loans in New York

Both the Financial Times and the Wall Street Journal recently interviewed Muhammad Yunus for articles on Grameen Bank's first loans to customers in the US, where about 28 million people have no bank account. The volume of payday loans here, which can charge interest rates in excess of 1,500 percent, has almost doubled to USD 48 billion in the past five years. Grameen has lent USD 145,000 in the US since January at interest rates near 15 percent. During the next five years it plans to offer USD 176 million in loans within New York City and then expand to the rest of the US. After beginning with small loans to micro-entrepreneurs Grameen plans to expand into other businesses such as remittances and mortgages, as it has done in Bangladesh. February 20 and March 4. 2008

World Vision Announces 48.8% Growth in Eastern Europe

World Vision International (WVI) reports significant growth in the Middle East/Eastern Europe Region for fiscal year 2007. Its microfinance customer base surpassed 100,000, a 48.8 percent increase, with most of the growth in Eastern Europe. WVI's total regional portfolio grew to USD 203 million in 2007. WVI is an international Christian humanitarian organization which organizes relief efforts, child sponsorships and supports MFIs. March 4. 2008

MFBA Completes $25m Bond Issue

Micro Finance Bank of Azerbaijan (MFBA) has announced the second closing on its debut bond issue worth USD 13.6 million. This was in addition to the USD 11.4 million in bonds that was issued under the first closing completed in August 2007. This was the second closing on a historic landmark transaction that was a triple "first": the first international capital markets bond issue for MFBA, the first for an Azeri issuer and the first for a single microfinance lender anywhere. The bond issue was arranged by Developing World Markets (DWM), a US-based socially responsible financial group. March 4. 2008

Peru's MiBanco Rumored to be Planning IPO

Peru's leading microlender Mibanco may be planning an IPO on the Lima stock market this year. The Peruvian bank would become the second large Latin American microfinance institution to list shares following Mexico's Banco Compartamos, which raised over USD 400 million last year. ACP Inversiones y Desarrollo holds a controlling stake in Mibanco, which had over USD 512 million in assets and a net worth of USD 59 million as of September 30. March 4. 2008

Bangko Sentral ng Pilipinas Rolls Out New Housing Product

The Bangko Sentral ng Pilipinas (BSP) approved a new microfinance product for home improvement and the purchase of lots and homes. The BSP housing microloan offers relatively large sums; while microloans usually range in the hundreds of dollars, the new product offers loans in the thousands. Some worry that the impact of the new product is limited by its connection to BSP whose close scrutiny of microfinance operations has alienated banks in the past.
March 4. 2008

Unitus Doubles Partner Network Client Base in 2007

Unitus Inc, an American nonprofit committed to poverty relief through microfinance facilitation, has announced that the number of families impacted by its network of microfinance partners reached 3.3 million at the end of 2007, which is more than twice the number served in 2006. Unitus itself is not a direct provider of financing; the gross loan portfolio of all its partners as of yearend 2006 totaled USD 115.4 million.
March 4. 2008

FMO Loans $9m to Afghani FMFB-A

The Netherlands Development Finance Company (FMO) reports that it will provide First MicroFinanceBank Afghanistan (FMFB-A) with local currency loans equivalent to USD 9 million. FMFB-A is a majority-owned subsidiary of Aga Khan Agency for Microfinance (AKAM), with IFC and KfW participating as minority shareholders. In 2007 FMFB-A had a net loan portfolio of USD 25.9 million. FMO is one of the largest bilateral development banks in the world. AKAM is a nonprofit, non-denominational, international development agency. February 29. 2008

Xigi.net Launches Social Capital Index

Xigi.net has just launched a new Social Capital Index, whose aim is to provide a comprehensive bank of information on "blended value" investment instruments and transactions, which aim to create economic, social and environmental value. February 28. 2008

Soros, Omidyar, Google Launch $17m VC Company for India

The Soros Economic Development Fund, Omidyar Network and Google.org announced a new USD 17 million Small to Medium Enterprise Investment Company for India. The company will house its staff at the Indian School of Business (ISB). February 28. 2008

Compartamos Reports 33.7% Increase in Net Income in 2007

Banco Compartamos, Mexico's largest microfinance bank and a lightning rod in the debate on for-profit microlending, reported a net income for 2007 equivalent to USD 81.5 million, a 33.7 percent increase from 2006. The company has seen steady declines in its share price since its peak last July. The bank's assets total USD 474.4 million. Its return on assets is 17.19 percent and its debt-equity ratio is 123.33 percent.
February 28. 2008

PRBC to On-lend $34m in the Philippines

Producers Rural Banking Corporation, a Manila-based microfinance institution serving rural Luzon, has received a line of credit worth USD 34 million from both public and private institutions. Financial details on the bank were unavailable. February 28. 2008

FINCA Leads Growth of Islamic Microfinance in Afghanistan

In 2006 FINCA Afghanistan became the first microfinance institution in Afghanistan to offer non-interest bearing Murabaha Islamic loans. Also known as mark-up financing or cost-plus financing, Murabaha involves the purchasing of goods by a bank at the customer's request, which are then sold to the customer at an agreed mark-up, which must be approved by a cleric. FINCA is Afghanistan's fastest-growing and second largest MFI, serving nearly 55,000 clients with a repayment rate of 99 percent and a loan portfolio of USD 10.9 million. At the end of 2006, FINCA International reported a loan portfolio of USD 166 million. February 27. 2008

Old Mutual and South Africa Launch $12.9m Women's Fund

The Department of Trade and Industry of South Africa has teamed with Old Mutual Group's Masisizane Fund to launch the Isivande Women's Fund to finance women-run enterprises. The new fund is the result of a 2006 study that found that although women are more responsible managers of credit than men, they only receive 30 percent of loans, with black women receiving the least funding. The data indicate that it is this particular group that is becoming increasingly important to the South African economy: approximately one million black women are self-employed, running mostly informal businesses. Old Mutual recently reported a net profit of USD 3.8 billion. February 27. 2008

Ugandan Government to Regulate Microfinance Sector

Uganda announced that a new law regulating the activities of microfinance institutions will take effect in June 2008. The law is meant to bring an end to corruption in Uganda's savings and co-operative organizations (SACCOs) following investigations of four SACCOs suspected of fraud, suspension of The Support Uganda Savings and Cooperative Society and arrests of SACCO heads. The EU has recently contributed assets worth USD 176,470 to be used toward the implementation of a national policy to develop and regulate SACCOs. February 26. 2008

