



MICROCAPITAL BRIEFS | TOP STORIES

Indian Central Bank Lays Down Laws

The Reserve Bank of India (RBI) recently called on financial institutions to halt mobile payment services and also tightened capital adequacy standards governing microfinance institutions (MFIs). The stoppage of mobile payment services until new guidelines are issued will be problematic for banks that have already begun offering mobile payment services, such as ICICI Bank and Yes Bank. Draft RBI guidelines would require mobile payment providers to use message formats that will ensure interoperability and to follow anti-money laundering and "know your customer" rules. Under a separate decree, the majority of Indian MFIs will be required to increase their Capital to Risk-weighted Assets Ratio (CRAR) from 10 percent to 15 percent by April 2010. CRAR measures a bank's capital reserves as a percentage of risk-weighted assets. Some argue that the measure will force MFIs to charge higher interest rates or sell to commercial institutions. July 28 and August 11, 2008

Violence Follows Nicaraguan President's Speech Against Usury

During protests at Fundación para el Desarrollo de Nueva Segovia (Fundenuse), a Nicaraguan microfinance institution (MFI), five police officers were injured and a protester was blinded in one eye. A Fundenuse worker was also kidnapped and threatened with bodily harm, according to a statement by the Nicaraguan Association of Microfinanciers (ASOMIF). Tensions in northern Nicaragua have been high since President Daniel Ortega visited the region on July 12 and called for protests against MFIs charging usurious interest rates. Fundenuse reports total assets of USD 12.3 million, a total loan portfolio of USD 11.3 million, return on equity of 30.91 percent, a debt-equity ratio of 119.18 percent and 15,757 active borrowers. ASOMIF is a network of twenty institutions in Nicaragua representing a total loan portfolio of USD 140 million. August 11, 2008

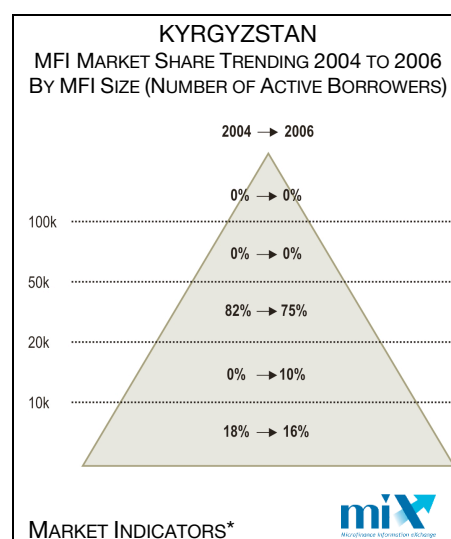
Gates Foundation to Refocus on Microsavings

The Bill and Melinda Gates Foundation, a charitable organization with an endowment of USD 35.9 billion, plans to direct hundreds of millions of dollars to promoting savings programs in the developing world. The decision follows a review of its existing microfinance grants and a broader study of its financial services strategy. The foundation will initially focus on countries with stronger existing infrastructure, such as Brazil, the Philippines, Mexico, South Africa and India. August 6, 2008

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MICROCAPITAL BRIEFS

Mongolian MFI XacBank Launches Mobile Phone Banking

XacBank of Mongolia and CGAP (Consultative Group to Assist the Poor), a microfinance think tank housed at the World Bank, have announced the launch of a new mobile phone banking service targeted at rural customers. XacBank's project will be implemented in partnership with local mobile phone service providers and a cash-handling network of local merchants. XacBank reports total assets of USD 122.7 million, a total loan portfolio of USD 85.2 million, return on equity of 23.96 percent, a debt-equity ratio of 984.23 percent and 59,793 active borrowers. August 6, 2008

"Microfinance Transparency" to Track Interest Rates

A new US nonprofit, MicroFinance Transparency (MFT), will publish interest rates and other basic information about the lending practices of microfinance institutions worldwide. By publishing data such as annualized per year (APR) interest rates, MFT will mirror some of the standards that are commonly enforced in commercial lending. Founded by Charles Waterfield of Columbia University, MFT will be supported by donor funding. August 6, 2008

