

## MICROCAPITAL BRIEFS | TOP STORIES

### SKS Raises \$75m in Fourth Round

SKS Microfinance has announced the closing of a fourth round of equity financing in which it raised the equivalent of USD 75 million.... (Continued on page 2.) November 14. 2008

### USAID to Guarantee \$36.2m for Dutch Oikocredit Over Ten Years

Oikocredit, a Dutch cooperative investment fund, will loan USD 36.2 million to microfinance institutions over 10 years with a 50 percent guarantee provided by the United States Agency for International Development (USAID). Oikocredit reports USD 614.5 million in total assets. November 12. 2008

### Bank Negara Malaysia Launches \$56.6m Micro Enterprise Fund

Bank Negara Malaysia (BNM), the central bank of Malaysia, has announced the launch of the Micro Enterprise Fund, which will channel the equivalent of USD 56.6 million to microenterprises. Since 2007, BNM claims that 286,000 small and medium-sized enterprises have been assisted to the tune of USD 1.4 billion. The current effort will operate via the existing Pembiayaan Mikro scheme, through which nine financial institutions offer unsecured financing of up to USD 14,200 under terms determined by the participating financial institution. November 11. 2008

### NABARD Strategy Adds to Conflict of Interest in India

India's National Bank for Agriculture and Rural Development (NABARD) has reportedly proposed spinning off its NABARD Consultancy into a direct financing subsidiary for microfinance, which would be used for projects such as taking over a branch network. NABARD currently regulates microfinance institutions (MFIs) in India, but it is also the largest lender to self-help groups, which has raised ethical concerns. NABARD reports total assets equivalent to USD 17.4 billion. November 5. 2008

### IDB Announces \$1b to Expand Loans to Brazilian SMEs

The Inter-American Development Bank (IDB) has approved a USD 1 billion loan to the Brazilian Development Bank (BNDES) to finance long-term credit to micro, small and medium-sized businesses. It is the third loan of this size IDB has made to BNDES since 2004. The latest loan will fund an estimated 30,000 businesses via 80 banks. October 30. 2008

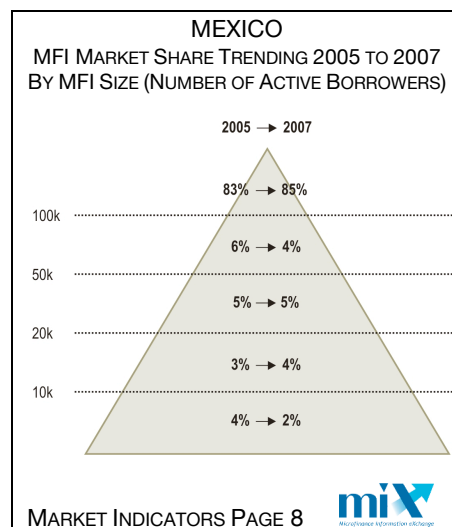
### Turnabout is Fair Play: Yunus Scoffs at Bank Bailout

Dr. Yunus of Grameen Bank states that, "The solution is for the market to find a solution, not for the government to bail out a defective system." Wryly, Mr. Yunus is presenting himself as more of a free-marketer than the pin-stripped bankers who have always served as his foil. Whereas Big Banks are begging for handouts from governments, micro-banks are a profitable market-based solution to poverty. October 21. 2008

### National Microfinance Bank of Tanzania Oversells IPO

After a long delay, the results of the oversold initial public offering (IPO) of Tanzanian National Microfinance Bank (NMB) have been released. In the IPO, the government sold 21 percent of its 51 percent stake in NMB. A recent worker's strike at the microfinance institution (MFI) had delayed the announcement of the IPO results, which began on August 17. In total, 27,473 applications were submitted to buy 374.8 million shares valued at the equivalent of USD 184 million, far more than the actual number of available shares. Conflicting information on the offering has been reported. Prior to the IPO, NMB was mainly owned by the Government of Tanzania (51 percent) and RABO Bank (34.9 percent). Information regarding current holders of IPO shares was not readily available, nor were financial data on the NMB. October 19. 2008

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## MICROCAPITAL BRIEFS

### Greening Microfinance

US nonprofit Green Microfinance is highlighted in a recent publication by US Agency for International Development. Working with two microlenders in rural India, Wesco Credit and Evangelical Social Action Forum (ESAF), Green has introduced two products: human waste systems that produce energy and stoves that burn animal waste without polluting the air. Exposure to smoke from the burning of animal waste and other biomass for fuel competes with malaria as the leading cause of death in adults in developing nations according to a 2006 Shell Foundation report. November 17. 2008

### SKS Raises \$75m in Fourth Round

SKS Microfinance has announced the closing of a fourth round of equity financing in which it raised an equivalent of USD 75 million. The transaction was led by US-based hedge fund Sandstone Capital. Also participating in the transaction were existing investors SVB India Capital Partners, an affiliate of Silicon Valley Bank, and Kismet Capital. Edelweiss Capital acted as investment banker. November 14. 2008

### Cashpor Reads Fingerprints over Mobile Phones

Microfinance institution Cashpor India has adopted ClassifEye's camera phone transaction and authentication product, which allows customers to manage loans, make deposits and execute other operations via field agents who are equipped with internet-enabled cellular phones. The user simply takes a picture of his finger with the phone's camera. The software then authenticates the fingerprint and authorizes immediate access to the phone. According to a recent consumer survey by fingerprint sensor manufacturer AuthenTec, over 69 percent of respondents feel more secure about conducting financial transactions through their mobile phone when using a fingerprint sensor. Cashpor India has 300,000 loan clients and a portfolio of USD 150 million. ClassifEye is based in Israel. November 14. 2008

### Nigeria Awards 815 Licenses; Only Rural MFIs Will Get More

The Central Bank of Nigeria (CBN) has announced that, going forward, only microfinance institutions (MFIs) that are ready to operate in rural areas will be given licenses. CBN recently granted licenses to 815 MFIs. October 30 and November 13. 2008

### IFC Considers Microfinance in Southern Sudan

The International Finance Corporation (IFC) will explore emerging microfinance investment opportunities in Southern Sudan. While the specifics have not been released, only a few key microfinance institutions (MFIs) exist in the region. In December 2007 it was announced that Bank of Southern Sudan (BoSS) would start working in microfinance with support from the World Bank. The Sudan Microfinance Institution (SUMI), the only MFI in Southern Sudan reporting to the Microfinance Information Exchange, was launched in 2003 with a grant from the US Agency for International Development (USAID). SUMI has five branches, 8,000 clients, total assets of USD 1.5 million and a debt-equity ratio of 10.63 percent. November 13. 2008

### USAID and Standard Chartered Focus on Sub-Saharan Africa

The US Agency for International Development (USAID) and Standard Chartered Bank have signed an agreement to increase access to financial services in sub-Saharan Africa, including by supporting microfinance institutions (MFIs). In 2006, Standard Chartered pledged to invest a total of USD 500 million in MFIs in Africa and Asia by 2011. By the end of 2007, the bank had originated USD 170 million through partner MFIs. November 13. 2008

### 35 Sign Client Protection Principles Pledge

A total of 35 microfinance institutions and investment funds have so far signed the Client Protection Principles (CPP) pledge, which aims to become an industry-wide standard for protecting low-income microfinance clients from unfair practices. Key elements cover over-indebtedness, pricing transparency, debt collection practices, employee ethics, complaint resolution and client privacy. There is no mechanism for assessing compliance by the signatories. November 12. 2008

### Barclays and UNICEF Announce \$7.4m Partnership

Barclays and UNICEF have launched a partnership "Building Young Futures", worth the equivalent of USD 7.4 million, which will offer young people access to education, vocational training, employment and microfinance loans. November 12. 2008

