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MICROCAPITAL BRIEFS | TOP STORIES

BlueOrchard Reports 4 to 8% Returns for 2008

Initial financial results from BlueOrchard indicate the firm reached USD 870 million in total assets under management during 2008, of which USD 670 million was invested in microfinance institutions. Each of the funds managed by BlueOrchard returned between 4 and 8 percent during the year. BlueOrchard's strategy is to acquire minority stakes and assume an active governance role in MFIs worldwide. April 6. 2009

Indian MFIs Raise \$38m Assigning Loans to YES Bank

YES Bank of India recently concluded the following group of transactions valued at a total of USD 38.3 million: (1) a USD 17.2 million rated loan assignment originated by SKS Microfinance Private Limited, (2) USD 10 million in rated non-convertible debentures and commercial paper issued by SKS, (3) a USD 8.6 million rated loan assignment by Share Microfin Limited and (4) USD 2.5 million in rated senior tranche pass-through certificates backed by Equitas Microfinance India loans. The four transactions together cover loans made to roughly 400,000 microborrowers. March 24 and April 6. 2009

Amid Mass Rejections, Bangladesh Extends Licensing Deadline

The Microcredit Regulatory Agency of Bangladesh has announced that the deadline for microfinance institutions to attain licenses has been extended from June until December. Out of 4,240 applications submitted so far, 1,000 have been processed, and 60 percent of those have been rejected. March 30. 2009

Mexican Bank Closing Microfinance Arm After Loss of \$8.4m

The Wall Street Journal has reported that Grupo Financiero Banorte SAB, a major Mexican bank, is closing its microfinance division Creditos Pronegocio after it suffered losses of USD 8.4 million during 2008. Nonetheless, Mexican microlenders Financiera Independencia SAB and Banco Compartamos SA expect their loan books to grow between 10 and 25 percent during 2009, much more than the Association of Mexican Banks general banking forecast of 6 to 8 percent growth. March 26. 2009

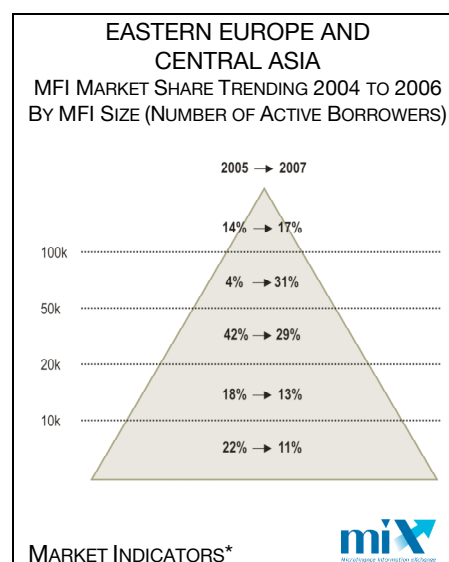
Nigeria to Prosecute Microcredit Loan Defaulters in Anambra

Nigeria's Anambra State has moved to prosecute farmers who have defaulted on the repayment of microcredit loans. In 2008 Anambra State loaned the equivalent of USD 1 million to some 2,339 farmers. Sam Okiwe, Secretary of Nigeria's Ministry of Agriculture, reportedly has said that some of the farmers who benefited from the loans are deliberately refusing to pay the government back and that - at the request of Anambra government - "We have sent the names of the first batch of defaulting farmers to the Ministry of Justice for necessary action with regards to their prosecution." March 24. 2009

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MICROCAPITAL BRIEFS**Indian MFIs Report Credit Growth**

For the year ending March 2009, Indian MFIs Grama Vidiyal and Madura Microfinance reported significant credit growth, in part because commercial Indian banks eased credit at the close of the year in order to meet government-required agricultural lending targets. Grama Vidiyal's disbursements grew 81.2 percent to USD 74.6 million, and Madura's grew 33 percent to USD 25.3 million. Grama Vidiyal CEO Arjun Muralidharan said, "We faced a credit crunch during the [third quarter] of fiscal 2009 because banks tightened their lending. But towards the end of the year, banks eased credit in order to meet their priority sector targets and now things are normal." Grama Vidiyal reports 224,108 active borrowers, a gross loan portfolio of USD 28.9 million, total assets of USD 30.8 million, a debt-equity ratio of 5.45, return on assets of 1.63 percent and return on equity of 15.3 percent. Madura has 182 branches and disbursed loans of USD 35 million in fiscal 2007. April 10, 2009