Sri Lanka Documents High Rate of Financial Inclusion

A government-sponsored survey of Sri Lankan households found 82.5 percent have accessed savings and credit services, with approximately 20 percent of credit obtained from informal sources borrowed from moneylenders. August 6, 2008

ACE Foundation Grants \$720k to Freedom from Hunger

ACE INA Foundation is making a three-year, USD 720,000 grant to US nonprofit Freedom from Hunger for its "Credit with Education" program in Mexico. The program couples group lending and savings with training on business, health and nutrition. Freedom from Hunger works with partners in 16 countries. August 6, 2008

Indian Microfinance Institutions Increase Focus on Urban Areas

A study by Sa-Dahn indicates that microfinance institutions have found success in Indian cities partially because of larger loan sizes. Sa-Dhan is an association of 196 institutions serving 7 million borrowers with an aggregate loan portfolio equivalent to USD 3.5 billion. July 29, 2008

GE Money Grants \$1.5m to FINCA

General Electric Consumer Finance (GE Money) has made a three-year commitment worth USD 1.5 million to support FINCA's (Foundation for International Community Assistance's) Village Banking Campaign. FINCA will use the first installment of the grant to expand in Africa, Europe and Asia. GE Money, a unit of General Electric Company, reports USD 4.3 billion in earnings and USD 211 billion in assets. As of 2006, FINCA reported assets of USD 251 million. July 28, 2008

Prosperity Microfinance Bank of Nigeria Targets Expatriates

In an effort to expand from its microcredit base, Nigerian microfinance institution Prosperity Microfinance Bank Ltd. has announced several new products including insurance, business checking and a savings account aimed at Nigerians living abroad. July 28, 2008

India's Gradatim Launches Microinsurance Technology Platform

Indian information technology firm Gradatim IT Ventures recently announced the launch of "MF-Insure," a new technology platform designed to simplify the business operations of microinsurance providers. July 28, 2008



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<http://cgap.org/direct/training/training.php>

Ethiopia to Finance Four Microfinance Institutions

Commercial Bank of Ethiopia (CBE), a government-controlled for-profit corporation, has announced that it will finance four unnamed microfinance institutions (MFIs) in addition to the five it now supports. Some have criticized the CBE for only supporting MFIs with ties to government. For 2006, CBE reported total assets equivalent to USD 4.2 billion and a gross loan portfolio of USD 883 million. July 30, 2008

Indian Banking Giant HDFC to Expand Microfinance Arm

Indian bank HDFC (Housing Development Finance Corporation) has announced plans to open eight new branches solely dedicated to microfinance. HDFC's rapid scaling-up of operations reflects a general enthusiasm among prominent Indian banks for microfinance. HDFC reports USD 1.3 billion in total assets, a calculated debt-equity ratio of 107.83 percent and calculated return on assets of 0.84 percent. July 22, 2008

Russian SME Lender LOCKO-Bank Borrows \$65m

The International Finance Corporation (IFC) has arranged a USD 65 million loan package for LOCKO-Bank, a Russian commercial bank focused on small and medium enterprises. The loan consists of a three-year USD 20 million loan from IFC and a USD 45 million syndicated loan. IFC, a member of the World Bank Group, holds a 15 percent share of LOCKO-Bank and actively participates on its Board of Directors. LOCKO-Bank reports assets equivalent to USD 1.1 billion, an outstanding customer loan portfolio of USD 832 million, a debt-equity ratio of 0.88 and return on equity of 1 percent.

July 21, 2008 ♦♦♦



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2008 ASIA-PACIFIC REGIONAL MICROCREDIT SUMMIT

SUMMIT HIGHLIGHTS

* Microfinance Transparency, (www.mftransparency.org) a not-for-profit initiative that will bring transparency to interest rate pricing, was launched on the opening day. This new initiative was endorsed by institutions reaching 74 million clients (more than half of all microcredit clients in the world) including some of the largest MFIs and networks around the world.

* Over 900 delegates from 50 countries attended the Summit. Leaders from the largest Microfinance Institutions and networks in Asia and the Pacific including NABARD, SIDBI, Grameen Bank, ASA, and BRAC were present.