Tanzania NMB and Agra Unveil $6.1m Scheme for Poor Farmers

The East African reports that Tanzania National Microfinance Bank (NMB), in partnership with the Alliance for a Green Revolution in Africa (Agra), has unveiled a USD 6.1 million farm input credit scheme. NMB will provide USD 5 million for loans to be made available to agro-dealers while Agra and the Financial Sector Deepening Trust (FSDT), a Tanzanian government initiative, will provide a USD 1.1 million guarantee fund. Poor farmers are expected to benefit from a stronger network of agro-dealers, as they are a primary conduit for both supplies and knowledge. February 22. 2008

IFC to Lend $20m and Give $400k to Banco Ficohsa of Honduras

The International Finance Corporation (IFC), a member of the World Bank Group, will invest up to USD 20 million in debt and USD 400,000 in advisory services for the expansion of the small and medium enterprise (SME) lending and housing finance operations of Banco Ficohsa, the third largest bank in Honduras. As of 2007, the IFC had a committed portfolio of USD 660 million in Central America, a return on assets of 6.46 percent and a debt-equity ratio of 186.98 percent. Banco Ficohsa is a commercial and retail bank founded in 1994 in Honduras under the auspices of Grupo Financiera Ficohsa. As of 2007, the bank has total assets worth USD 1.1 billion. For the nine months ended September 2007, Ficohsa's return on assets was 1.11 percent, and its debt-equity ratio was 1,074.41 percent. February 22. 2008

Financiera Independencia of Mexico Announces 2007 Earnings

Mexican microfinance institution Financiera Independencia (FinDep) announced a 49.2 percent growth in its total loan portfolio to an equivalent USD 314.6 million. Net income increased by 23 percent to USD 47.2 million during the same period. Its return on assets fell to 16.3 percent and its return on equity fell to 31.6 percent. FinDep raised USD 300 million through an IPO on November 1, 2007, in which 20 percent of the company's shares were sold. February 22. 2008

SKS and ICICI Offer Health Insurance

India's SKS Microfinance and ICICI Lombard General, an Indian insurance company, plan to roll out a rural health care product. The plan, "Swayam Shakti," will offer annual premiums of USD 5 to USD 13, allowing clients to cover themselves, their spouse and two children for the equivalent of USD 500 to USD 1,300 per year. In 2007, SKS reported to MIX Market total assets of USD 78.8 million with a gross loan portfolio of USD 63.2 million. ICICI Lombard General Insurance is a joint venture between India's ICICI Bank Limited and Canada's Fairfax Financial Holdings. February 22. 2008

Clean Energy Through Microcredit

Green Microfinance (GMf) of the US and MicroEnergy International (ME) of Germany recently announced the creation of Energizing India, in partnership with microfinance institution Evangelical Social Action Forum (ESAF). Loans are for energy systems, including solar, hydro, wind and biofuel systems that operate on an individual or village scale. Energizing India is part of a larger initiative, Energizing Microfinance, formed by GMf and ME in 2007. As of March 2007, ESAF had a gross loan portfolio of USD 12.9 million, a return on equity of 58.6 percent and a debt-equity ratio of 3,654 percent. February 22. 2008

Oikocredit Invests $7.4m Worldwide in January 2008

The Consultative Group to Assist the Poor (CGAP) and MIX, the microfinance information clearinghouse, reported that Oikocredit, a co-operative financial development institution in the Netherlands, loaned USD 7.4 million in January 2008. USD 3.95 million was invested in three Asian microfinance institutions (MFIs): Opportunity Bank, Kompanion and Microloan Fund (MLF) Microinvest. The remaining USD 3.45 million was invested in three MFIs in Latin America: Prestanic, FONDECO and MiCrédito. Oikocredit reported USD 455.8 million in total assets as of yearend 2006. February 22. 2008

TMFB to Launch and Seek Listing on Nigerian Stock Exchange

The former Oja Odan Community Bank, newly licensed as Treasure Microfinance Bank (TMFB), announced that it would launch operations February 26, 2008. The bank reports that it has secured the equivalent of USD 432,000 in start-up capital and aims to be listed on the Nigerian Stock Exchange (NSE) within a year. February 21. 2008

Omtrix Announces Creation of LAC Risk Management Facility

Omtrix, Inc. has created a technical assistance facility that will provide tools and training to microfinance institutions (MFIs) in Latin America and the Caribbean. The Risk Management Facility (RMF) will address market risk, credit risk, liquidity risk and operational risk and will seek to adapt international standards to the needs of MFIs in the region. The effort will aid approximately 50 MFIs in preparing for or recovering from external shocks such as natural disasters or socio-political crisis. USD 2.2 million has been raised for RMF from a variety of sources. Omtrix is a Costa Rican fund manager and financial consultancy specializing in microfinance. February 21. 2008

Triodos-Doen, Hivos-Triodos Fund Loan $1.18m to Ugandan MFI

The Consultative Group to Assist the Poor (CGAP) recently reported that Uganda Financial Trust (UFT) received two loans of USD 590,000 each in January 2008 from Triodos-Doen, a partnership between Triodos Bank of Holland and the Doen Foundation, and Hivos-Triodos Fund, a Triodos Bank partnership with the Humanist Institute for Cooperation with Developing Countries. UFT (formerly Uganda Woman's Financial Trust) holds total assets exceeding USD 13 million. With a portfolio of USD 60.7 million, Triodos-Doen invests in microfinance institutions in the form of loans and equity investments. With a portfolio totaling USD 51.5 million, the Hivos-Triodos Fund facilitates microfinance investing by Triodos Bank's clients via specialized savings accounts. February 20. 2008

Crédit Agricole Contributes $77m to Establish Global Foundation

Crédit Agricole announced that it will contribute USD 77 million towards the establishment of a nonprofit foundation in cooperation with Bangladeshi Grameen Bank (GB). The foundation will finance microcredit providers worldwide through credits, guarantees and equity capital. In 2009, the foundation will create a fund, open to investors, to raise USD 154 million for operations. Crédit Agricole holds USD 85 billion of Tier 1 Capital. GB reported total assets of USD 820 million in 2006 and loans of USD 532 million in 2007 to MIX, the microfinance information clearinghouse. In 2006, GB had a debt-equity ratio of 825% and return on assets of 2.44%. February 20. 2008