### First MicroFinanceBank Afghanistan Borrows \$5m from KfW

Under an agreement between the governments of Germany and Afghanistan, Kreditanstalt für Wiederaufbau (KfW) will loan the equivalent of USD 5 million to Afghanistan's First MicroFinanceBank (FMFB). Under the agreement, KfW will lend the principal to Afghanistan's Finance Ministry, which will then lend the funds to FMFB in local currency. While KfW holds a 32 percent stake in FMFB, the Aga Khan Agency for MicroFinance manages the bank and holds 51 percent of its shares. FMFB reports a loan portfolio of USD 19.8 million and 101,000 borrowers. November 11. 2008

### Sa-Dhan Offers Online Map of Microfinance Institutions in India

Sa-Dhan, an association of Indian community development institutions, has published an online, state-by-state map of Indian microfinance institutions at <http://www.sa-dhan.net/>. November 10. 2008

### World Economic Forum Studies Challenges to Financial Inclusion

The redesign of regulations, development of innovative business models that promote inclusion, financial literacy, expansion of delivery channels, and lowering of transaction costs were highlighted as key challenges for expanding the inclusivity of the global financial system at a recent meeting of the World Economic Forum's Global Agenda Council On Financial Empowerment. November 10. 2008

### \$208m Effort to Support Filipino Farmers to Include Microfinance

An initiative to assist up to 150,000 poor farmers in southern provinces of the Philippines will be funded by USD 108 million from local and national units of the Filipino government and USD 100 million in loans from the Asian Development Bank. USD 25.2 million has been allocated for agriculture and enterprise development. Funding for microfinance institutions will be aimed at developing new agricultural enterprises and markets. November 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!*

**FINO Reaches 2m Indians, Releases MIS Software**

Financial Information Network and Operations (FINO), a producer of biometric smartcards and micro-loan management software, has enrolled 2 million customers in India – one million of them in the past four months. FINO claims the cards cut transaction costs and can also help cardholders by functioning as identification, for example to get a driver's license. FINO also recently announced its Fino-Saral software system for microfinance institutions. FINO has a range of public and private backers, including Legatum, Intel Capital, International Finance Corporation and several banks held by the Indian government. November 10. 2008

**India Hosts Islamic Microfinance Training Program**

The Islamic Business and Finance Network and Islamic Relief Worldwide recently held a program on Sharia-compliant microfinance in New Delhi. November 9. 2008

**Australian Pension Fund Buys Triodos, JPMorgan MF Funds**

The "Financial Standard" reports that Christian Super, an Australian faith-based superannuation (pension) fund, will invest an undisclosed amount in JP Morgan's Microinvest II Fund and Triodos Investment Management's Triodos-Doen, Hivos-Triodos and Triodos Fair Share Funds with the intent of diversifying risk. Dutch Triodos Bank, which has participated in microfinance activities since 1994, reports total assets worth the equivalent of USD 2.3 billion. Christian Super reports total assets of USD 323 million. November 6. 2008

**MIX Presents Social Performance Indicators to MFI Networks**

At the recent Proxfin conference in Quebec, Canada, Microfinance Information Exchange representatives discussed how to measure social performance. MIX plans to post social performance data from microfinance institutions beginning in early 2009. November 8. 2008

**Blogger Chronicles Effect of Financial Crisis on Indian MFI**

Michael Chasnow of the Centre for Micro Finance (CMF) at the Institute for Financial Management and Research recently blogged on the challenges an unnamed microfinance institution (MFI) has met since the credit market tightened. After raising interest rates by half, "the MFI suspended new loan disbursements for a month and a half...and vetted loan applications, rejecting a far higher number of applicants.... [C]lients turned to the MFI's competitors for loans...." November 8. 2008

**Rural Banking Assets in the Philippines Grow By 15%**

Rural banking assets in the Philippines have increased by 15.72 percent in the first quarter of 2008 to the equivalent of USD 3.32 billion. The Rural Bankers Association of the Philippines predicts that the industry will grow by an additional 15 percent during 2008, as its member banks have reported strong growth in the third quarter. Rural banks now manage over six million deposit accounts. November 5. 2008.

**BlueOrchard Welcomes New Chief Financial Officer**

BlueOrchard Finance has announced that Geert Roosen will be its new chief financial officer, bringing experience from McKinsey & Company, Price Waterhouse Coopers, Fortis and Siemens. November 4. 2008

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photo | Poverty Fighters

**Anti-Malaria Bednet Loans Offered by Microfinance Institutions**

Bharat Integrated Social Welfare Agency (BISWA) of India is offering loans for the purchase of insecticide-treated bednets, which can prevent malaria. November 4, 2008

**Ayala Corporation to Open Microfinance Bank in the Philippines**

Ayala Corporation, the country's biggest conglomerate, is now establishing a microfinance institution (MFI) with authorized capital of USD 10.2 million. Through Pilipinas Savings Bank, an Ayala subsidiary, the bank will initially offer wholesale microfinance loans to other MFIs. Globe Telecom, another Ayala company, already provides its G-Cash mobile payment service to a number of MFIs. November 4, 2008

**Lenders to Indian MFIs Ask Directors for Personal Guarantees**

The "Economic Times" of India reports that wholesale bank financing for microfinance institutions (MFIs) is very tight, with rate increases as high as 500 basis points and personal guarantees being requested from MFI directors. Relief may come in early 2009, however, as Indian banks will face government-imposed "priority sector lending" deadlines. November 4, 2008

**Dividend Announcement: Nigeria Police Force Microfinance Bank**

The Nigeria Police Force Microfinance Bank has reported gross earnings equivalent to USD 8 million, total assets of USD 39.5 million and a dividend of USD 1.24 million. Managing Director Mohammed Hassan says the bank has done very well since transforming into a microfinance bank from community bank status. November 4, 2008

**Namibia's President Prefers Microfinance to Pubs**

The Development Bank of Namibia has launched a Microfinance Support Framework to provide loans worth USD 4.1 million to microcredit organizations. Encouraging business owners to participate in the development of the country, President Hifikepunye Pohamba stated, "It makes little sense for all of us to be shebeen [pub] owners." November 4, 2008

**ACCION International Opens Office in Ghana**

US-based ACCION International has opened an office in Accra, Ghana, with the aim of training 3,000 microfinance practitioners in business planning, risk management, lending and governance. November 4, 2008

**French Website Offers "Peer to Peer" Microfinance Loans**

In partnership with nonprofit ACTED and French banks la BRED and Crédit Coopératif, Babyloan offers individuals the opportunity, for a fee, to make interest-free loans equivalent to USD 25 or more to a particular entrepreneur via partner microfinance institutions. November 4, 2008

**Only 12 of 36 Nigerian States Contribute to Microfinance**

The Central Bank of Nigeria (CBN) has reported that only 12 of 36 states in the country have so far complied with a mandate to contribute to local microfinance activities. There was no word on possible ramifications. November 3, 2008.

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### Obama's Microfinance Roots

"The New Nation" recently reported that the mother of US President-elect Barack Obama, Stanley Ann Dunham Soetoro, had a long career researching and practicing microfinance, working with organizations such as the US Agency for International Development, Bank Rakyat of Indonesia and Women's World Banking in the US. November 3, 2008

### Citigroup Opens Two Microcredit Firms in China

Citigroup has announced that the China Banking Regulatory Commission has approved its plan to open two microcredit firms in the rural province of Hubei. Two London-based banks, HSBC Holdings and Standard Chartered, have also begun operations in rural China since 2007. November 2, 2008

### Ghanaian Women Still Face Barriers to Microfinance

A recent study funded by the Business Sector Advocacy Challenge Fund indicates that women in rural Ghana face greater challenges than men in accessing microfinance, such as illiteracy, lack of time to leave household duties to travel to the bank and finding male staff intimidating. October 31, 2008

### AccessBank of Azerbaijan Opens Two Branches

AccessBank, formerly the Micro Finance Bank of Azerbaijan, now has twenty branches, with new locations having opened in the Baku area and in outlying Zagatala. October 31, 2008

### Interbank Money Market for Microfinance Brewing in Nigeria

Plans continue for a proposed microfinance interbank money market, as microfinance institutions remain unable to access the mainstream interbank market in Nigeria. Such clearinghouses allow members to invest excess funds and borrow to cover temporary liquidity shortfalls. October 31, 2008

