

MICROCAPITAL BRIEFS | TOP STORIES

The New Era Begins: Equity Bank Becomes Acquisitive

Equity Bank, a leading provider of microfinance services in Kenya, is acquiring Uganda Microfinance Ltd. (UML) in an all-share deal worth USD 26.9 million. This milestone in the evolution of microfinance signals the beginning of the long-overdue era of consolidation in this historically factious industry. Equity Bank plans to transform UML into a full-scale commercial bank. Equity Bank has a gross loan portfolio of USD 349.0 million out of total assets of USD 835.2 million. Its return on assets is 3.56 percent, and its debt-equity ratio is 262.12 percent. UML has a gross loan portfolio worth USD 14.3 million, assets of USD 21.4 million and return on assets of 3.48 percent. April 21. 2008

China to Encourage Mergers and Acquisitions in Rural Finance Sector

China's banking regulators have announced new rules on the mergers and acquisitions of small and medium-sized rural financial institutions that will broaden investors' access to rural financial markets. Under the current regulation, a single corporation - including related companies - is allowed to hold no more than ten percent of a rural banking institution. The combined assets of China's small and medium-sized rural banking institutions amounted to an equivalent USD 787.6 billion, reportedly up 150 percent since 2003. May 1. 2008

IFC and KfW Implementing \$1b Committed to Microfinance in Asia

Since June 2007, International Finance Corporation (IFC) and German development bank KfW have been implementing the first investments under the Microfinance Initiative for Asia (MIFA) by which they have committed up to USD 1 billion in debt and equity investments, structured finance and advisory services to support microfinance institutions (MFIs). Investment and advisory services will be implemented over a three- to five-year period. MFIs can also tap into risk management products offered by IFC to manage foreign exchange risks through currency swaps and bond markets credit enhancements. April 30. 2008

Legatum Backs \$350k East African Entrepreneurship Awards

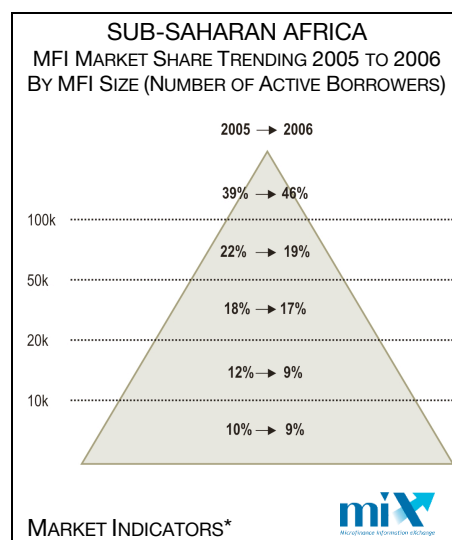
The sponsors of an East African entrepreneurial award competition have released a documentary, available online, about the Legatum Pioneers of Prosperity Africa prize which has awarded USD 350,000 to six home-grown companies. The prize was funded by Legatum, an international private investment group and microfinance investor; the John Templeton Foundation and others. The film presents an compelling critique of the "development aid" industry, reminding us that eradicating poverty can conflict with self-preservation when one's business is poverty. With significant cash prizes, the sponsors refreshingly walk the talk. May 13. 2008

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PAPER WRAP-UPS

Stemming the Tide of Mission Drift: Microfinance and the Double Bottom Line

By Christina Frank, published by Women's World Banking, April 2008, 23 pages, available at: http://swweb.org/files/pub_lang_WWBworkingpaper.pdf

Microfinance institutions (MFIs) are less likely to lend to women and more likely to make larger loans once they are "transformed" from nonprofit lenders to regulated financial institutions according to this paper.

The study examined the five years after "transformation" for 27 organizations and compared them to 25 that had not commercialized. On average, it found the proportion of women served by

transformed institutions dropped from 88 percent to 60 percent. It also found that average loan sizes were two to three times greater than those of non-commercialized outfits.

The findings are troubling, suggests Time magazine, because they may demonstrate a drift from many of the original tenets of microfinance - a focus on lending to women and the poorest segments of society. Women have traditionally been considered better clients because they are less likely to spend money on consumable goods and more likely to use funds to fulfill social needs, such as health care and education. Larger loan sizes may serve as evidence that banks are increasingly turning away from the very poor, who tend to take out smaller loans - though the WWB study suggests this finding might be a result of improving economic conditions.

As commercialization has gained in popularity in recent years, this question is raised: Do commercialized MFIs become more interested in serving their investors than in serving the poor?

