MicroCapital Monitor
THE MICROFINANCE NEWSPAPER

FREE PREVIEW EDITION*

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MICROCAPITAL BRIEFS | TOP STORIES

Dutch PGGM Investing $60m in Grassroots Equity Fund

PGGM, the fund manager of a major pension scheme in the Netherlands, has invested the first USD 31 million tranche of USD 60 million that will be directed to the Grassroots Capital Global Microfinance Equity Fund over the next three years. Alex van der Velden, head of responsible equity strategies at PGGM, was quoted as saying he expected annual returns in the region of 20 percent. The commitment is part of a microfinance investment program announced last year that is worth the equivalent of USD 284 million. The pension fund, Pensioenfonds Zorg en Welzijn, holds USD 105 billion. July 17. 2009

Grama Vidiyal to Raise $21m in Non-convertible Debentures

India's *Business Standard* recently reported that non-banking finance company Grama Vidiyal Micro Finance is planning to sell the equivalent of USD 21 million in non-convertible debentures over the next quarter in order to expand its network of 154 branches to 215 branches. Grama Vidiyal reports a gross loan portfolio of USD 28 million. August 11. 2009

Islamic Solidarity Fund to Loan $15m to Kyrgyzstan, Tajikistan

The Islamic Solidarity Fund for Development (ISFD), an affiliate of the Islamic Development Bank, has reportedly approved microfinance projects in the Kyrgyz Republic and Tajikistan that are worth a total of USD 15 million. A ten-year concessionary loan for USD 5 million will finance rural microenterprises through Kyrgyz partners. A ten-year USD 10 million loan will finance microenterprises in Tajikistan. Through 2008 the relatively new ISFD had collected pledges worth USD 2.61 billion toward a fundraising goal of USD 10 billion. July 31. 2009

CGAP MICROFINANCE DEALBOOK

MICROFINANCE CAPITAL MARKET TRANSACTIONS EVERY MONTH

DEALBOOK PAGE 3

CGAP

INSIDE

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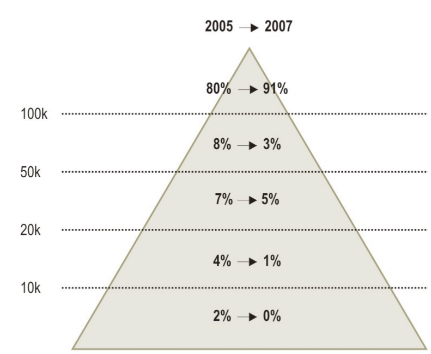
INDIA
MFI MARKET SHARE TRENDING 2005 TO 2007
BY MFI SIZE (NUMBER OF ACTIVE BORROWERS)



MARKET INDICATORS*

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CGAP MICROFINANCE DEALBOOK

POWERED BY micro capital℠

TOP JULY 2009 MICROFINANCE TRANSACTIONS

The CGAP Microfinance Dealbook publicizes microfinance capital market transactions in an effort to bring greater transparency to the industry. Additional deals and further details on the below transactions are listed at http://www.microcapital.org/cgap-microfinance-dealbook. Parties to microfinance transactions are also encouraged to submit their deals via this website.

Investor	Investee	Region	Amount (USD)	Type
Public Offering	Compartamos	LAC	~37,600,000	Equity
PGGM	Grassroots Capital Global Microfinance Equity Fund	*	31,000,000	Equity
Government of Sri Lanka	Bank of Ceylon, Hatton National Bank, Seylan Bank, SANASA Development Bank, Bank of Ceylon and People's Bank	SA	~18,284,000**	Debt
Soros Economic Development Fund, Open Society Initiative for West Africa, Omidyar Network & Humanity United	BRAC	SSA	15,000,000	Equity
European Fund for Southeast Europe	Credins Bank	ECA	6,917,400**	Debt
Standard Chartered Bank	Faulu Kenya	SSA	~5,900,000	Debt
Hivos-Triodos Fund & Triodos-Doen	Leapfrog Financial Inclusion Fund	*	5,000,000	Equity
International Finance Corporation	Demir Kyrgyz International Bank	ECA	3,500,000**	Debt
responsAbility Global Microfinance Fund	Vision Banco	LAC	3,500,000	Debt
European Bank for Reconstruction and Development	Demir Kyrgyz International Bank	ECA	2,800,000**	Debt
International Finance Corporation	Sogebank	LAC	2,800,000**	Equity
International Finance Corporation	Unspecified	ECA	2,000,000	Debt
MicroVentures SpA	Edpyme Raiz	LAC	~2,000,000	Debt
Multilateral Investment Fund (Inter-American Development Bank)	Centro de Investigación y Desarrollo Regional	LAC	2,000,000	Debt
Oikocredit	Cresa	SA	~1,660,128	Debt
Oikocredit	Oikocredit	SA	~1,556,370	Debt
MicroVest I and Calvert Foundation	Asociacion Benefica Prisma	LAC	~1,500,000	Debt
responsAbility Global Microfinance Fund	COCLA	LAC	1,500,000	Debt
Bistum	Vision Banco	LAC	1,500,000	Debt
International Finance Corporation	AccessBank Tajikistan	ECA	1,400,000**	Equity
Grameen Credit Agricole Microfinance Foundation	Soro Yiriwaso	SSA	~1,345,000	Debt
Oikocredit	RFC	ECA	~1,339,408	Debt
responsAbility Global Microfinance Fund	FINCA Mexico	LAC	~1,172,777	Debt
Oikocredit	CRBB	EAP	~1,039,746	Debt
responsAbility Microfinance Leaders Fund	Proempresa	LAC	~1,011,721	Debt
responsAbility Global Microfinance Fund	Profinanzas	LAC	~1,005,863	Debt
Aavishkaar Goodwell India Microfinance Development Company	Suryoday Microfinance	SA	~1,000,000	Equity
Incofin	Acme	LAC	990,000	Equity
Grameen Credit Agricole Microfinance Foundation	Miselini	SSA	~897,000	Debt
Triodos-Doen & Hivos-Triodos Fund	Small Enterprise Foundation	SSA	~875,000	Debt