MicroCredit Enterprises Lends $600k to Cambodia's CHC Group

US nonprofit MicroCredit Enterprises has loaned USD 600,000 to CHC Limited, a Cambodian microfinance institution. MicroCredit Enterprises' loan portfolio grosses USD 9.3 million. CHC Limited, formerly known as Cambodian Health Committee Credit Program, reported total assets of USD 1.2 million at yearend 2006 and a gross loan portfolio of USD 1.8 million. February 20. 2008

Co-operative Insurance Services Targets Kenyan Vendors

Business Daily Africa reports that Co-operative Insurance Company (CIC) is set to launch a micro-insurance product targeting "hawkers," farmers and jua kali artisans. The product offer compensation for business losses, including damage to goods, lost opportunities arising from ill health and funeral cover in case of death. CIC has partnered with the National Hospital Insurance Fund on a medical component which will offer a family package. The cover will be available to organized groups of up to 10 people. February 20. 2008

FT and IFC Extend Deadline for Sustainable Banking Awards

The 2008 Financial Times (FT) Sustainable Banking Awards will be held in London on June 3, following the 2008 FT/IFC Sustainable Banking Conference. In partnership with the World Bank's International Finance Corporation (IFC), the FT Sustainable Banking Awards recognize banks that have shown leadership in the social, environmental and corporate governance arenas. The submission deadline has been extended to March 10. February 20. 2008

Southern Sudan Outlaws Islamic Lending

Reuters reports that three Islamic banks in Sudan's semi-autonomous south are liquidating assets ahead of a deadline to close at the end of February. Under a 2005 peace deal to end decades of civil war, only conventional banking will be used in the south with Islamic banking in the north. The Faisal Islamic Bank, the Omdurman National Bank and the Agricultural Bank of Sudan will close all southern branches, taking with them business worth USD 45 million. As sharia law does not allow charging interest, Islamic banks use methods such as giving seeds and money to farmers but getting extra produce in return rather than cash. Another alternative involves the bank and entrepreneur investing capital together, with each taking a share of the profits. February 20. 2008

Calvert Foundation Lends $500k to Mongolia's XacBank

The Consultative Group to Assist the Poor and MIX, the microfinance information clearinghouse, report that nonprofit community investment vehicle Calvert Foundation has loaned USD 500,000 to XacBank, a leading microfinance institution in Mongolia. With total assets of over USD 106 million, Calvert Foundation was the first provider of securities for eBay's microfinance brokerage service MicroPlace. XacBank reported to MIX a gross loan portfolio of USD 50.3 million and total assets of USD 76.3 million, as of yearend 2006. It had a debt-equity ratio of 718.1 percent, return on assets of 2.5 percent and return on equity of 17.8 percent. February 19. 2008

Oxfam Novib Lends to ACME, FDL

The Consultative Group to the Poor reports that Oxfam Novib will lend USD 440,000 to Association Pour la Cooperation avec la Micro Enterprise (ACME) and USD 1.5 million to Fondo de Desarrollo Local. As of 2004 Oxfam Novib, a Dutch philanthropic organization, had dedicated USD 7.8 million of its USD 28 million portfolio to microfinance in the LAC region. Operating in Haiti, ACME holds USD 9 million in total assets. February 19. 2008

IDB Helps Standard & Poor's

The Inter-American Development Bank (IDB) will subsidize USD 405,000 of a Standard & Poor's (S&P) project to develop its system for rating microfinance institutions (MFIs). S&P's credit assessments will be based on financial measures with the intent of determining the probability of default. In contrast, performance assessments by rating agencies specializing in microfinance measure MFIs' overall performance, placing greater emphasis on operational aspects. These specialized rating agencies charge roughly USD 12,000 per rating. The IDB arrangement requires S&P to charge USD 10,000 per rating and then gives S&P an additional USD 40,000 each. The target of these ratings will be larger, more profitable MFIs. Rating service S&P is a division of McGraw-Hill Companies, which reported revenue of USD 1.6 billion in the final quarter of 2007. February 18. 2008

ADB, Japan Special Fund to Bring SmartCards to Vanuatu

The Asian Development Bank (ADB) reports that rural areas in Vanuatu, out of normal reach of bank branches, will soon enjoy electronic banking and card-swipe technology as close as the local shop. With funding from Japan and the ADB, the National Bank of Vanuatu (NBV) will offer financial services using an electronic funds transfer point of sale (eftPOS) system - SmartCard technology. The cards will allow for deposits, withdrawals and transfers. Local farmers have reportedly resorted to burying their money in cans in the ground rather than face long trips to town to deposit money. The Japan Special Fund is providing a USD 600,000 grant that will be managed by ADB. NBV will provide USD 150,000. February 13. 2008 ♦♦♦

UPCOMING EVENTS

Microfinance Forum 2008

March 27 - March 28, 2008, Budapest, Hungary

Uniglobal Research is hosting this forum focusing on both long-term strategy and day-to-day implementation. Featured speakers are to include: Ian Callaghan, Morgan Stanley; Kai Schmitz, Microfinance International Corporation; Robert S. Kossmann, Raiffeisen Bank Aval; Sergey Suchkov, VTB 24; and Stuart White, Opportunity Bank. For further information, contact Shane Crean, Conference Producer at +420 226 538 127 or screan@uniglobalresearch.eu or visit http://www.uniglobalresearch.eu/en/event/2008-46. Registration costs EUR 1596 and may be completed online or by contacting registrations@uniglobalresearch.com or +420 226 538 100.

Inclusive Financial Systems: How Funders Can Make a Difference

April 7 - April 11, 2008, Addis Ababa, Ethiopia

The Microfinance Management Institute, a joint venture of CGAP and the Open Society Institute (OSI), is offering this "hands-on training course on building financial systems for the poor." The funder course, costing USD 1900, is intended for policymakers and personnel from public and private funding agencies. Over 300 professionals from more than 70 countries have participated in previous training sessions. The course will also be held in Croatia in September and Rwanda in November 2008. For further information on any of these training sessions, contact +33 (0)1 40 69 32 77 or ngoronja@themfmi.org.