Bank of Ceylon Adding Branches in War-torn Sri Lanka

The chairman of Sri Lanka's Bank of Ceylon Dr Gamini Wickramasinghe has announced that the bank will open more branches in the Northern and Eastern Provinces of the country, anticipating that high demand for services will follow the violence that may be ending there. In addition to traditional branches, the bank will add 11 mobile units, nine automatic teller machines in the North and seven in the East. With 305 local and three overseas branches, government-owned Bank of Ceylon reported total assets of USD 3.8 billion for 2007, gross loans of USD 2.5 billion, return on assets of 1.11 percent before tax and return on equity of 14.59 percent after tax. April 9, 2009



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Uganda Tries to Make SACCOs Safe

Microfinance Minister Ruth Nankabirwa of Uganda has announced that there will be greater regulation of Savings and Credit Co-operative Organizations (SACCOs) in order to protect depositors. Certain Ugandan microfinance institutions have reportedly made a habit of operating for a few months in a particular region and then relocating along with depositors' savings. April 7, 2009

Colombia's Grupo Aval Ponders Microcredit

Grupo Aval SA of Columbia has announced that it will offer microlending services targeting the poorest sectors of the economy. While details remain scarce, a joint venture with Grameen Bank of Bangladesh has been raised as a possibility. April 7, 2009

Mobile Banking Sluggish in Latin America

The mature state of the microfinance industry in Latin America should provide a strong platform for mobile banking to reach people in rural areas, according to a report from Inter-American Development Bank (IDB) and Spain's Fundación Telefónica. Despite relatively high usage of mobile phones in Latin America, m-banking has grown slowly in the region, relative to Africa and Asia. Upon releasing the report, IDB also announced the completion of a pilot program with the Federation of Colombian Coffee Growers that will eventually allow 300,000 growers to use mobile phones to make payments, withdraw money from commercial establishments and check coffee prices. April 3, 2009

PlaNNet, Pfizer Study Microinsurance in China

Pharmaceutical giant Pfizer and microfinance nonprofit PlaNNet Finance have announced that they will collaborate on a study of the healthcare needs of low-income households in China. March 23, 2009 ♦♦♦

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PIONEERS IN MICROFINANCE

Stuart Rutherford founded SafeSave, a microfinance institution in Bangladesh.



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

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Stuart Rutherford

MicroCapital: What in your upbringing or background sparked your passion for social finance?

SR: Pure chance. In 1974 I happened to be in Nicaragua, working for a research outfit in Managua that was looking into the prospects for recovery from the devastating earthquake that had destroyed the city. At the time I was a trainee architect, and my job was to find out what happened to the housing of poor people during and after the earthquake. That took me into very low-income housing areas in a developing country for the first time in my life. In the course of finding out how people had coped in the earthquake, I listened to their accounts of how they managed their money. I started hearing about moneylenders and money guards and savings clubs. I suddenly realised that being poor sharpens, rather than reduces, your need for financial services, since with so little money in your pocket you need to save up or borrow in order to afford even small expenditures. Subsequently, as various jobs took me to other developing countries, I followed up on my hobby and began a "collection" of the types of money management services and devices that are used by the poor. As time went on I began to notice patterns that recur all around the world. All this was before modern microfinance got under way, so you can imagine how interested I was when, in 1983, I first heard about Grameen Bank and Village Banks and so on. I felt I was beginning to understand poor people's attitudes to money, and so I was very keen to find out what they would make of these new institutions that were beginning to work with them. I took a job with the UK NGO ActionAid that took me to Bangladesh in 1984, and from then on financial services for the poor - microfinance as it later came to be called - became an ever stronger interest.

MC: What provided the initial linchpin for your microfinance work?

SR: Grameen Bank turned me from being just an observer into wanting to become a practitioner and innovator in financial services for the poor. I can still remember the excitement I felt when I went for the first time to see a Grameen Bank meeting in central Bangladesh late in 1984. I went to see Muhammad Yunus and told him I wanted to modify his approach by placing a greater emphasis on saving, and I wanted to try it out in the dense slums of the capital, Dhaka. He was not optimistic but he was encouraging: he felt that the Grameen approach might not work in the more anonymous setting of the town, and he doubted the utility of savings, but he said I should try and see what happens. So in February 1985 I opened, for ActionAid, the first urban version of Grameen Bank and began to observe and write about what happened.