* President of Indonesia, Dr. H. Susilo Bambang Yudhoyono, opened the Summit and former President of Peru, Alejandro Toledo, delivered a moving speech at the closing dinner.

* Nobel Peace Prize Winner Muhammad Yunus attended the summit and held a private meeting with the President of Indonesia, Dr. Yudhoyono, to discuss microfinance in Indonesia.

Thank You to participants and sponsors for ensuring another successful summit. Nobel Peace Prize Laureate Muhammad Yunus noted that this was "the best Summit yet!"

To get more detailed information on the launch, key speeches, plenary sessions, and workshops please visit our website or contact us at:
www.microcreditsummit.org

Stay tuned for more information on the Latin American-Caribbean Regional Microcredit Summit to be held in Cartagena, Colombia, June 8-10, 2009.

PAPER WRAP-UPS

Learning By Association: Micro Credit in Chiapas, Mexico

By Gustavo A. Barboza and Humberto Barreto, published in Contemporary Economic Policy Volume 24, Number 2, April 2006, 16 pages, available at: http://econpapers.repec.org/article/oupcoeco/v_3A24_3Ay_3A2006_3Ai_3A2_3Ap_3A316-331.htm

This paper aims to investigate “peer mentoring” or “learning by association” through traditional microfinance borrowing groups whereby a loan is made to a group instead of to individuals. The authors examine the relationship between peer mentoring and client repayments after hypothesizing that stronger support through “peer mentoring” groups will enable weaker members of the group to advance and succeed. They consider that poor people do not just lack access to financial services, but also the skills and discipline to manage money. Peer mentoring provides both support and a level of transparency. The authors analyze client data from AISol, a non-governmental organization established in 1999 in Mexico, committing the bulk of the paper to equations measuring repayments. The results show a positive relationship between repayment rates and peer mentoring, which indicates that weak group members perform more favorably under the influence of stronger members.

Securitization in Microfinance

By Brad Swanson, published in Microfinance Insights, June 2007, 2 pages, available at: <http://www.duomarkets.com/Resources.htm>

In this paper, Swanson explains the difference between collateralized debt obligations (CDOs) and the securitization of microcredit loans. He reviews the benefits and challenges of each and cites recent examples of both types of microfinance security. Swanson defines securitization as “a financing process in which a company moves assets into an ostensibly bankruptcy-remote vehicle to obtain lower interest rates from potential lenders.” Securitization allows for a simpler analysis of credit risk than analyzing company debt because the repayment of loans incorporates fewer variables than the functioning of an entire business. It also allows companies to raise money without selling equity - which can be costly and dilute future returns - and allows easier diversification of asset allocation.

Swanson explains that “CDOs are securitizations in which corporate loans or corporate bonds comprise the asset pool.” To date at least seven microfinance CDO transactions, totaling approximately USD 300 million, have occurred in international capital markets. The first major transaction of this nature was BlueOrchard Microfinance Securities I (BOMSI), co-sponsored by

Developing World Markets and BlueOrchard. Importantly, BOMSI did not ask investors to lower their expected financial returns due to the positive social nature of microfinance.

Microloan securitization is similar to the CDO process, except that the asset pool is comprised of individual microloans and not the corporate debt of microfinance institutions (MFIs). According to Swanson, a great deal of excitement surrounds this type of financial transaction, but only two true microloan securitizations, totaling USD 75 million, have taken place so far.

Swanson explains several challenges facing the securitization of microfinance loans. First, he cites the short maturity of microloans. Securitizations of other assets, like mortgages, are usually not repaid for a period of many years, even decades. Since most microloans are repaid within one year, several generations of loans must be incorporated into each securitization. This involves a great deal more effort and complexity because work must constantly be done to continue deciding which loans should be repaid to the asset pool. This extra work leads to increased costs, meaning that investors must accept a smaller financial return. The short maturity of microcredit loans also leads to increased “origination risk,” the possibility that the MFI won’t be able to find enough loans to keep paying the asset pool.... (Continued in the subscriber version.) ♦♦♦

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