Chicago Microfinance Conference: Competition and Collaboration

April 18, 2008, University Of Chicago, Illinois, United States

Brought to you by students from the University of Chicago Graduate School of Business, the Harris School of Public Policy Studies and the Kellogg School of Management, the fourth annual Chicago Microfinance Conference is themed "Competition & Collaboration: Expanding the Boundaries of Microfinance." More information is available at http://www.chicagomicrofinance.com/ or via chicagomicrofinance@gmail.com. Telephone calls are not encouraged. Registration ranges from USD 25 to USD 60 and can be completed at http://www.acteva.com/booking.cfm?bevaid=152739. Students are invited to submit their resumes by email for distribution at the event.

Microfinance Cracking the Capital Markets: South Asia

April 29 - April 30, 2008, Delhi, India

Cohosted by ACCION International and Standard Chartered Bank, the conference on April 29 is targeted to investors, rating agencies and investment-ready MFIs. The workshops on April 30th are broken into sections: (1) Morning session for both investors and microfinance institutions seeking investment capital and (2) Full-day, in-depth preparation for MFIs looking to become investment ready. The main conference is free of charge, whereas the rate for the investment readiness workshop is USD 150. Further details and registration are available via Stephanie Dolan at conference@accion.org or +1 617 625 7080 x1119 or via http://southasia.crackingthecapitalmarkets.com.

Sanabel Microfinance Network Fifth Annual Conference and European Investment Bank Social Impact Conference

May 5 - May 9, 2008, Tunis, Tunisia

Sanabel Microfinance Network of Arab Countries has announced that it will hold a joint conference with the European Investment Bank (EIB) on the social impact of microfinance on May 5. Over the following three days, Sanabel will hold its fifth annual conference. These events will provide attendees with the opportunity to discuss new trends, challenges and opportunities faced by microfinance in the Arab region. Field trips will be available May 9. The organizers can be contacted at +20 2 37 48 86 24 or info@sanabelnetwork.org. More details are available at http://www.sanabelnetwork.org/en/conference.

Global Microfinance Investment Congress

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

Presented by PlaNet Finance, this conference aimed at microfinance investors follows closely on the heels of a similar event in Paris held in January 2008. Topics are to include equity and fixed-income investment opportunities, measuring social performance, microfinance institution ratings, valuation and pricing, among others. Attendance fees begin at USD 1495. For more information, call +1 416 927 8200, email customercare@americanconference.com or visit http://www.microfinancecongress.com.

Tenth Annual IFC Global Private Equity Conference

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

International Finance Corporation (IFC), in association with the Emerging Markets Private Equity Association (EMPEA), present this year's conference themed "Creating Opportunities and Building Value." As emerging markets private equity continues to raise unprecedented funds for investment, this conference will explore the creation of opportunities and building value. A USD 200 discount, available until April 4, is reflected in the following prices: USD 1295 for general registration and USD 895 for EMPEA members and international financial institutions. Details and online registration are available at http://www.globalpeconference.com/. More information is available via Cathy Fenn at +1 516 765 9005 x21 or cathy@ibfconferences.com.

Microfinance Centre Eleventh Annual Conference: "Clients and Institutions Growing Together"

May 29 - May 31, 2008, Ulaanbaatar, Mongolia

The Microfinance Centre (MFC), which operates in Eastern Europe and Central Asia, will host its eleventh annual conference in Mongolia in May 2008, offering the opportunity to network with microfinance practitioners, investors, policy makers and other microfinance stakeholders. MFC can be reached at +48 22 622 34 65 or microfinance@mfc.org.pl. Details on the event will soon be available at http://xacbank.mn/mfc-conference2008/.

HBS-ACCION Program On Strategic Leadership In Microfinance

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

This program, hosted by Harvard Business School (HBS) and ACCION, offers finance leaders from around the world the opportunity to connect with peers while engaging with top HBS faculty. The 2008 course offers an expanded curriculum for all financial institutions engaged in expanding finance to underserved clients around the world, from microfinance specialists to conventional commercial banks. More information is available at http://accion.org/hbs, via hbsaccion@accion.org or at +1 617 625 7080. The cost is USD 6850 and includes housing, meals and other perks. A discounted rate of USD 5450 is available to "experienced practitioners" opting out of the first day and a half of introductory material.

Asia-Pacific Microcredit Summit Campaign 2008

July 28 - July 30, 2008, Bali, Indonesia

The relocated Asia-Pacific Regional Microcredit Summit is the twelfth in a series of global and regional summits organized by the Microcredit Summit Campaign. Its aim is to reach the world's poorest families with credit for self-employment and other financial and business services. Discounted pricing is available through May at the rate of USD 170 or, for those from the Asia-Pacific region, USD 120. At an additional cost, site visits are offered on July 27, as is a selection of associated classes on July 31. The organizers can be contacted at +1 202 637 9600, +62 21 8004929 or info@microcreditsummit.org. More details are available at http://www.inamicrocreditsummit.org/. ♦♦♦

MICROCAPITAL MARKET INDICATORS I EAST ASIA AND PACIFIC

9 COUNTRIES I 110 MFIs REPORTING[1]

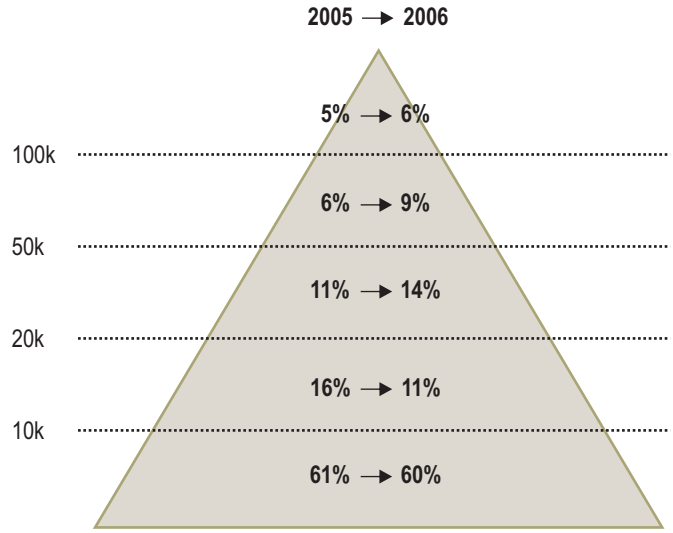
Cambodia	Indonesia	Samoa
China	Papua New Guinea	Thailand
East Timor	Philippines	Vietnam