### BBVA Foundation, Bancredito Promote Microfinance in Costa Rica

State-owned Bancredito and BBVA Microfinance Foundation, an arm of multinational BBVA Group, have agreed to collaborate on an effort to make credit and other financial products accessible to disadvantaged populations in Costa Rica. BBVA Group of Spain reports a semi-annual net profit equivalent to USD 3.9 million and a return on equity of 25.3 percent. October 30, 2008

### MicroRate Publishes Performance, Social Ratings

For-profit rating company MicroRate has announced the completion of 27 public microfinance institution performance ratings and two "social ratings" during the first nine months of 2008. The institutions and their ratings appear at MicroCapital.org. October 30, 2008

### Global Economic Troubles Test African Microcredit Channels

In an interview with US Government-backed "Voice of America," Microcredit Summit Campaign Director Sam Daley-Harris reported that microfinance institutions are facing higher interest rates - if they are still able to borrow from banks. He relays anecdotal evidence from Ghana that, "clients have reduced the number of family meals from three to two times a day and changed the makeup of meals from more nutritious but expensive foods to less nutritious, cheaper foods." He advocates the use of local savings to bypass tight credit markets, and he predicts the current crunch will bring consolidation to the industry. October 30, 2008



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### FMO Invests \$10m in Sri Lanka's LOLC Micro Finance Company

LOLC Micro Finance Company (LMF) of Sri Lanka is accepting a USD 10 million loan and equity injection from the Netherlands Development Finance Company (FMO). FMO will own 20 percent of LMF after investing USD 2 million in equity, USD 1.5 million as a convertible loan and USD 6.5 million as a senior loan. LMF, a subsidiary of Lanka ORIX Leasing Company, reports a loan portfolio equivalent to USD 21.2 million and 20,000 clients. October 29. 2008

### Gates Grants \$1.7m to PlaNet, Orange for Mobile Banking Project

The Bill and Melinda Gates Foundation has granted USD 1.7 million to PlaNet Finance to fund a mobile banking project aimed at providing microfinance clients with enhanced access to banking services. The project, developed with mobile operator Orange, aims to offer cost-effective access to microfinance services for microentrepreneurs living in remote areas. The grant will support a pilot mobile banking platform in Senegal, which will later be expanded to Jordan, Egypt and Ivory Coast. PlaNet Finance offers microfinance institutions technical assistance, ratings and micro-venture capital. Orange is a division of France Telecom. October 28. 2008

### OPIC approves \$350m for Latin America

The Overseas Private Investment Corporation (OPIC) has allocated USD 350 million to three new private equity funds that will operate in Latin America. One of the funds, Greylock Latin America Opportunity Fund, indicated it may invest 15 percent of its capital in microfinance. The fund will be managed by Greylock Capital Management of New York, which reports USD 1.3 million in annual revenues. OPIC, a self-sustaining agency of the US government, reports having provided USD 250 million in financing to 31 microfinance projects around the world. October 28. 2008

### Cambodian Microfinance and AMK to Receive Support from IFC

The International Finance Corporation (IFC) has pledged to increase support for microfinance in Cambodia as part of a commitment to double its global support for microfinance to USD 1.2 billion over the next three years. While no dollar amount was specified for microfinance, IFC reports plans to raise its total annual investment in Cambodia to USD 50 million by 2010. IFC CEO Lars Thunell also pledged strategy and product development assistance to microfinance institution Angkor Microfinance Kampuchea (AMK) via the Mekong Private Sector Development Facility. AMK reports total assets of USD 12.3 million, a gross loan portfolio of USD 10.3 million, return on equity of 24.71 percent, a return on assets of 8.64 percent and 120,111 active borrowers. October 28. 2008

### Schwab Charitable Reports Increased Granting Amid Credit Crisis

Schwab Charitable President Kim Wright-Violich argues that increased giving from clients, in the face of difficult economic conditions and declining donations elsewhere, "demonstrates how donor-advised funds can help people go beyond 'checkbook charity' and become more strategic citizen philanthropists." October 28. 2008

### Lewis of MicroCredit Enterprises Receives Social Venture Award

Jonathan Lewis, Founder and CEO of MicroCredit Enterprises, will accept a 2008 Innovation Award from Social Venture Network for his company's leveraging of individual investors' "idle capital" to serve as guarantees for wholesale loans to microbanks. October 28. 2008

### Swadhaar FinServe of India Announces Slew of Investments

ACCION International's Gateway Fund, the Michael & Susan Dell Foundation and the Unitus Equity Fund (UEF) have announced investments in Swadhaar FinServe, a microfinance institution (MFI) operating in poor neighborhoods of Mumbai. A portion of the funds will be used to purchase Swadhaar FinAccess, a non-profit MFI set up by the promoters of Swadhaar FinServe, Veena Mankar and Haseena Vahanvaty. October 28. 2008

### Financial Times Cites Equity Bank's "Runaway" Profits in Kenya

London-based "Financial Times" recently covered Equity Bank's quick growth in Kenya, interviewing CEO James Mwangi's about plans to expand into Rwanda and Tanzania, as well as an unnamed skeptic, who argues that, "The question is whether it's a house of cards." Equity Bank holds assets of USD 724 million. October 28. 2008

### Jean-Pierre Klumpp takes helm at BlueOrchard Finance

Jean-Pierre Klumpp has been promoted to the position of CEO of Blue Orchard Finance, a Geneva-based microfinance investment advisor, replacing Jack Lowe, who will remain as President of BlueOrchard USA. October 28. 2008

### Findesa of Nicaragua Transforms to Commercial Bank Banex

Findesa has received license to operate as a commercial bank in Nicaragua and has taken on the name Banco del Exito (Banex), which translates to Success Bank. The new institution will offer loans, saving services, checking accounts and payment services. Backers include Hivos Triodos Fund, Antares Fund, Developing World Markets, MicroVest, International Finance Corporation and Dutch development bank FMO. October 28. 2008

**Freedom from Hunger Seeks Tie Between Health, Repayment**

In an effort to reduce delinquency, Freedom From Hunger is offering borrowers health care savings accounts, emergency health care loans and discounted doctor visits and medicine. The NGO initiated the effort in 2007 after its partner microfinance institutions cited health care needs as the top reason for defaults. Implementing partners include Bandhan of India, CARD Bank of the Philippines, Crédito con Educación Rural (CRECER) of Bolivia, Association for the Promotion and the Support to the Development of MicroEntreprises (PADME) of Benin and Réseau des Caisses Populaires du Burkina of Burkina Faso. October 27, 2008

**Cambodian Credit Bureau To Serve MFIs, Traditional Banks**

Regulators in Cambodia are planning to launch the nation's first credit bureau in April 2010. October 27, 2008

**MIT's NextLab Develops Technologies for Microfinance**

Massachusetts Institute of Technology (MIT) is now offering a design course, the NextLab Initiative, which focuses on applying mobile technologies to the needs of users in developing countries. A partnership with Cobiscorp, which specializes in IT backing for financial services firms, offers hope that the projects might overcome a lack of infrastructure that has dampened the success of previous such efforts. One of the projects, Get New Money, centers on a phone that allows for quick pre-screenings of new clients. Smart Microloans is an effort to offer long-distance loan applications to expand competition in a village in India, where it is common for only one microfinance institution to serve one village, resulting in higher expenses. October 27, 2008

**Remittances to Latin America Plateau as Global Economy Sours**

The Inter-American Development Bank (IDB) projects that migrants will send home about USD 67.5 billion in 2008, an increase of 1.5 percent compared with 2007. However, adjusted for inflation and changes in exchange rates, the money transfers will be worth 1.7 percent less. Recorded transfers had previously been rising quickly, helped by increased migration, lower money-transfer costs and improved reporting methods. October 26, 2008

**BRAC to Deploy \$1.5m Hilton Humanitarian Prize to the Sudan**

Nonprofit BRAC has been awarded the 2008 Hilton Humanitarian Prize of USD 1.5 million. BRAC, which serves 110 million people in nine Asian and African countries, plans to provide health care and education and microfinance, to people returning to their homes in southern Sudan. October 26, 2008

