MicroCapital Monitor
THE MICROFINANCE NEWSPAPER

FREE PREVIEW EDITION*

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MICROCAPITAL BRIEFS | TOP STORIES

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

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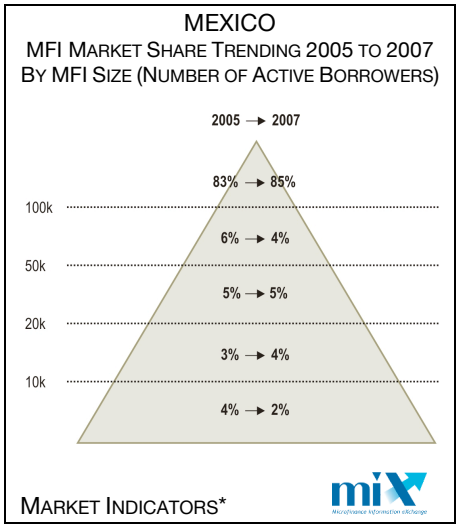

MICROCAPITAL BRIEFS

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

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

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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. ♦♦♦

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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.

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PAPER WRAP-UPS

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."

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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.

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.

(Continued in the subscriber edition…)

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