POWERED BY miX Microfinance Information eXchange

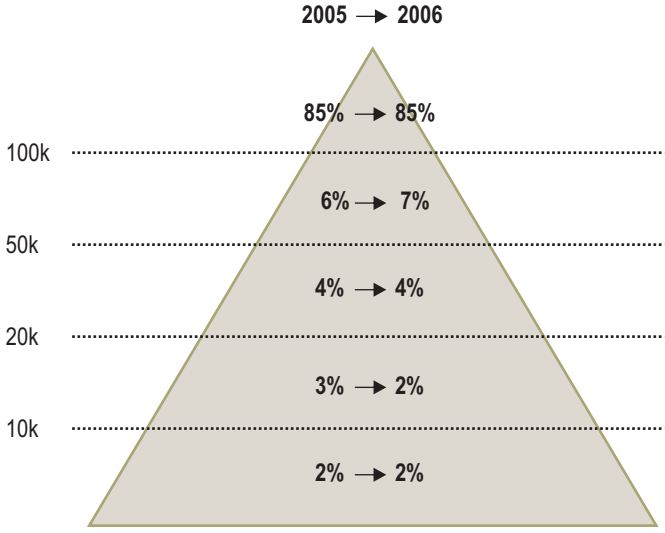
TOP 10 MICROFINANCE INSTITUTIONS (MFIs) BY GROWTH IN GROSS LOAN PORTFOLIO: CHANGE IN USD

MFI NAME	COUNTRY	ABSOLUTE	% CHANGE	2005	2006
Bank Rakyat Indonesia	Indonesia	706,968,736	30.5	2,317,903,872	3,024,872,608
Vietnam Bank for Social Policies	Vietnam	60,329,195	5.5	1,087,404,160	1,147,733,355
Association of Cambodian Local Economic Development Agencies	Cambodia	58,176,401	58.2	99,899,712	158,076,113
PRASAC MFI	Cambodia	10,866,541	97.6	11,129,065	21,995,606
Center for Agriculture and Rural Development	Philippines	7,469,047	86.9	8,590,148	16,059,195
1st Valley Bank (formerly Rural Bank of Kapatagan Valley)	Philippines	6,700,965	43.6	15,369,946	22,070,911
Amret (formerly EMT)	Cambodia	6,255,557	55.4	11,286,200	17,541,757
Cambodian Entrepreneur Building	Cambodia	6,011,495	95.8	6,273,406	12,284,901
Taytay Sa Kauswagan	Philippines	3,298,583	29.0	11,365,307	14,663,890
First Isabela Cooperative Bank	Philippines	3,144,953	61.6	5,101,775	8,246,727

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., December 2007, based on MFIs reporting to MBB or MIX Market

PIONEERS IN MICROFINANCE

Aloysius P. Fernandez is Executive Director of rural development NGO MYRADA and Chairman of the Board of microfinance institution Sanghamithra Rural Financial Services.

Aloysius P. Fernandez

MicroCapital: How did you get started in social finance?

AF: During the 1971 Bangladesh War, running a refugee program, I discovered the poverty and suffering there. I began to understand the causes of poverty, and I said: "Well, I've got to intervene in some way. Should I intervene in land? That's difficult. Should I intervene in wages? That's difficult." So I said, "Let's look at capital." Then, we started cooperative societies, and these cooperatives broke down....

Even if the government made regulations to ensure that poor people and the lower castes were on board, the chairman of the society was always more powerful. Therefore the other people we had trained just got angry one day and said, "We refuse to return the money to the society because the president and secretary are exploiting us." But, the poorer people said, "We want to return the money." I said, "To whom?" They said, "To you!" Then off the top we said, "Why don't you return it to yourself?"

One woman said, "My daughter is sick and I want some money." So we said, "Ask the others." They said, "Yes, she's sick; we'll give you a loan from our group." It started with the sickness, and then one wanted money for some food. She said, "We usually go to the president of the cooperative and borrow money, so we are not going to go now." So the group lent her money for some food, and that broke the relationship of power between the cooperative president and her.

We started analyzing this, and then we said, "Now, how do we introduce this in some policy change?" We were a bit ambitious, I must say. So we said, "If anybody can accept this as an alternate system, it's only NABARD (National Bank for Agriculture and Rural Development) because they can then change policy at the Reserve Bank of India (RBI) and push this because they have influence over the regional rural banks and the commercial banks." We went to NABARD Chairman and CEO P. R. Nayak and said, "You're having problems getting money to the poor; here is money for the poor." He said, "Oh! That's something new." I must give NABARD and RBI full marks because they got these policies through when nobody was talking about them in 1990 and 1991.

In 1989, he asked me, "Now, what policy change do you want?" I said, "Allow the banks to give loans without asking for the purpose. Why are you so particular about giving based on viable loans and unit costs?" They would give loans for sheep. There would have to be 20 female sheep and one male sheep, so that was supposed to be a viable unit. But, if you give such a big unit to a single woman, she has to leave all her other work and look after this. So, in order to survive she will sell two sheep. There goes your viable unit. We found that 60 percent of the recovery didn't come from the asset, so why are you wasting your time? Let people decide [how to use their loans].

MC: Do you feel that the current legislation from NABARD and RBI fails to leave room for the private sector?

AF: What did the government do? It tried to introduce a bill which I personally thought was a very badly drafted bill. NGOs are not built for lending money. What has happened in the last five or six years is a number of NGOs have started lending money. There is one microfinance institution starting everyday in India. I think microfinance has a big role to play in India, but let's make a distinction. One: let us have microfinance for people who need it. It can be for-profit, fast-growing, have good substantial interest rates and have good profits; no problem. But if you want to have microfinance in the context of poverty, then there are certain limitations. One is that it has to have reasonably affordable interest rates because the investment in agricultural and rural areas doesn't give you a very high return. Two: it has to be in the context of development or in the context of organizations lowering the risk of development. Therefore, if you are looking at it in the context of poverty, you can't look at microfinance as a single bullet. It has to be embedded in a much broader framework, and it has to be tempered by social concern. At the same time, microfinance institutions involved in poverty can be financially sustainable, as Sanghamithra Rural Financial Services (Sanghamithra) has proved. You need to create growth first and that growth rises either by private sector, by government or by NGOs, and that creates options where then microfinance can go in.