**Microcredit: Altruism or Exploitation?**

An editorial in "The Daily Star" of Bangladesh asks whether Shafiqul Haque Choudhury of microfinance nonprofit ASA is, "Perfecting the system - or destroying it?", claiming that ASA employees are instructed to camp out in front of delinquent borrowers' doors to press for repayment as his NGO offers healthy yields to major investors. October 24, 2008

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### Expert Interview on Mobile Banking

CGAP (Consultative Group to Assist the Poor), which is housed at the World Bank and is the leading microfinance think tank, recently posted an interview with Naushad Contractor of Vodaphone India. He is also on the regulatory committee of the Mobile Payments Forum of India as well as a player in Remit2India.com, a money transfer portal for non-resident Indians. This is a fascinating interview available at <http://technology.cgap.org>. Mr. Contractor states that, "Mobile banking is increasingly becoming popular, but it is much more hyped than it is popular." Looking ahead five years, he expects we will "be talking about how the mobile phone has revolutionized the country for a second time, and this time in the sphere of getting more and more people into the fold of financial services. I believe this even though the current trend of regulation in India is NOT favorable for leveraging the strengths of the telecom industry to hasten financial inclusion and make it more affordable, profitable and efficient." October 24. 2008

### Opportunity International Emulates Kiva, Launches OptiNnow

Opportunity International (OI) has announced the launch of OptiNnow, a project that allows people to donate online to fund a microloan to a specific borrower. The funds are disbursed through the relevant OI microfinance institution (MFI) in Kenya, Mexico or the Philippines, with additional countries to be added in the future. Whereas online broker Kiva works with third-party partner microbanks, OI owns and operates its own microbanks that will benefit from the donations. The minimum donation is USD 25. OI, founded in 1974 as a US charity, works with 42 MFIs in 28 countries throughout Asia, Africa, Latin America and Eastern Europe with an existing client base of over 1 million clients and total assets of approximately USD 800 million. October 23. 2008

### Microinsurance Consortium Founded

The Microinsurance Data and Workflow Standardization (MDWS) Consortium has been established with the following members: Gradatim IT Ventures, IBEX Project Services, Micro Insurance Academy, Micro Insurance Agency Holdings LLC, Microcare Insurance Ltd, SourceTrace Systems, Sun Microsystems and UBmatrix. The project will develop a standard for microinsurance data and workflow using XBRL (eXtensible Business Reporting Language). The consortium will also explore the idea of establishing an XBRL information hub, along the lines of the Microfinance Information Exchange. October 23. 2008

### IDB Announces \$20m to Address Credit Crisis

The global financial crisis will pose major challenges for the microfinance industry in Latin America and the Caribbean, warned Inter-American Development Bank (IDB) President Luis Alberto Moreno in a speech at the opening of the Eleventh Microenterprise Forum. Mr. Moreno announced that the IDB's Multilateral Investment Fund (MIF) is working on a USD 20 million financing facility to help microfinance institutions weather this crisis. October 22. 2008

### Google.org and Harvard Predict Future Earnings

Google.org has donated USD 710,000 to Harvard University to research improvements in microloan applicant screening. Making "credit scoring" relevant to microfinance has long been a dream of those in the microfinance community, and now two of the richest organizations in the world will try their hands at cracking the code. The grant is directed to Harvard's Entrepreneurial Finance Laboratory (EFL). The tools that the EFL is developing are psychometric tests that relate cognitive and personal qualities to business success, and hence future earning potential. TechnoServe, a US-based organization that provides training for entrepreneurs in poor rural areas, and South African lender Business Partners have signed on to implement the program. October 22. 2008

### IFC Unveils \$2b Aid Plan to Latin America

International Finance Corporation (IFC), the private sector arm of the World Bank Group, will make USD 2 billion available for its Latin American customers. The IFC's plan is comprised of four areas: providing up to USD 500 million for microfinance and loans to Latin American SMEs through regional banks and microfinance institutions that cater to the sector, supporting local financial institutions through its global trade finance program, providing short-term financing or equity to corporate customers and other support for key areas through specific funding packages. October 21. 2008

### FMO's Currency Fund Partners with BNP Paribas and PlaNet

Netherlands Development Finance Company's (FMO's) massive local currency fund, TCX, will in part be managed by a new initiative backed by PlaNet Finance, BNP Paribas and Corporate Connect. The new venture is oddly named "MICROFIX." The local currency fund will be managed by yet another new organization spawned by PlaNet Finance called PlaNIS, an investment services firm. Corporate Connect is the fund servicer. Investors are currently being sought to capitalization the effort at USD 70 million. October 21. 2008

### Peru Ranked Best for Microfinance by Microscope Index

The Inter-American Development Bank (IDB); Corporación Andina de Fomento (CAF), a Latin American multilateral institution; and the Economist Intelligence Unit (EIU) of the Financial Times publishing group have ranked the conditions for microlending in Latin America and the Caribbean in a report named Microscope. Based on 13 factors, which include the investment climate, public institutions and regulatory frameworks in microfinance for 20 Latin American and Caribbean countries, Peru was ranked as having the best microfinance business conditions, overtaking Bolivia's score from the previous year. Regulatory frameworks are key drivers in the overall scores of the countries, and improvements in these can shift the rankings from one year to the next. After Peru and Bolivia, Ecuador takes third place in the rankings. Uruguay, Venezuela and Jamaica were ranked lowest. October 21. 2008

### Nigerian Public and Private Microfinance Sectors Meet in Lagos

The Lagos Chamber of Commerce and Industry recently held a seminar on private sector partnerships titled "Fostering the World Bank and SMEs Partnership in Nigeria to Enhance Economic Growth." Aside from recommendations on microfinance and SME accessibility to private sector participants, one of the initiatives unveiled by the Lagos State government is the Eko Microfinance scheme to provide low-interest credit to artisan entrepreneurs and small businesses within the state of Lagos, which provides a set amount of funds to be disbursed monthly as microloans by five microfinance banks. October 21. 2008

### The UK Gives \$14m to Nigeria's EFINA for Research

The UK Department for International Development (DFID) has made a donation equivalent to USD 13.8 million over five years to Enhancing Financial Innovation and Access (EFINA), a non-governmental organization conceived by DFID in 2007. EFINA provides financial institutions and regulators with information that can be used to develop products and services that will cater to the needs of the poor in Nigeria. EFINA is also reported to have received USD 1 million from the Ford Foundation. EFINA intends to initiate an "ambitious" research agenda and recently conducted a survey in partnership with FinMark Research and Marketing Services, which states that 79 percent of men and 85 percent of women in Nigeria do not have bank accounts and that 53 percent of the adult population is financially excluded from both formal and informal financial services. October 21. 2008



### Madura to Receive \$4.5m from Unitus Equity

Unitus Equity Fund LP, a US-based private equity investment firm will invest the equivalent of USD 4.52 million in Madura Micro Finance Limited, an Indian microfinance institution. Madura reports 500,000 clients organized in self-help groups, serviced by 182 branches. Information on the terms of the investment and valuation are not publicly available. October 21. 2008

### Blog Action Day 2008 focuses on Poverty, Microfinance

Blog Action Day (BAD08) unites bloggers, podcasters and video-casters to post material about one issue on the same day. The goal is to raise awareness and generate global discussion on the featured issue. The theme this year was poverty, and organizers estimate that 13 million individuals visited over 12,000 participating blogs. October 21. 2008

### Microsoft & IBM Target Microfinance

Intellicap, a social business advisory firm, recently published interviews with representatives of IBM and Microsoft in its bi-monthly magazine "Microfinance Insights." Microsoft is, "working on a collaboration with CGAP [Consultative Group to Assist the Poor] in eight countries, and we have a mandate to study these mobile banking roll-outs from an impact and social context perspective, and most importantly, from a usability standpoint.... Where we have seen actual benefits from technology for front-end microfinance data management, it has simply been because there was less information to process per form...so, it's less complicated." One of Microsoft's projects is replacing text instruction with video. IBM's interest in microfinance is partially driven by the attention that the sector is getting from banks - a top customer segment for IBM. October 20. 2008