Regions: *EAP - East Asia and Pacific, ECA - Europe and Central Asia, LAC - Latin America and Caribbean, MENA - Middle East and North Africa, SA - South Asia, SSA- Sub-Saharan Africa, * - Investee location may not indicate the final destination of the funding because investee is an intermediary*

Amounts: *Deals denominated in local currency are indicated by a tilde (~). A double asterisk (**) indicates that the transaction included funding of non-microfinance services and the amount shown is an estimate of the allocation specifically to microfinance.*


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ENCUENTRO Centroamericano de Microfinanzas 2009
"Responding to the Regional Financial Crisis: Practical Strategies for Managing Risk While Planning for Growth"
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MICROFINANCE CURRENCY RISK SOLUTIONS

MEET THE BOSS

Brian Cox is the Executive Director of MFX Solutions.

Brian Cox

MicroCapital: What is the origin of your passion for microfinance?

BC: I spent ten years in the international division of the US Treasury as head of the Eurasia section, where we ran a microfinance program jointly with the European Bank for Reconstruction and Development. All our lending was in US dollars or euros, but our clients were lending in local currency. Since my main job was macroeconomic and currency policy, I was acutely aware of the currency risk problem but - at the time - there was no way to address it. So after leaving Treasury and deciding to devote myself fulltime to microfinance, I was very excited to discover the MFX project, which finally was doing something about the problem that had been so frustrating earlier in my career. So it feels like coming full circle.

MC: Please briefly describe your organization.

BC: MFX is an industry effort to address currency risk in microfinance, by improving understanding of the problem and introducing better tools to hedge currency risk. Our funders include about twenty microfinance investment vehicles (MIVs), foundations and networks. We act as a counterparty for microfinance lenders to hedge their currency and interest rate risks and we provide decision-support tools for microfinance institutions (MFIs) to help them analyze their risks and better plan their funding. We are a hybrid for-profit and nonprofit. We have to be for-profit to operate in the market, but we don't seek to maximize profit. Our goal is to maximize access to hedging for the industry, while providing a reasonable return to our investors. So our social and commercial missions work in tandem.

MC: What products and services do you offer?

BC: We offer cross currency swaps, interest rate swaps and forward contracts. Down the line we may offer options and other more complex instruments. On the education side, we offer tools that allow MFIs to stress test their balance sheets under different economic scenarios to see the consequences of currency and interest rate mismatch. These tools are available free on our website.

MC: What is a hedge?

BC: A currency swap is a way to offset foreign exchange losses or gains that can occur when a lender's assets are in a different currency than its liabilities. For example, if an MIV is dollar-funded but makes a local currency loan, it loses if the local currency depreciates and gains if it appreciates. The MIV can enter a swap contract with MFX that will pay the MIV in the event of a loss, but require it to pay in the event of a gain. The result is that, from a risk perspective, the MIV now has a dollar loan and its assets match it liabilities. We can do a similar contract with an MFI that wants to offset its currency risk from borrowing in hard currency.

MC: Why hasn't currency hedging already become established in microfinance?

BC: Historically there have been two main reasons: lack of awareness and lack of access. Until a year ago, emerging market currencies generally had had eight or nine consecutive years of appreciation. Many MFIs had not been through a business cycle. Now that most have, there is a lot more awareness about the consequences of currency mismatch.

The second problem is that commercial hedging is not well suited to microfinance. It is only available in liquid markets, not in the poorest countries where microfinance is most needed. It is geared to large contracts and so becomes very expensive at a smaller scale. Microfinance lenders also often don't have strong credit positions, so banks either won't deal with them or require large amounts of collateral.

MC: What allows you to perform hedges where others have not been able to do so?