"We want to return the money."

I said, "To whom?"

They said, "To you!"

Then off the top, we said, "Why don't you return it to yourself?"

Now, let me give you a simple example. When MYRADA discovered that self-help affinity group (SAG) members were giving loans for dry-land agriculture, which is a high-risk proposition in our Deccan plateau, MYRADA then decided that we had to lower the risk. So, we went into watershed management, which is managing water and soil in a whole micro-watershed which then improves the productivity of the soil, water retention and water use. We say, "Bring the soil back to life," and we have a compass, trenches, silt applications, green manure and rotation of crops. We bring all that in. That's MYRADA's job, not Sanghamithra's job.

What did we do? We lessened the risk of this investment. So, you can't just give credit. You really have to look at a variety of things and unfortunately, many of these new MFIs just want to grow, and now they're beginning to have difficulty because money isn't coming back. I have had enough experiences where microfinance institutions are using very rough methods to recover money. I've had, personally, to go and bail people out of jail because of this.

PIONEERS IN MICROFINANCE (Continued)

MC: That's a very poignant image. So are you saying that there must be governmental or charitable subsidies?

AF: Sanghamithra started with a grant - because I'm now 68 and I can't live too long, so we said, "We have to get it moving fast" - but, Sanghamithra lives on loans. It borrows from the bank and on-lends. So, you do need a little push in the beginning; I don't see why not. Very often when they look at our SAGs lending for education, they say, "Oh, this is consumption," and I tell them, "You guys wouldn't be sitting here if somebody didn't educate you." So, I find no problem in investing some money in starting MFIs. There are a lot of generous people saying, "Okay, we'll help you for three years."

Now the SAG model is completely self-reliant because the groups are federated into sets of 20, and they collect information on how the money is used. The sets of 20 groups are then federated into what we call, "community managed resource centers," which are about 120 SAGs and watershed associations. The community managed resource centers are today sustainable. We have got about 89 of them. About 30 are raising all the money they require for a building, internet, you name it. Most of the buildings are given by the local government, in fact. To them, 20 self-help groups is quite a locally strong political group. It's power. You've got to change power relations. So, for the SAG model, if I had adopted a banking model where I lent to individuals, I would need about 3,000 staff, at least, to manage these 12,000 groups. We have none. The federations collect information, and we computerize it. We just help them to understand how the money is used, and we then identify trends in livelihoods and try to support them to improve in value and scale. So, the self-help group is a model that doesn't require staff. The only money I need is to run programs: agricultural development, new watershed programs, housing, sanitation and drinking water. We are in all these areas, but we need money for that.

MC: What types of challenges have you had to overcome?

AF: We didn't have to keep the groups together. It was something internal. This was the biggest discovery: that traditionally you build on people's strengths and not on people's needs. If you make analyses of needs, you develop a dependency relationship between them and you.

The biggest challenge today is the quality of self-help groups (SHGs). In India, it became a national policy in 2000, and then the quality declined because they started forming groups without giving target-oriented training. But, of course, you have 3.2 million of them in India today. Now, we have to work for quality all over here. That's when we changed our name to "self-help affinity group." "Because," we said, "we have to distinguish our groups, which are based on affinity and which have all this training, from groups that are formed overnight and which are not homogenous groups." There are no subsidies in the self-help group. The subsidy is in training the group; not in capitalizing it. So, that's when we called it "SAG."

MC: What do you think is your most enduring or important achievement and what was the key to this success?

AF: I made one or two decisions. One was, if I want this movement to spread in India, then I cannot project MYRADA as the beginner and the founder because everybody gets too jealous about that. So, let's get NABARD to work on it.

The key to success is consistency because you can't change policies within two years, which the government tries to do sometimes. We've got nearly 600 full-time staff, and they're all in the field, and they were the ones that really carried it forward. Today, we have 12,000 self-help groups. It was all done by my colleagues. Without them, you couldn't do anything. I consider the great success to be holding them all together for the last 25 years. ♦♦♦

PAPER WRAP-UPS

Microfinance Banana Skins 2008: Risk in a Booming Industry

By the Centre for the Study of Financial Innovation (CSFI), published by CSFI, March 2008, 41 pages, available http://cgap.org/portal/binary/com.epicentric.contentmanagement.servlet.ContentDeliveryServlet/Documents/MF_BananaSkins2008.pdf

Management and corporate governance standards are the biggest risks faced by microfinance institutions (MFIs) today, while increases in competition and the availability of capital are the fastest-emerging threats to the future of the industry, according to a report by the British Centre for the Study of Financial Innovation (CSFI), which was sponsored by Citi and the Consultative Group to Assist the Poor (CGAP). Data collection was supported by the Microfinance Information eXchange (MIX).

The report ranks both the top 29 risks and top 29 fastest risers based on a survey of practitioners, investors, analysts and observers, focusing on the largest 350 MFIs seen as capable of commercial growth. The greatest risk is deemed to be poor MFI management: "Much of the worry about management quality focused on the fact that MFIs tend to be dominated by 'visionaries,' who are strong on charisma but less so on management skills and strategic flexibility." The lack of basic corporate governance concepts at many MFIs is also a concern, especially for investors seeking transparency in their investments. Other top risks cited by survey respondents include a shortage of competent staff, poor regulation and political interference, controlling costs and managing new technology, increased competition and credit risk and the potential consequences of unrealistic expectations and mission drift.

Competition, staffing, political interference and over-funding are seen as the fastest-growing risks. Competition and over-funding are both notable because they seem to address some issues while giving rise to others.

