

MICROCAPITAL BRIEFS | TOP STORIES

CGAP Reveals First Performance Figures on Microfinance Funds

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

Nigeria Creates \$426m Microcredit Development Fund

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

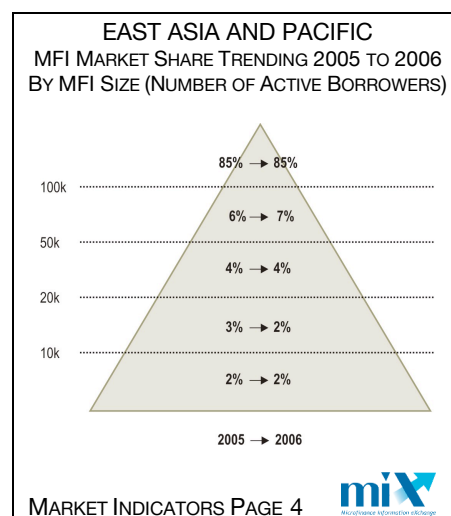
Goldman Sachs to Open \$100m Entrepreneurship Academy

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

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MICROCAPITAL BRIEFS

Peru's MiBanco Rumored to be Planning IPO

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

FMO Loans \$9m to Afghani FMFB-A

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

Soros, Omidyar, Google Start \$17m VC Company in India

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

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Compartamos Reports 33.7% Increase in Net Income in 2007

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

Oikocredit Invests \$7.4m Worldwide in January 2008

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

Xigi.net Launches Social Capital Index

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

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

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



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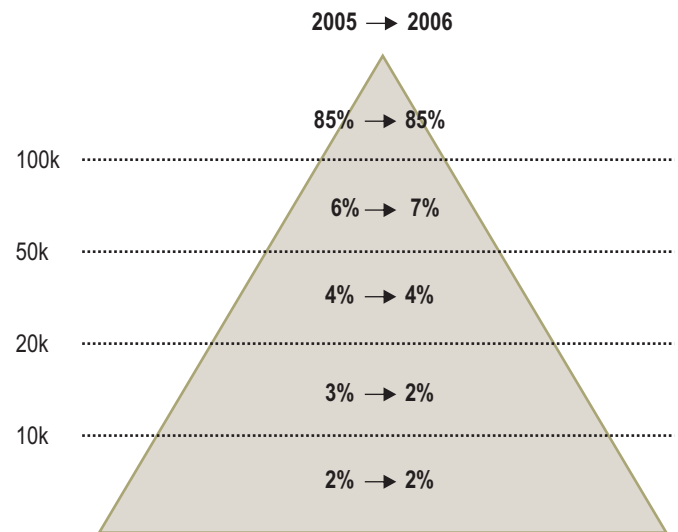
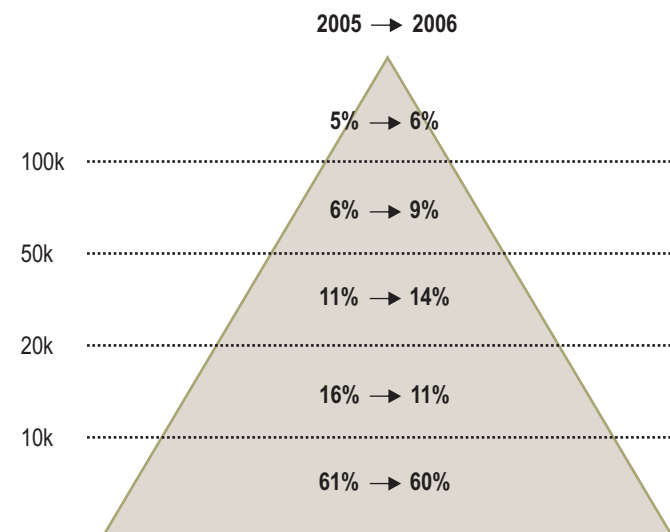
CGAP  **Microfinance Management Institute**

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

MICROCAPITAL MARKET INDICATORS | EAST ASIA AND PACIFIC9 COUNTRIES | 110 MFIs REPORTING¹Cambodia
China
East TimorIndonesia
Papua New Guinea
PhilippinesSamoa
Thailand
VietnamPOWERED BY **miX**
Microfinance Information eXchange**TOP 10 MICROFINANCE INSTITUTIONS (MFIs) BY GROWTH IN GROSS LOAN PORTFOLIO: CHANGE IN USD**

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

PERCENT OF MFIs IN MARKET BY SIZE (NUMBER OF ACTIVE BORROWERS)**MARKET SHARE BY MFI SIZE (NUMBER OF ACTIVE BORROWERS)**

(1) Denotes only MFIs that report data for 2005 and 2006 to MicroBanking Bulletin (MBB) or MIX Market.

Source: Microfinance Information eXchange, Inc., December 2007, based on MFIs reporting to MBB or MIX Market

PIONEERS IN MICROFINANCE

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

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

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Aloysius P. Fernandez

MicroCapital: How did you get started in social finance?

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

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

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

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

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

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

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

"We want to return the money."

I said, "To whom?"

They said, "To you!"

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

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

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

PIONEERS IN MICROFINANCE (Continued)

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

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

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

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

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

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

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

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

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

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