MC: What hurdles - and what failures - did you face?

SR: The main limitations were those of my own imagination and the failures those of my own making, especially not having the courage of my convictions. For example, my own studies of poor people's behaviour had already convinced me that savings was as important as credit in their strategies, and that microenterprise investment, important as it was for many poor people, was not the most pressing financial need for most of them, who need, above all, a way of transforming the tiny amounts that can be spared from small uncertain and unreliable incomes, into usefully large sums of money for the widest range of uses. But I failed to test these ideas in microfinance practice for more than a decade, and it was mid-1996 before I set up SafeSave, a provider of money-management services (as opposed to just microcredit) to poor slum dwellers in Dhaka.

MC: What do you consider your most important achievement?

SR: The thing that gives me greatest satisfaction is having helped to draw the attention of the microfinance world to the importance of every day money-management services for poor people.

MC: If you were starting out now, where would you begin?

SR: If I were a youngster starting out, I would try to do enough reading to get my head around what is going on in microfinance and then tramp around a few slums and villages to see for myself how microfinance relates - or fails to relate - to the financial realities of life in poor communities. For myself, I would carry on as I am - trying to imagine better and better ways of helping poor people manage their money. Right now, for example, I'm working on a product that offers zero-interest loans to poor people willing to commit to saving a proportion of each loan. Poor people know that saving can be a better way of managing financial needs than borrowing, but they fail to save because of a lack of reliable partners and, above all, because of a lack of liquidity: somehow spending always seems to trump saving, no matter how well-intentioned you are. This trial product sets out to solve this problem in the most simple way: by providing liquidity at the very moment that the decision to save is made. We call this project "Product 9."

If I were a youngster starting out, I would try to do enough reading to get my head around what is going on in microfinance and then tramp around a few slums and villages to see for myself how microfinance relates - or fails to relate - to the financial realities of life in poor communities.

MC: What do you see as the next challenge for the microfinance industry?

SR: Right now, microfinance is in an exciting transition as fully-for-profit providers compete with or join forces with the nonprofits, which carried the microfinance flag for the first 30 years of its existence. This process has already proved disruptive and controversial - think of the debate about Mexican microlender Compartamos, for example - and will result in a restructuring of the industry in a way which cannot be precisely predicted. Once that is over, there will be a new surge of energy directed in new ways at old challenges: how to reach most poor people instead of a small minority of them, how to move beyond microenterprise credit to general-purpose money-management and risk-management services, how to improve transparency and how to reduce costs. ♦♦♦

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PAPER WRAP-UPS

Microfinance Meets the Market

By Robert Cull, Asli Demirgüç-Kunt and Jonathan Morduch, published by the World Bank Development Research Group, May 2008, 40 pages, available at: http://www-wds.worldbank.org/serole/WDSContentServer/WDSP/IB/2008/05/27/000158349_20080527095250/Rendered/PDF/wps4630.pdf

This paper explores the tensions and opportunities of the microfinance industry as it shifts (or does not shift) towards commercialization. It outlines the evolution of microfinance to its current state, exploring a series of questions that touch on issues of subsidy, profit and social impact.

The authors employ data from the Microfinance Information Exchange that covers 346 microfinance institutions (MFIs) that serve a combined 18 million active borrowers and hold gross assets of USD 25.3 billion. (All figures provided in the paper are in purchasing power parity-adjusted dollars.)

Question 1: Who are the lenders?

The paper focuses on three types of MFIs that make up the majority of the sample:

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nongovernmental organizations (NGOs), non-bank financial institutions (NBFIs) and microfinance banks. NGOs make up 45 percent of the sample group. NBFIs, which make up 30

percent of the group, include MFIs that have special government concessions allowing them to assume additional roles beyond providing credit, such as taking deposits. For-profit microfinance banks make up just 10 percent of the sample.