BC: What allows MFX to offer hedging in exotic high risk currencies is our partnership with a new USD 600 million fund named TCX (The Currency Exchange Fund), which is backed by the Dutch development bank FMO. TCX is innovative because it operates fundamentally differently than a bank, which can only provide a swap when it can do the opposite transaction in the market to offset its risk. TCX takes a diversification approach to risk. By taking local currency positions in say 25 or 30 currencies, it brings the overall risk down as invariably some currencies will go up and some will go down. This means TCX can provide hedges in really any country with a measurable interest rate benchmark - whether or not there is a liquid swap market. MFX has access to this special resource as an investor in TCX. Also, we have a USD 20 million credit guarantee from the US government agency Overseas Private Investment Corporation that allows us to act as an AAA rated counterparty. Whereas a bank would either not trade or would charge an MFI a large premium, MFX can intermediate to secure much, much better rates.

I was very excited to discover the MFX project, which finally was doing something about the problem that had been so frustrating earlier in my career. So it feels like coming full circle.

MC: What is the projected scale of your operations?

BC: Our initial capitalization is USD 9 million, most of which we have invested in TCX. That gives us between USD 50 million and USD 80 million in hedging in exotic currency and additional amounts where we can use banks to cover our risk, so our total capability is about USD 100 million. We are actively moving to increase our capital because we know - even from the demand that we already have - that there is great appetite in the industry. We plan to raise our capital to about USD 20 million by early next year, which will give us about USD 200 million in hedging capacity.

MC: What effects do you foresee your work having on microfinance?

BC: Early on, we did a demand study that was striking. We talked to microfinance investors and asked where they would want to lend if they did not have to worry about local currency risk. More than half the demand was for Africa and also for higher risk areas in Asia. Compare that to the actual existing portfolio of microfinance, which is 80 percent Latin America and Eastern Europe, and you conclude that…

(Continued on page 7)

PAPER WRAP-UPS

The Microfinance Industry Report: Sri Lanka

By Roshini Fernando and Tharmini Kularajasingam, published by the Banking With the Poor Network, Spring 2009, available at: http://collab2.cgap.org/ /gm/document-1.9.36554/18.pdf

This microfinance industry report on Sri Lanka gives an overview of the country and provides the most recent information available regarding the financial sector, regulators, microfinance activities, microfinance providers, access to financial services, government policy and donor support for microfinance.

As of 2007, the total population of Sri Lanka is 20 million with an annual growth rate of 1.10 percent. 15.2 percent of the population is below the poverty line (Poverty Head Count Index), and GNP per capita is USD 1,599 with a 7.1 percent growth rate.

Sri Lanka's 23 commercial banks dominate the financial system in the country. A substantial amount of foreign aid was… *(Continued in the subscriber version)*

Impact Assessments in Finance and Private Sector Development

By David McKenzie, published by the World Bank, May 2009, 29 pages, available at: http://siteresources.worldbank.org/DEC/Resources/ImpactAssessmentsPSD.pdf

The author explores the proposition that finance and private sector development can benefit from impact evaluations. Impact evaluations can assess the efficacy of a program or policy by comparing it against a counterfactual of what would have happened without the program or policy. He argues that this is one of the most important tools that can be used along with economic theory for understanding "what works".

The author encourages the use of impact evaluations by examining the feasibility of such impact evaluations and analyzes the lessons of these evaluations for policymakers and practitioners. He uses examples from randomized experiments, which he argues offer many advantages for evaluation. For instance, they ensure that the only reason that firms, consumers or other units are subject… *(Continued in the subscriber version)*

Elevated Food Prices – Impact on Microfinance Clients

By Zaved Ahmed and Camilla Nestor, published in the MicroBanking Bulletin, Spring 2009, 3 pages, available at: http://www.themix.org/sites/default/files/MBB%2018%20Spring%202009.pdf

Food prices in developing countries remain elevated (above international market prices) and continue to negatively impact microfinance clients. Increasing food prices have the greatest effect on the poor populations that spend between 70 and 80 percent of their household income on food.

While global food prices have somewhat retreated from their mid-2009 highs, the report notes that data from the United Nations Food and Agriculture Organization (FAO) indicate that this has not trickled down to the retail level. It references that the price of rice (the principal source of food in most developing countries) remains significantly higher in most developing countries when compared to December 2006. The Grameen Foundation utilized data from the FAO that looked at the retail prices of rice in ten countries during 2007 and… *(Continued in the subscriber version)*

MEET THE BOSS *(Continued from page 5)*

Brian Cox

…currency risk is a big barrier to lending into these higher risk markets, and therefore a significant factor in where microfinance lending goes. So, the big insight was that if we can make hedging available in these higher risk markets, particularly Africa, then we can change the pattern of lending. This discovery really got people excited about our project.

MC: What trends do you think particularly important in microfinance?

BC: We see ourselves as a bridge to what ultimately needs to be the microfinance funding model: local market funding from local deposits. We think we can help the industry move towards that model. Also, I foresee microfinance funding itself on a floating instead of a fixed rate basis, which is more appropriate to the microfinance asset base. This will reduce the cost of funding and mean a better match of assets and liabilities.

MC: How did you attract so many MIVs as investors?

BC: We can offer MIVs an assured allocation of hedging capacity so they can develop a local currency product that they can go out and market. They know they will be able to hedge when it comes time to sell their loan. We can lock in hedging capacity for MIVs as well as provide a reasonable return on their investment.