The study does acknowledge several benefits of MFI transformation. Transformed institutions tend to extend their borrower reach and diversify their product offerings. The study reveals that the number of active borrowers increased by 30 percent a year on average for commercialized MFIs, compared to 25 percent for the nonprofits. Also, since many countries do not allow nonprofits to take deposits, savings accounts are more widely available with transformed MFIs. The number of savings accounts grew by an average of 45 percent annually for the commercialized institutions, while those in the non-commercialized group that were already able to offer such accounts only saw 28 percent average growth. ♦♦♦

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PIONEERS IN MICROFINANCE

Dr. Akhtar Hameed Khan is the originator of two development exemplars: the Comilla Model and the Orangi Pilot Project.

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

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Dr. Akhtar Hameed Khan

We diverge from our interview format this month to bring you the following profile of Dr. Khan, who passed away in 1999.

Dr. Akhtar Hameed Khan helped lay the basic foundations of the microcredit movement through his work on the Comilla Model of rural development in the 1960s and the Orangi Pilot Project in the 1980s. The Comilla Model, originally developed at the Bangladesh Academy of Rural Development (BARD), focused on the integration of public and private resources to create a collaborative institutional base for development work. The Orangi Pilot Project was initiated as a grassroots development project that emphasized self-help as the primary means of developing the “katchi abadis” (informal sector).

Dr. Khan was born in 1914 in Agra, located in the state of Uttar Pradesh, India. He began his career in the prestigious Indian Civil Service in 1936, serving primarily in East Bengal and later pausing to study literature at the University of Cambridge. Disillusioned after the Bengal Famine of 1943, he resigned from the Indian Civil Service to work as a locksmith. This was a very unusual choice for someone who had held such a coveted position. Historian Nasim Yousaf explains that Dr. Khan “wanted to study the poor man’s life.”

In the early 1950s, Dr. Khan returned to East Bengal, now Bangladesh, where he worked as the principal of Comilla Victoria College and became director of the newly formed BARD, where he developed the Comilla Model.

The Comilla Model is rural development approach that evolved from a number of pilot projects which were aimed at objectives including establishing a model that could be replicated throughout the country. The Comilla Model was based upon the principle of cooperatives and people’s participatory role at the grassroots level. Thus, a main feature of model was the two-tiered agricultural cooperative, consisting of voluntary farmer groups, at both the village and central levels. Through these cooperatives, farmers were able to generate capital via deposits, obtain microcredit and basic training and also develop a shared knowledge base.

Other components of the model included a Rural Works Program, which helped build infrastructure and generate employment; the Thana Training and Development Centre, which unified national-level officials and resources involved in rural development; and the Thana Irrigation Programme, which facilitated the development of agricultural methods. Key techniques that differentiated Dr. Khan’s work included careful research, exploring agricultural credit and providing supplies and training to poor people.

After Bangladesh’s independence in 1971, Dr. Khan served as a research fellow, visiting professor and advisor at several universities in Bangladesh, Pakistan and the United States. In 1980, he returned to Pakistan to continue grassroots development work through the Orangi Pilot Project (OPP), which emphasized self-help as the solution to obtaining capital and improving sanitation, health, education and employment within low-income settlements near Karachi. OPP assisted residents in family planning, improved building construction, organized immunizations and helped install low-cost sewers that served 72,000 homes and 600,000 people at one-tenth the cost of conventional sewage systems.

He learned a lot when he was working as a locksmith, as a laborer.... He thought that people can be extremely productive...provided that they are organized somehow....

NASIM YOUSAF, HISTORIAN

Architecture in Development attributes the success of the sewer program to the adoption of the lane as the basic unit of social organization. Under this system, twenty to thirty houses were built on either side of a road and formed a cooperative that was headed by two elected managers who served as the links between the residents and the OPP. Today, three institutions remain in Orangi: OPP-Research and Training Institute, Karachi Health and Social Development Association (KHASDA) and the Orangi Charitable Trust. All three support local initiatives by following Dr. Khan’s principle of employing local resources and building on the central self-reliance component of poverty alleviation.

Throughout his career, Dr. Khan has received many prominent awards, including an honorary doctorate from Michigan State University. Dr. Khan’s written works include Orangi Pilot Project: Reminiscences and Reflections, published by Oxford University Press, and The Works of Akhtar Hameed Khan, a three-volume work published by BARD. ♦♦♦

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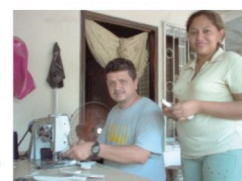
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