Although microfinance banks make up only 10 percent of the group, they account for over half of gross assets. NGOs account for 45 percent of the organizations, but have 21 percent of the assets. Of the USD 2.6 billion in subsidized funds, NGOs take a disproportionate share. NGOs generally reach a higher proportion of women, claiming 75 percent of total female borrowers. Banks claim 25 percent of the total borrowers, but only six percent of women borrowers. Despite the push toward commercialization, NGOs still maintain significant market share, although the authors expect this share to decline as private sector banks increase in size.

Question 2: How widespread is profitability?

Earning profit is not restricted to for-profit organizations. Most organizations in the sample with revenues exceeding cost have nonprofit status. The authors stress that, "the microfinance industry's drive towards profitability does not necessarily imply a drive toward 'commercialization.'"

57 percent of the MFIs studied are profitable. Profitable MFIs tend to be larger, serving 87 percent of total customers. 73 percent of banks are profitable, compared with 54 percent of NGOs. Profit-making NGOs perform more like subsidy-dependent NGOs than commercial banks in that they serve more borrowers overall, poorer households and more women.

Nonprofits have succeeded in becoming profitable largely from the support of social investors, which invested USD 4 billion in microfinance during 2007. Social investors, which include international financial institutions and mutual funds, usually expect minimal returns - effectively providing a subsidy equal to the difference between their returns and that which market sources would demand. (MIX has adjusted its data to account for this implicit subsidy.) For the industry to continue its rate of expansion... (Continued in the subscriber version.)

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2008 Microscope on the Microfinance Business Environment in Central America

Published by the Economist Intelligence Unit, October 2008, 62 pages, available at: http://a330.g.akamai.net/7/330/25828/20081014142739/graphics.eiu.com/marketing/microfinance/English_Microscope%202008.pdf

NOTE: While this report outlines the business environment for microfinance across Latin America and the Caribbean, this summary is limited to Central America. Rankings are out of the full sampling of twenty countries.

Commissioned by the Inter-American Development Bank and the Corporacion Andina de Fomento (CAF), this report covers three areas: regulatory framework, investment climate and institutional development. The indicator scores are aggregated to produce an overall score ranging from 0 to 100 (100 is the highest).

El Salvador

El Salvador is ranked fourth out of twenty in Latin America and the Caribbean and is the highest ranked country in Central America with an overall score of 59.0. There are no legal or regulatory restrictions on establishing or operating NGOs. The market for microfinance institution (MFI) creation is competitive, with no provider dominating the current environment. Regulated and non-

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regulated institutions use separate private credit bureaus and serve the majority of the adult population.

Nicaragua

Although Nicaragua ranks sixth with a score of 58, its investment climate is ranked in the bottom half of the index at 44.2.

The Banking Superintendence has been encouraging domestic banks to adopt US best-practice accounting rules regarding asset valuation/loan origination and provisioning. NGOs do not face significant roadblocks to forming MFIs. Another key strength is the country's wide range of MFI services.

Nicaragua's two largest regulated institutions, Banco Pro Credit Nicaragua and Financiera Nicaraguense de Desarrollo SA, are larger than the combined portfolio of all NGOs. The country is also considered be among "the five most competitive microfinance markets in the LAC region."

On the negative side, the country scored poorly on its judicial system, due to limited property protection rights. Most importantly, its capital markets infrastructure is undeveloped, which increases borrowing costs for customers. Nicaragua also experienced multiple bank collapses in the last few years.

Guatemala

Guatemala ranks seventh, with a score of 54. Approximately 35 NGOs operate in the country, and those that only receive private capital are not subject to supervision by fiscal authorities. It takes no more than USD 650 to register as an NGO. Banks' specialized microfinance units and cooperatives/credit unions are the main regulated institutions engaged in microfinance. Regulated institutions require a capital adequacy ratio of 10 percent, which the authors consider reasonable.

G&T Continental has the largest market share, with Banco de Desarrollo Rural and Genesis EMP following.

The country has minimal regulatory and examination capacity with regards to general financial sector supervision and regulation. In addition, it is very difficult to convert NGO MFIs to regulated status.

Mexico

Mexico ranks tenth with a score of 47.5. Mexico is moving towards international accounting standards, although standards still vary widely based on institution size and regulatory and juridical status. MFI networks are currently developing standardized accounting practices for MFIs.

(Continued in the subscriber version.) ♦♦♦

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