# MicroCapital Monitor
THE MICROFINANCE NEWSPAPER

FREE PREVIEW EDITION*

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## MICROCAPITAL BRIEFS | TOP STORIES

### Second SNS Institutional Fund Raises $171m

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

### Norwegian Initiative Establishes Two Funds Totaling $100m

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

### Ghana to Allow Use of Social Security Accounts as Guarantees

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

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

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



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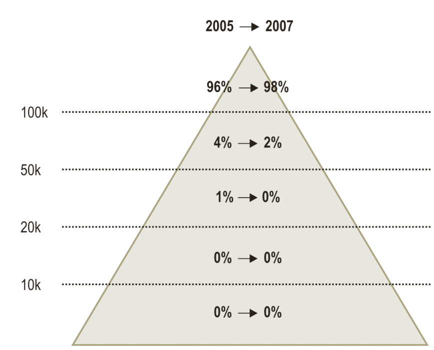
BANGLADESH
MFI Market Share Trending 2005 to 2007
By MFI Size (Number of Active Borrowers)




Market Indicators*

## MICROCAPITAL BRIEFS

FREE PREVIEW EDITION*

### IFC Loans $2.1m to Columbian MFI

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

### Following Pack, New York Times Confuses Charity, Making Loans

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

### UN Chief Says Bangladesh to Become Middle Income Country

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

### Global Partnerships Launches $20m "Microfinance Fund 2008"

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

### Jordan Grants $7.1m to Microfinance Institutions

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

*(Please refer to the subscriber edition for all eight pages of briefs.)*

## GUEST EDITORIAL
### COPING WITH A CRISIS

**Christian Ruehmer, Perfect Point Partners**

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

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

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

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

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

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

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

Given those trends, the following can be expected:

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

*This feature is sponsored by:*

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Consultants for Microfinance and Microenterprise

## MEET THE BOSS

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

## Christian Ruehmer

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

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

*MC: How do you describe the consulting company?*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## PIONEERS IN MICROFINANCE

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

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

Deutsche Bank

## Bambang Ismawan

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

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

*MC: Were you raised a Catholic?*

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

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

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

*MC: How has microfinance affected your work?*

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

*MC: What does your operation look like?*

BI: My organization is actually small in terms of numbers, about 150,000 members. We have about 3,000 SHGs we have been promoting. In Indonesia there are two kinds of players: commercial banks looking for major economic profit, and in rural areas banks that cater to microfinance. All of these various approaches depend on the political climate, as the government is very dominant. Whenever we are trying to expand our activities, the government sees it as an attempt to increase control and that is a threat. So our activities are split into two primary delivery models. First we offer direct service to the people. Secondly, we lobby the government and aid in the organization, training and formation of these SHGs . Through this we are reaching roughly 25 million families.

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

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

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

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

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

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

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

## PAPER WRAP-UPS

FREE PREVIEW EDITION*

### Innovations in Microfinance in Southeast Asia

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

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

The Philippines: Credit Union Empowerment and Strengthening Project

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

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

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

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

The Philippines: Micro-insurance: CARD Mutual Benefit Association

*(Continued in the subscriber edition…)*