### Letshego Holdings of Botswana Seeks \$137.7m

Letshego Holdings Limited, a microlending company based in Botswana, has announced that it intends to raise USD 137.7 million in debt instruments to fund the expansion of its microlending operations across Africa. The details of the proposal have yet to be finalized. Formerly known as Micro Provident, Letshego's major shareholders include the IFC, the Netherlands Development Finance Company (FMO), Sanlam, Investec and Kingdom Zephyr. October 20. 2008

### UK to Give \$87m to Pakistan for Microfinance

State Bank of Pakistan expects to receive the first tranche of an assistance package worth the equivalent of USD 87 million this month from UK-based Department for International Development (DFID). The goal is to reach five million micro-borrowers by 2012. October 20. 2008

### Independencia Appoints Credit Suisse as Market Maker

Financiera Independencia, a microfinance institution (MFI) traded on the Mexican Stock Exchange, has appointed the Mexican division of Credit Suisse to serve as a market maker for the MFI's securities. Founded in 1993, Financiera Independencia had total assets of USD 345 million, a gross loan portfolio of USD 307 million, a debt-equity ratio of 72 percent, return of equity of 29 percent and 833,902 active borrowers. October 19. 2008 ♦♦♦



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## MEET THE BOSS

*Dennis Ripley is Senior Vice President of International Business Development at Opportunity International USA.*

### Dennis Ripley

*MicroCapital: Would you tell us a little bit about your background?*

DR: I was born and raised in Moline, Illinois, USA. In the 1980s I worked in the field of refugee services. I've been with Opportunity International for almost 17 years; I started in 1992. At the time, I was so impressed that, globally, Opportunity International had 5,000 micro business loans. Today we serve 1.2 million loan clients.

*MC: Who influenced you as a child and spawned your passion for your work?*

DR: I think it's a combination of my parents. My mother was a WWII bride from Liverpool; my father was in the US armed forces. They met in Liverpool and married three months later. We had a series of family members emigrate from Liverpool to the US; and I also got to spend some summers in Liverpool in the 50s and 60s; and so I gained quite a bit of interest in other countries.

I think that the event that triggered my commitment to the poor was sponsoring a Laotian refugee family in 1978 in Evanston, Illinois. That got my family so deeply engaged in the life of a family in dire need. It was an engagement that led me to a lifetime commitment to do something substantial on behalf of the poor. And I quickly recognized the value of doing this very carefully, very intentionally, and in a manner that builds on the sense of accountability and responsibility of the people you are helping. So that was a galvanizing event in my life.

*MC: How has Opportunity International changed in the time you have been there?*

DR: Over time as we listened to our clients closely and we observed a move towards commercial banking, we decided that we needed to take the leap into developing commercial banks as opposed to continuing to build out local NGOs.

If we are going to be able to reach large scale globally and if we really want to provide a full sweep of financial products to our clients, we really need to go into banking. So our first venture into commercial banking was in Montenegro in 2001. With the bank in Malawi that started in 2004, we were absolutely astounded by the volume of people wanting to open savings accounts. We currently have roughly 160,000 formal savings accounts and 30,000 business loans.

*MC: Is it a goal to make institutions self-sustaining - to make them local intermediaries of local funds?*

DR: It is a long-term goal. We call our model "build, own and operate." So when we start a bank we start either from scratch or through acquisitions, and we like to own 100 percent of the bank, but set our bottom level at 51 percent. We do this for a couple of reasons, and the primary one is to protect the mission, which is large-scale outreach as far down on the poverty scale as you can get. I say this humbly, but I think we are the global leader in building commercial banks for the very poor. ProCredit of Germany of course would be the global microfinance leader, but their loans on average are 10 to 12 times larger than ours. We do want our institutions to be sustainable, but the margins are razor thin at our level. Ideally over time, the financing will be from savings, and we are committed to raising grant funding in the US for use as equity to sustain growth and to keep our share at 51 percent or above. We are looking for leverage in the range of up to 7 to 1.

*MC: What is the scale of your operations?*

DR: At Opportunity we have commercial banks, of which there are 17, primarily in Eastern Europe and Africa. And then we have the NGOs that we started creating in 1972, which are predominantly located in Latin America, the Philippines and Indonesia. With the NGOs we might have a few seats on the boards, provide knowhow and funding, but we don't own the organization. Before banking, our philosophy was always local names, local institutions, local boards and local staff. If you combined the assets of the NGOs and the banks, it would be approximately USD 800 million, with 80 percent of clients borrowing in groups.

*MC: How are you using technology?*

DR: We use technology to bring affordable services to remote rural areas. We are using mobile vans equipped with small offices, safes and external ATMs. So we tell the community when we will be in the village, and we have had outstanding results where they are booked wherever they go. The branch model uses converted shipping containers. We are also using point-of-sale devices and are trying to determine whether we can place them in retail outlets that are not part of our network (a post office or mobile phone branch, for example).

**...Any poor family in the developing world would have access to financial services within a 60-minute walk....**

*MC: What are some trends you see in microfinance?*

DR: With microinsurance, we are building an industry as we did with lending institutions 20 to 25 years ago. We have some of the top health insurance experts in the field on our staff now developing products. You will obviously see international remittances and in-country transfers available for poor families. You will see more financing going to communities to build infrastructure (water and sanitation) with lending going into sectors that are really of high added value for communities. So you will see the emergence of the traditional community bank in poor communities, which are intermediating the savings of the poor back into the community, both for individuals and for institutions.

*MC: What is your greatest success?*

DR: In my 17 years I think the success has been the move to banking and insurance, which we knew our clients needed. But the success is that we did not lose our soul in the process, maintained our mission throughout that transition and are still targeting the same clients we were twenty years ago.

*MC: What is your vision?*

DR: A lot of us share the dream at Opportunity that you could look ten years down the road and any poor family in the developing world would have access to valuable financial services within a 60-minute walk of their home. I believe it is doable in ten years, through organizations like Opportunity working together. It is a question of human resources and capital, but we have the knowhow already. ♦♦♦

## PIONEERS IN MICROFINANCE

*Father Peter Marchetti is Co-founder and sits on the Board of Directors of Fondo de Desarrollo Local (FDL) of Nicaragua.*



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

**GRASSROOTS | CAPITAL**

### Peter Marchetti

*MicroCapital: What in your roots inspired you to work in social finance?*

PM: I am from an Italian family and have a distant relation to Pope John XXIII. He wrote in 1960 that 70 percent of the world population is peasants who need land reform and access to assets.

I worked in the civil rights movement from the time I was 13. Some people just have an instinct, I think. If you look at the Yunuses or any of the founders, they have this instinct about injustice in the world - that the way you eliminate poverty is through assets.

I was in Omaha, Nebraska. My dad was a lawyer and had done a lot of pro-bono work for black people in Omaha. He was a lawyer for African-American families who had assets and didn't want urban land reform. They wanted to build up their blighted areas rather than let the government come in and tear them down and build new things.

I have worked in land reform in Latin America since 1968. I was actively involved in land reforms in Chile from '68 to '73. I was later invited by the Sandinistas to come to Nicaragua, as they needed support for their land reforms. We finished that by 1984, and then I was doing land reforms in an area controlled by the Contra leadership during 1986. At the time, in those war zones, there was absolute poverty. Women were sharing dresses, there was no food and there were no farming tools either. The people wanted to set up a multi-service cooperative that included credit. So we founded a saving and loan multi-sector cooperative amidst the bombs that were falling from Sandinista aircraft. That was the first time we had tried this, and we discovered that once we delivered some financial services to this war-torn area, the people were able to negotiate with the Contra military to move the war out of that zone. They were able to do this because many of their children, as many as 2,000 of the active Contra, were young men from the areas we were working in. Microcredit - with other services added - actually solved deep hunger, and thus created a situation where people wanted peace.