The report indicates that the number of lenders is growing by 25 percent annually and that foreign capital investment tripled to USD 4 billion from 2004 to 2006. Relatively low barriers to entry and attractive returns are spurring industry growth in the form of new MFIs, expansion of existing MFIs and the entrance of traditional financial entities. In turn, this encourages a distinctly profit-driven mentality, to the potential detriment of the socially responsible aims of some MFIs and investors. The glut of capital, meanwhile, encourages irresponsible lending. On the other hand, a competitive environment is conducive to lower interest rates. This should heighten rate-sensitivity among MFI clients, who currently tend to be rate-indifferent. It would also commit MFIs to greater fiscal discipline, since cost control is one of the major risks named in the survey. Likewise, an overabundance of capital is surely preferable to the opposite problem. At this point, however, with "too little funding" being named the least of the perceived risks, the discussion swings in the direction of how to react responsibly to overwhelming inflows.

Does [the BRAC] Microcredit Program in Bangladesh Increase Household Ability to Deal with Economic Hardships?

By Serajul Hoque, published on the Munich Personal RePEc Archive, January 2008, 12 pages, available at http://www.microfinancegateway.org/content/article/detail/46789

Dr. Hoque, a graduate associate at the Department of Economics at Monash University in Australia, briefly investigates the impact of microcredit on rural Bangladeshi households. The paper is based on a RAND survey conducted over four years and suggests a relationship between a household's membership in microfinance institution (MFI) Bangladesh Rural Advancement Committee (BRAC) and an increased ability to financially withstand economic hardships.

Households in rural Bangladesh are extremely susceptible to frequent and unpredictable natural disasters due to the dependence of the economy on agriculture. Damaged crops, diseased livestock and family illnesses can throw a household into economic turmoil every season, making poverty seem inescapable. Dr. Hoque argues that participation in microcredit programs helps reduce vulnerability to major seasonal events by providing households with a safety net: MFIs help earning households build assets in non-critical times and assist in emergency aid during critical times. Bangladesh, with a national poverty index of 44.33 percent, is one of the poorest countries in the world and hosts more than 1,200 MFIs.

The study focuses on 108 BRAC clients randomly sampled from the 149 villages in the Matlab region of Bangladesh, a rural wetland 34 miles south of the capital, Dhaka. BRAC, founded in 1972, is the largest development organization in Bangladesh and provides loans that average USD 77 to 4,550,855 active borrowers according to the MIX Market. Data for the study was obtained via the 1996 Matlab Health and Socioeconomic Survey (MHSS), conducted by the RAND Corporation, a nonprofit group specializing in research and analysis of international trends. The author randomly matched each of the 108 BRAC households with a non-BRAC household from the same village. The non-BRAC household was eligible for BRAC microcredit, but chose not to participate.

Dr. Hoque found that BRAC households received loans of about USD 112 approximately once every two years. The money was used almost equally for business costs and for basic needs: 55 percent of the loans would be used for "productive purposes" – farming machinery purchases, animal husbandry or transportation costs – while 45 percent went towards "unproductive purposes," such as household items and repair, groceries or marriage, dowry, funerary or medical costs. While 20 percent of BRAC households borrowed money to cope with economic hardship, only half as many non-BRAC households did so. Instead, non-BRAC households chose to sell assets (12 percent) or reduce expenses (15 percent) – choices labeled as "negative coping mechanisms." Conversely, only half as many BRAC households used these strategies. Seven percent of BRAC households were able to use savings, a "positive coping mechanism," while only four percent of non-BRAC households chose this option. Dr. Hoque uses these data to indicate a beneficial relationship between microlending and economic capability and notes that more research is needed.

The results of the study, while perhaps an adequate summary of trends, are hardly conclusive and not entirely convincing. The terms "positive" and "negative" coping mechanisms might be defined more clearly: what are the implications of selling assets or using savings? The results of the study are further confused by the finding that 11 percent more BRAC households faced economic hardship than non-BRAC households. Ideally, the BRAC and non-BRAC groups should be equally likely to face economic hardship. This discrepancy suggests the influence of a hidden variable: did a higher susceptibility to hardship cause BRAC households to turn to the MFI for help in the first place? This open question weakens Dr. Hoque's argument for a causal relationship between participation in microfinance and the ability to weather economic hardship.

Benchmarking Microfinance in Asia

Published by the Microfinance Information eXchange, December 2007, 20 pages, available at http://www.themix.org/publication_detail.aspx?publicationID=225&latest=yes

This report offers benchmark data on 194 microfinance institutions and two-year comparative data from a subset of 126 institutions. The report shows that the Asian microfinance sector continues to dominate the global market, building on rapid growth and massive scale to capture a disproportionate share of clients. In 2006, Asian MFIs served more than 35 million borrowers, with USD 6.97 billion in loans.

Fostering Gender Equality - Meeting the Entrepreneurship and Microfinance Challenge

By Stefanie Lahn et al., published by the European Microfinance Network, December 2007, 76 pages, plus individual country reports, available at http://www.european-microfinance.org/outputs_en.php

This set of reports documents the environment for female entrepreneurs in eight European countries. Part of an effort to promote female entrepreneurship and microfinance in Europe, the comparative study was conducted by the European Microfinance Network (EMN) in cooperation with nine of its members. The nonprofit EMN was launched in 2003 with the support of the European Commission and the French public financial institution Caisse des Dépôts. EMN's founding members include Adie of France, nef of the UK and Evers & Jung of Germany.

Globalization of Microfinance Markets: an Overview and Some Conditions for Success

By Dr. Jairo Morales-Nieto, published by InterAfrica, January 2008, 10 pages, available at http://www.microfinancegateway.org/content/article/detail/46738

In this discussion of the steps to transition from local to global microfinance markets, Dr. Morales-Nieto, Executive Director of local economic development consultancy InterAfrica, asserts that rigorous filters and conditions must be observed by all players for microfinance to successfully enter into global financial markets. The author attributes the rise of microfinance not only to the increase in micro-borrowers and lenders, but also to the global financial markets' desire for innovative ventures, less-risky clients and higher returns.

While recognizing the benefits of microfinance's entry into global markets, the paper strongly cautions against the dangers of an "indiscriminate globalization". Globalization will introduce different players and their respective motivations to microfinance. Compared to development-oriented microlenders who have concentrated on generating wealth for the poor, conventional big banks and investment funds have focused on creating profits.

Dr. Morales-Nieto lists four strategic steps to help ensure a successful transition to global markets. The first step is for new players to have a thorough understanding of how microfinance works. The microfinance culture and its mindset regarding micro-borrowers must pervade the conventional financial and banking environment. While Dr. Morales-Nieto states this as the first fundamental step, he does not provide any specifics on how to achieve this goal.