After that, we went through a process of embedded development. In 1987 to '88, we were often asked by the peasants what we came there to accomplish and we would say, "We came with nothing; we just want you to reflect on what you want to do, not what we are going to give you," to which they said "Well, you won't be here very long," to which we replied, "Oh no, we are going to be here when your grandchildren are born; we are here for you to figure out what you are going to do." They chose an in-kind credit process; they would be loaning chicken and hogs. They would loan ten chickens to a woman, for example, and she would have to turn back 20 percent more. That went on for about a year, and then a peasant leader said, "What we really want to do is make loans with money, we think it will work better." And with that, they founded their own savings and loan cooperatives, lending money. It was the same as the communal bank model in microfinance that is still widespread in Africa.

But then...the leadership discovered that higher profits were possible by loaning for commerce and not agricultural production. That was generating a critique where the leaders wanted to make more money, but the impact was that people were not getting agricultural loans.

*MC: What has been your greatest success?*

PM: We wanted to take microfinance into agricultural production, and we have done that. We have proven that financing agriculture, even without agricultural security measures such as insurance, is not a risky venture. When people ask the microfinance industry, "Why do we have so little microfinance in agriculture production?", they will tell you that agriculture is risky and the costs of transactions are higher. This is a fallacy; our administrative costs for our agricultural portfolio (production) are 35 percent below the cost of urban microfinance. Right now, about 400 of the 550 employees of the FDL were clients who are now in charge or even children of those families who have grown up in the system. So when we are embedded, our arrears are much less in the countryside than in the city. The more embedded a microfinance institution (MFI) is, the more it will move into full banking. I do not mean credit cards, but moving the terms of your loan up.

We are currently working at always having alliances with our own and other institutes and initiatives for non-financial services. We are talking about "finance plus," which is long-term development financing plus the technical services to really improve the market chains in rural areas.

Lastly, in the cities you need an urban portfolio for liquidity, so we have prioritized going below the normal microfinance market and working with the poorest of the poor through solidarity groups.

*MC: What are the most important trends you see in microfinance?*

PM: The most important trend that we see is taking a second look at the prudential supervision of credits. In 1996 the Inter-American Development Bank (IDB) offered us USD 17 million to become a bank. The reason we couldn't was that the prudential regulation excludes small agricultural loans where there is no accounting in the enterprise. It is obvious that microfinance is questioning that old prudential supervision. It is more important to look at the performance of MFIs and their portfolios. As we have done this in Nicaragua, commercial banks like ProCredit are learning our methodology and have found that they too can get to the countryside. What does the IDB, The World Bank, CGAP really think about these issues? Do they want agricultural production or not? So what we say to them is, "Read your own world development report 2008," as it says that if you have 1 percent agricultural growth in a poor country you get a 6 percent increase in consumption power. Industrial growth does not eliminate poverty in the world today.

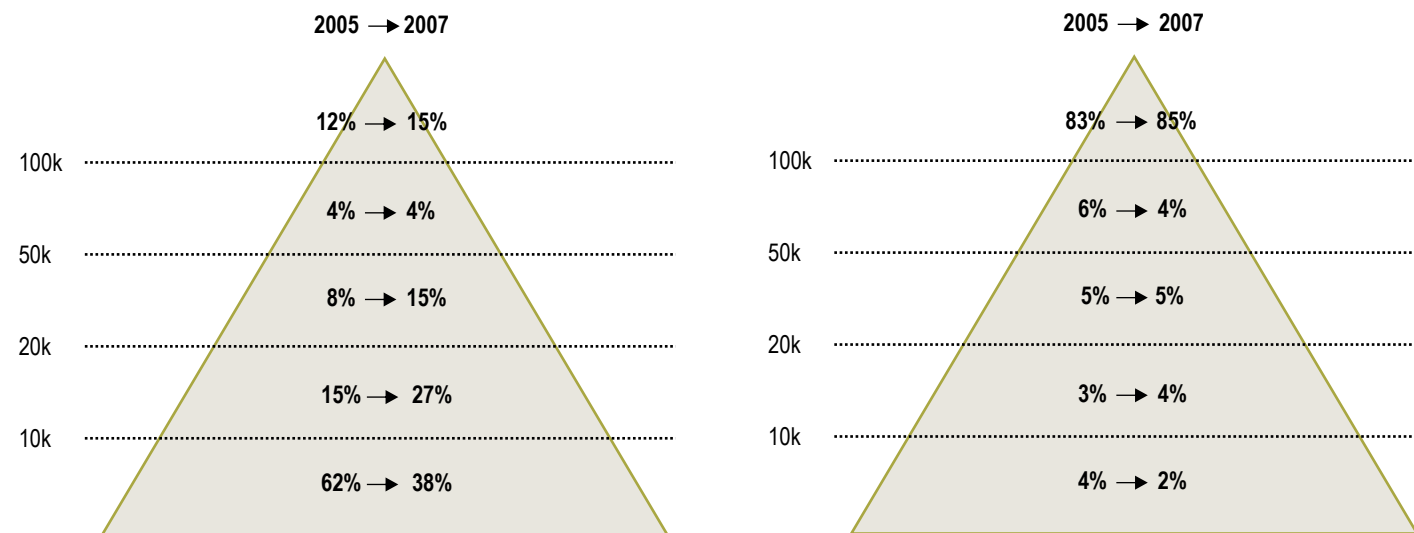
[We] subsidize the rural projects with our urban profits. The World Bank today says that it needs help from donors to push financial and technical services to micro-entrepreneurs in rural areas. We think that it is not only governments that should transfer subsidies to the agricultural areas, but that microfinance has an incredibly important role in this transferring of subsidies to rural agricultural production in order to avoid the trend in Latin America and Africa whereby governments only transfer subsidies into areas in order to get votes.

I am questioning the mainstream paradigm of microfinance. When you ask about the future, I think it doesn't mean changing microfinance overall, but adjusting the mainstream paradigm to include agricultural financing, which is what reduces poverty. ♦♦♦

*Grassroots Capital manages the Gray Ghost Microfinance Fund and the Global Microfinance Equity Fund.*

**MICROCAPITAL MARKET INDICATORS | MEXICO**26 MFIs REPORTING <sup>1</sup>**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
Caja Popular Mexicana	182,782,688	21.5	769,442,240	1,135,007,616
Caja Libertad	110,404,224	27.8	348,598,656	569,407,104
Banco Compartamos, S.A., Institución de Banca Múltiple	100,540,208	45.9	178,168,992	379,249,408
Servicios Financieros Comunitarios	11,124,820	43.3	21,129,832	43,379,472
EUREKASOLI, S.A.	8,453,939	263.5	1,384,464	18,292,342
FINCA Mexico	6,117,912	50.0	9,783,770	22,019,594
ASP Consultores & Representacion, S.A. & C.V. y Opciones Empresariales del Noreste S.A. & C.V.	4,544,479	100.5	3,007,651	12,096,608
CREDI-CAPITAL, S.A. de C.V. SOFOM E.N.R.	2,916,191	86.6	2,349,291	8,181,672
Centro de Apoyo al Microempresario, I.A.P.	2,654,529	18.0	13,490,246	18,799,304
SOLFI Soluciones Financieras, S.A. de C.V.	2,578,982	155.1	936,395	6,094,359

**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., October 2008, based on MFIs reporting to MBB or MIX Market.

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## UPCOMING EVENTS

### **The Financial Crisis and Microfinance: Experience, Insights, and Implications**

November 18 - November 20, 2008, Online

CGAP (Consultative Group to Assist the Poor) is offering this virtual conference to discuss the impact of the financial crisis on microfinance and poor people. Participants will share their insights and discuss how to respond to upcoming challenges. Separate sessions will focus on 1) microfinance institutions and their clients and 2) donors and investors. Details are available via +1 202 473 9594, [cgap@worldbank.org](mailto:cgap@worldbank.org) or <http://www.cgap.org/p/site/c/template.rc/1.26.3807>.

### **Microfinance and Climate Change: Can Microfinance Institutions Promote Environmental Sustainability?**

November 18 - November 20, 2008, Online

MicroLINKS is offering this online "Speaker's Corner" hosted by Dan Lundmark, who is working on a film highlighting the environmental policies and impacts of microfinance institutions (MFIs) and microenterprises in Latin America, Africa and Asia. Panelists will address reasons that "green" microfinance solutions are mutually beneficial arrangements for MFIs and their clients. Participants may register free of charge via Anna van der Heijden at [avanderheijden@irgltd.com](mailto:avanderheijden@irgltd.com) or <http://www.microlinks.org/sc/greenmicrofinance>. No telephone number is offered.

### **Microfinance In Africa: What Works?**

November 20, 2008, Nairobi, Kenya

Advisory firm Intellectap is hosting this event to celebrate the launch of the newest issue of its "Microfinance Insights" magazine: The African Landscape: Ripe for Entrepreneurship, Innovation, and Investment. A panel will be moderated by Vineet Rai, Managing Partner, Aavishkaar Goodwell Microfinance Development Company. Confirmed speakers include: Kamal Budhabhatti, CEO, Craft Silicon; Wagane Diouf, CEO, AfriCap; Ingrid Munro, Founder, Jamii Bora; and Dave van Niekerk. To RSVP, or for more information, contact Jerilene Creado at [jerilene@mfinsights.com](mailto:jerilene@mfinsights.com) or +91 22 4035 9210. More details are available via [http://intellectap.net/Microfinance\\_in\\_Africa.pdf](http://intellectap.net/Microfinance_in_Africa.pdf).

### **Alternate Debt Financing Structures for MFIs**

November 24 - November 25, 2008, Hyderabad, India

Grameen Foundation and Grameen Capital India are organizing this training on alternative ways for microfinance institutions to raise debt capital. The registration fee is USD 350 for international participants and INR 15,000 for those from India. More details are available from S. Ramesh at [sramesh@grameenfoundation.org](mailto:sramesh@grameenfoundation.org) or via [http://www.grameenfoundation.org/get\\_involved/events/](http://www.grameenfoundation.org/get_involved/events/). No telephone number is offered.

### **Mobile and NFC Payment Strategies**

November 24 - November 27, 2008, Budapest, Hungary

This event addresses strategies for investing in mobile payment and remittance providers. The registration fee for all four days is EUR 4674 (USD 6830), with partial registrations and group discounts available. More information is available via +44 (0) 20 7017 7483, <http://www.iir-events.com/IIR-conf/Telecoms/EventView.aspx?EventID=1683> or [registrations@iir-telecoms.com](http://registrations@iir-telecoms.com).

### **Arab Microfinance Investment Symposium**

November 30, 2008, Dubai, United Arab Emirates

This event focuses on microfinance as an emerging asset class and investment opportunities in the Middle East, North Africa and Pakistan. It will be co-hosted by Grameen-Jameel of Dubai and investment manager BlueOrchard of Switzerland. The registration fee is USD 500, with an extended registration deadline of November 25. More details are available via <http://www.blueorchard.org/jahia/Jahia/pid/252>, [info@grameen-jameel.com](mailto:info@grameen-jameel.com) or +41 22 596 4777.

### **Mobile Commerce 2008**

December 3 - December 4, 2008, Moscow, Russia

The Mobile Payments Project of the Infocommunication Union is organizing this event to address problems and opportunities relating to the development of mobile commerce and remote banking services in Russia. The registration fee is EUR 850 (USD 1064), with discounts available for multiple attendees from one organization. Details are available via Elena Tsoy at [tsoy@mobilepaymentsrussia.ru](mailto:tsoy@mobilepaymentsrussia.ru), <http://www.mobilepaymentsrussia.ru/en> or +7 812 458 81 69.

### **Mobile Banking For The Poor: Pioneer Perspectives**

December 11, 2008, Washington, United States & Online

CGAP (Consultative Group to Assist the Poor) is hosting a discussion on how mobile phone banking can improve the lives of poor people. Panelists are to include: representatives of Vodafone Group, Globe Telecom, Equity Bank, Tameer Bank, XacBank, Wizzit and the Maldives Monetary Authority. Those who will be attending in person are asked to send an email with "RSVP" in the subject line by November 30 to [technology@cgap.org](mailto:technology@cgap.org). Details are available via +1 202 473 9594 or <http://www.cgap.org/p/site/c/template.rc/1.26.3811>.

### **Microfinance Investor Conference**

December 11 - December 12, 2008, Beijing, China

This conference, organized by the People's Bank of China-GTZ project on Microfinance and Rural Financial Sector Reform, will bring together investors and microfinance institution representatives. More details are available via <http://www.gtz-china.org/finance/pbc-gtz-2008> or [mfinvestors2008@banking-gtz.cn](mailto:mfinvestors2008@banking-gtz.cn). No registration fee telephone number is offered.

### **Better Business Practices for Sustainable Social Change**

December 29 - December 30, 2008, Nite, 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 fees are USD 100 for international delegates and INR 1000 (USD 20) for Indian delegates. Late fees apply after October 30. More information is available via <http://www.jkshim.ac.in/conference/confhome.html> or [suprabha@jkshim.ac.in](mailto:suprabha@jkshim.ac.in).

### **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](mailto:mlloydwhite@frallc.com), <http://www.frallc.com/conference.aspx?ccode=B679> or +1 704 341-2440. ♦♦♦



## PAPER WRAP-UPS

### Islamic Microfinance: An Emerging Market Niche

*By Nimrah Karim, Michael Tarazi and Xavier Reille, published by CGAP (Consultative Group to Assist the Poor) as Focus Note Number 49, August 2008, 16 pages, available at: [http://www2.cgap.org/gm/document-1.9.5029/FocusNote\\_49.pdf](http://www2.cgap.org/gm/document-1.9.5029/FocusNote_49.pdf)*

Karim, et al. review developments and trends in Islamic microfinance by providing a host of facts and statistics gleaned from CGAP research, in particular a 2007 global survey of over 125 Islamic microfinance institutions (MFIs) and experts from 19 Muslim countries.

Islamic finance refers to a system of finance based on Sharia, or Islamic law, which prohibits practices considered unfair or exploitative, such as the payment or receiving of interest earned on financial transactions. Islam places a number of additional constraints on investment activity. Investments related to practices that Sharia deems improper or harmful (e.g. consuming pork or alcohol, gambling, or creating or distributing weapons of mass destruction) should not be financed. Also, Sharia mandates that all financial contracts must state openly all terms and conditions and must be agreed to by all involved parties. Muslim scholars must complete several years of training to become certified to judge financial transactions according to Sharia; however, without a centralized Islamic finance authority there exists the potential for differing interpretations of the aforementioned principles and consequent disagreements on the validity of various financial products.

Common Islamic microfinance contracts include:

**Murabaha Sale** (cost plus markup sale contract): The most widely offered Sharia-compliant contract, the murabaha is an asset-based sale transaction for acquiring working capital. A client requests a tangible commodity from a financier, who purchases it from the market and resells it to the client at a pre-arranged fixed premium to cover the service provided. This premium cannot be thought of as interest because it does not vary with the repayment schedule; the amount remains fixed even if the client repays past the due date. The financier must retain all ownership and bear all risk until the client has paid for the asset in full.

**Ijarah** (leasing contract): This contract is typically used for financing small machinery and other durable equipment. Lease term and related fees must be determined beforehand, and, as with murabaha, asset ownership and risk remain with the financier for the term of the contract.

**Musharaka and Mudaraba** (profit and loss sharing): Musharaka is an equity-based joint partnership wherein the parties share profits or losses according to a predetermined ratio. In a mudaraba contract, one party provides managerial oversight of a project while another funds it. As with other contracts, profit-sharing ratios are predetermined and financial losses are borne by the financier, who retains ownership of the project.

**Takaful** (mutual insurance): Each group member contributes funds to a pool that is used to provide insurance to members facing problems such as death, crop loss or accidents. The paid premiums must be invested in Sharia-compliant activities.