The second step is to create a strong institutional framework for microfinance at the country level. This includes establishing a legal, regulatory and policy environment conducive to microfinance and adjusting lending technologies to the needs of micro-borrowers. Finally small businesses and the non-bank microfinance intermediaries must be included in the new institutional frameworks, with small entrepreneurs and their associations being engaged in policy development.

The third step involves making microfinance a microeconomic policy issue. Currently it is difficult to evaluate the impact of microfinance on global economic aggregates. Basic questions to answer include the extent to which microfinance increases economic growth, income or employment. Thus, a crucial objective will be to determine how microfinance can contribute to microeconomic policy goals. Finally, it will be governments' and academics' responsibility to work microfinance into policy framework.

The final step is to incorporate academics into the process. Dr. Morales-Nieto states that microfinance will not reach its potential without a solid economic theory behind it. In addition, he notes the wealth of potential studies and analyses. For instance, in economic theory, microfinance can be a tool to correct market failures and facilitate capital movements from rich to poor countries. Regarding financial theory, risk is particularly interesting as classic risk theory seems to contradict lending to the poor without collateral. Furthermore the classic theory of investment decisions is sensitive to the level of interest rates, whereas poor borrowers tend to place greater emphasis on their potential rate of return. Finally, in making microfinance an issue of economics, it can add to further understanding of how microfinance works.

Dr. Morales-Nieto believes that the above four steps will help microfinance smoothly transition into global markets. Ultimately, this globalization can enable microfinance to move beyond a mere financial tool or anti-poverty strategy and transform it into a key focus of political economy.

Dr. Jairo Morales-Nieto received his Doctor of Economic Science at the University of Muenster in Germany. He also served as the Chief Technical Adviser of the Small Enterprise and Human Development Programme (SEHD) from 2002 until the end of the program in March 2004. The SEHD Programme was responsible for implementing a local economic and human development strategy in South Africa funded by the Italian Government through the United Nations Development Program. Dr. Morales-Nieto has also published several articles in AfricaGrowth Agenda, an independent magazine covering development issues in Africa, as well as a paper entitled "Implementation of a GIS at the Local Level in Central America". Dr. Morales-Nieto was also the senior registration and development expert with the office of the UN High Commissioner for Refugees in Islamabad.

Benchmarking Microfinance in Mexico

Published by ProDesarrollo and the Microfinance Information eXchange, August 2007, 62 pages, available at http://www.themix.org/publication_detail.aspx?publicationID=224

Newly available in English, this report is the first of its kind to compare the performance of 30 microfinance institutions in Mexico with their peers in the Latin America region, as well as with each other. The Mexican market is one of the most dynamic in the Latin America and Caribbean region, with rapid growth and high profitability. However microfinance providers do face obstacles, such as high interest rates and cost structures. With 52 affiliated institutions, ProDesarrollo is the largest organization of Mexican MFIs.

India Microfinance Review 2007

By Microfinance Information eXchange (MIX) and Micro-Credit Ratings International Limited (M-CRIL), 2007, 74 pages, available at: http://www.microfinancegateway.org/content/article/detail/45957/

This review of the Indian microfinance sector is based on an analysis of a Micro-Credit Ratings International Limited (M-CRIL) sample of 58 rated microfinance institutions (MFIs) and data from the 37 MFIs reporting 2006 data to the Microfinance Information eXchange (MIX).

The majority of the 95 sampled MFIs are located in southern India, including forty percent of those rated by M-CRIL and 64 percent of those reporting to MIX. Three-fourths of all clients served are also located in the South. This is largely due to the stronger, more highly-developed economies found in the southern states compared to less developed areas in the north and east.

Of the sampled MFIs, 54 percent followed the Grameen model. Self-help groups made up 32 percent of the sample, while the oldest MFIs in India - cooperatives and individual banking models - only represented 14 percent of the sample. In Andrha Pradesh, several mutually-aided cooperative societies (MACS) have been established, but they do not appear in the sample. Perhaps since they rarely need external support, they do not seek ratings or report to MIX. Non-Bank Finance Companies (NBFCs) made up 25 percent of the sample MFIs, a result of a national trend towards for-profit institutions. NBFCs using the Grameen method were the largest in the country, serving over 50 percent of MFI clients with an average of 130,000 clients per institution.

The average rated institution grew by 80 percent to reach 64,000 active borrowers. This is 40 percent higher than the average South Asian MFI. MFIs in India reach 15-20 million clients, or 35 percent of the 60-70 million poor families in the country. Though average loan portfolios have greatly expanded, client savings declined from 11.5 percent in 2005 to just 8.1 percent of outstanding loan balances in 2006, due to laws that restrict NBFCs and nonprofit companies from taking savings deposits.

The Indian MFI sector is among the fastest growing and most efficient in the world. The sample institutions had an average of 326 staff members with a ratio of 231 borrowers being served per staff member. This is two thirds more than other surveyed South Asian countries. Grameen and SHG MFIs reported average servicing costs at USD 10 per borrower, as compared to USD 30 spent by the average Asian MFI. However, recent expansion of leading MFIs into less developed parts of the country has resulted in an overall loss, with the average operating cost of the sample at 21 percent and portfolio yield at 20 percent.

The average portfolio at risk (PAR) rate of the sample was 6 percent, up from 4.7 percent in 2005. Indian MFI portfolio quality is weaker compared to other countries because of a reluctance to write off bad loans due to concern over loan portfolio size and the potentially adverse effects on an institution's reputation.

The lack of availability of funds and grants has caused commercial finance to rise from 34 percent in 2003 to over 75 percent in 2006, drastically increasing debt-equity ratios, and contributing to an overall trend towards commercialization.

Financial performance of the Indian MFI sector continues to decrease due to poor portfolio quality and low portfolio yields, with a weighted return on assets of zero, down from an already low rate of 2.1 percent in 2005. Average MFI returns are at -9.8 percent, much lower than other South Asian countries. Despite the overall decline in financial performance, 38 percent of the sample MFIs are turning a profit, though only 15 percent earn more than 3 percent. With 50 percent of borrowers served by institutions that have operational self-sufficiency above 90 percent, India's MFI sector appears to have the potential to be financially viable in the near future. ♦♦♦