Islamic finance institutions have grown rapidly. Over 500 Sharia-compliant institutions now operate in over 75 countries. Of these, approximately 292 are banks that fully operate according to Islamic law or work with Islamic subsidiaries. Another 115 are investment banks or other finance companies, while another 118 are insurance companies. The 100 largest wholly Sharia-compliant banks on average claim an annual asset growth rate of 27 percent, eight percent higher than traditional banks.

Total assets in the Islamic finance industry are valued at USD 500.5 billion. Of this amount, approximately 36 percent is spread among the Arab countries of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the UAE. Another 35 percent is held elsewhere in Southwest Asia and North Africa. Access to Islamic financial services is also available through subsidiaries of international financial institutions in countries such as India, China, Japan, Germany, Switzerland, Luxembourg, the United Kingdom, the United States and Canada.

Karim, et al. cite a number of International Finance Corporation market studies to conclude that the demand for Islamic microfinance products is strong across the globe. One weakness of these surveys, however, is that respondents who express a religiously-correct preference may choose differently in a market setting.

Just as with the broader Islamic banking industry, government policies can help expand Islamic microfinance. The strongest examples of pro-Islamic microfinance regulation occur in Indonesia and Pakistan. In 2002, the Bank of Indonesia created a "Blueprint of Islamic Banking Development in Indonesia," which outlined a nine-year plan for development of the Islamic finance sector in the country. The government of Indonesia has licensed 35 new rural banks in the past five years. The Bank of Indonesia offers training and certification on Islamic financial

operations to bank staff, managers and directors. In 2007, Pakistan developed guidelines for the expansion of Islamic microfinance. The guidelines set forth protocol governing the licensing and appointment of Sharia advisors to rule on compliance cases and the separation of conventional and Islamic financial products by institutions that offer both.

According to the CGAP Islamic microfinance survey, the subsector accounts for less than one percent of total microfinance outreach - about 380,000 customers. Of these, 80 percent reside in Indonesia, Bangladesh and Afghanistan.

Islamic microloans are generally similar to their conventional counterparts in terms and size, although most firms offer only one or two Sharia-compliant products. Islamic microloans target women in proportions comparable to conventional microloans, and about 70 percent of microfinance products are murabaha.

The authors argue that Islamic microfinance needs a "deeper base of market research and proven business models" in order to expand access on a large scale. By increasing operational efficiency, MFIs can cut transaction costs and create more-affordable financial transactions, especially murabaha or ijara transactions. Islamic MFIs can also learn something from the conventional microfinance industry's credit risk management practices. Karim, et al. argue that these techniques (e.g. peer pressure and strict discipline) can easily be adapted to comply with the risk-sharing and no-interest principles inherent to Islamic finance. They cite others who argue that peer pressure from the religious community and a desire to achieve piety can complement the reliance on peer pressure found in traditional models.

Another challenge to the expansion of Islamic microfinance products is criticism as to whether interest is simply disguised as a Sharia-compliant administrative fee. The authors argue that to overcome these issues the industry needs to encourage public education and increased collaboration between financial experts and Sharia experts regarding the sanctioning of microfinance products.

The authors of the paper also believe that capacity building must be accelerated and transparency increased, such as by establishing consistent, microfinance-specific reporting standards with buy-in from international organizations such as the Islamic Development Bank.

## Impact of Microfinance on Rural Households in the Philippines: A Case Study on the Effects of Microfinance Operations on Poor Rural Households and the Status of Women

By Toshio Kondo, published by the Asian Development Bank, September 2007, 24 pages, available at: <http://www.adb.org/Documents/IES/PHI/IES-PHI-Impact-of-Microfinance.pdf>

This study evaluates the impacts of the Rural Microenterprise Finance Project (RMFP), which is sponsored by the government of the Philippines to support rural microfinance institutions (MFIs). Long-term goals included poverty reduction, job creation and income growth among the poorest 30 percent of the rural population.

When RMFP closed in 2002, the program had reached 618,906 clients, of whom 97 percent were women. On average, borrowers had taken out the equivalent of about USD 1,538 in loans. About 9 percent of exiting clients were identified as “problem clients” while approximately two percent were identified as successful “graduates.”

Kondo uses a survey and a quasi-experimental pipeline whereby each “treatment” barangay, or village, is matched to a different “control” barangay according to procedures outlined by Coleman (1999). The treatment barangays had been involved with lending for some time, while the control barangays were similar on many angles but had not yet received any program loans.

Interestingly, only ten percent of respondents were poor, according to the official poverty threshold. While a large proportion of the respondents’ incomes are close to the threshold, a much larger proportion is significantly above it. The proportions are similar for both old and new clients, and Kondo argues that this disproves the notion that the program itself may be responsible for the participants’ rising incomes over time.

Kondo uses a linear fixed-effects model to study the primary measures of household welfare - the per capita measurements of income, expenditure, food, total and savings.

The four treatment variables used in the study were: (1) a binary variable for whether someone received a program loan; (2) the number of months the program was available to the barangay (based on the first loan released to the barangay); (3) the value of loans (cumulative total amount of loans) released; and (4) the number of loan cycles. Of these, Kondo argues that only loan availability has a measurable effect on household welfare.

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Kondo finds a low but significant probability that usage of program loans positively impacts per capita household income. Taking out a loan on average provides an additional PHP 5,222 (USD 115) per year. Per capita expenditures are also positively affected by a family’s access to program loans at the rate of PHP 38 (USD 0.80) per PHP 100 (USD 2) of loan principal.

Kondo finds no significant effect of program loans on savings, as calculated using two different methods. However, Kondo does find a significant and positive effect (an extra PHP 1,333 or USD 29) on per capita expenditure on food.

Kondo finds the impact of the program on both the number of enterprises and the number of employed persons in these enterprises to be very significant in that program households have 20 percent more enterprises and 17 percent more employed persons than non-program households.

Kondo finds that the program had little impact on total household assets, school attendance or expenditures per school-attending child. Likewise, the estimates for health indicate that program loans did not significantly affect the proportion of ill or injured family members, the proportion of those seeking treatment, the proportion of fully immunized children or per capita medical expenditures.

## Peru Microfinance Analysis and Benchmarking Report, 2008

Published by the Microfinance Information Exchange (MIX), October 2008, 16 pages, available at: [http://www.themix.org/pub\\_popup.aspx?publicationID=261](http://www.themix.org/pub_popup.aspx?publicationID=261)

This report, only available in Spanish, reviews the microfinance market in Peru, where the microfinance industry has deep roots. Data compiled from 49 microfinance institutions represents a total loan portfolio of USD 2.6 billion and 2 million borrowers.

## Microfinance And The Double Bottom Line In The Post-Social Enterprise Era

By Marc de Sousa-Shields, published by US Agency for International Development as *microREPORT #112*, August 2008, 61 pages, available at: [http://www.microlinks.org/ev\\_en.php?ID=25443\\_201&ID2=DO\\_TOPIC](http://www.microlinks.org/ev_en.php?ID=25443_201&ID2=DO_TOPIC)

This paper, “explores the relationship between microfinance and the double bottom line with the objective of understanding how to maximize poverty alleviation as the sector evolves.

“Chapter One employs a sector development lifecycle model to demonstrate that microfinance is approaching a ‘convergence point,’ where commercialization and private capital, invested in existing microfinance institutions (MFIs) and in new market entrants, will influence the adoption of more conventional business management practices and correspondent impacts on poverty alleviation goals.

“Chapter Two briefly examines three business models that will likely characterize the sector as it evolves: the traditional social enterprise MFI; the ‘corporate social responsibility’ model; and laissez faire, ‘base of the pyramid’ (BoP) businesses....

“The assessment concludes that the predominant social enterprise MFI will remain significant but will give way to profit-maximizing corporate social responsibility (CSR) and BoP models; models which may have equal if not greater social impacts than the social enterprise model....

“A range of actions is called for to support two broad objectives: 1) support the development of market based social performance standards and benchmark expectations and 2) developing sustainable supporting financial sector infrastructures that encourage better social impacts.” ♦♦♦