MicroCapital Monitor
THE MICROFINANCE NEWSPAPER

FREE PREVIEW EDITION*

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MICROCAPITAL BRIEFS | TOP STORIES

Omidyar-Tufts Microfinance Fund Earns 12% in 2008

Four years after the Omidyar family donated USD 100 million to Tufts University to be managed as a for-profit microfinance investment fund, the Omidyar-Tufts Microfinance Fund earned a 12 percent return for 2008, surpassing its goal of 9 percent. The Fund holds investments in microfinance institutions in 35 developing countries. March 17. 2009

Peruvian Government, IDB Inject $20m into Housing Finance

The Inter-American Development Bank (IDB) and Peru's Corporación Financiera de Desarrollo (COFIDE) have each committed USD 10 million to increase the flow of home improvement and mortgage financing to low-income families by leveraging the extensive distribution platform of microfinance institutions. Loans will be denominated in US dollars or local currency, have terms ranging from 5 to 10 years and carry a LIBOR-based variable interest rate. The effort will also benefit from a technical assistance grant of USD 900,000 partially funded by IDB's Multilateral Investment Fund. March 23. 2009

India's SKS Microfinance to Borrow $964m, Expand to China

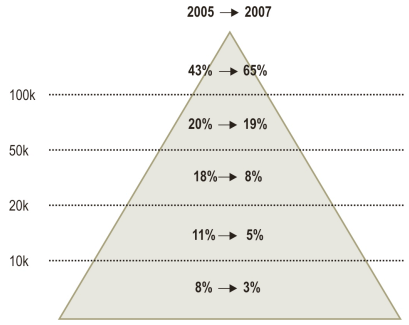
SKS Microfinance of India has announced a USD 964 million borrowing plan for the year, which includes USD 96 million to be raised through securitization deals with financial institutions. The announcement was made shortly after SKS sold USD 4.8 million non-convertible debentures with YES Bank and generated another USD 4.8 million through the issuance of commercial paper. SKS also recently solidified a USD 38.5 million securitization with the Industrial Credit and Investment Corporation of India (ICICI). At the same time, SKS is planning to launch operations in China with the idea of helping newly laid-off workers start their own ventures. No timeframe has been set for the venture, which would involve partnering with an undetermined Chinese microfinance institution. SKS reports USD 431 million in loans outstanding to 3.6 million borrowers, a debt-equity ratio of 5.36, return on assets of 2.0 percent and return on equity of 11.95 percent. March 12 and March 16. 2009

Eleven Join "Global Alliance for Banking on Values"

Eleven banks have formed a group called "The Global Alliance for Banking on Values" in an effort to focus on "sustainable" efforts as an alternative to mainstream practices that some argue have led to the current financial crisis. The eleven-member alliance was founded by the Bangladesh Rural Advancement Committee (BRAC) Bank, ShoreBank Corporation of the US and Triodos Bank of the Netherlands. Speaking at the launch, Triodos CEO Peter Blom pointed out that the member banks, with assets worth USD 10 billion, were still profitable despite the recession. March 16. 2009

INSIDE — Page

MIDDLE EAST AND NORTH AFRICA
MFI MARKET SHARE TRENDING 2005 TO 2007
BY MFI SIZE (NUMBER OF ACTIVE BORROWERS)



MARKET INDICATORS*

THANK YOU from the MicroCapital Monitor

THE MICROFINANCE NEWSPAPER

During 2008, the following organizations supplied tremendous support to our efforts to maintain the candid coverage you have come to expect from us, your microfinance newspaper. Thank you for your readership!

Deutsche Bank

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gtz

BILL & MELINDA GATES foundation

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Commerical Banks in Ghana Venture into Microfinance

Ghana Business News reports that commercial banks in Ghana are expanding operations in the microfinance market because of increased competition for their "traditional" customers and because the emergence of large-scale microfinance institutions has highlighted the potential market of the "unbanked." March 20. 2009

USAID, CARE Raise the Stakes in Ethiopia

US Agency for International Development (USAID) and US charity CARE have launched a new project in Ethiopia to assist rural households in graduating from the existing Productive Safety Net Program (PSNP). "PSNP Plus" aims to help microfinance institutions develop services that will increase the financial assets, financial literacy and business skills of PSNP beneficiaries. Additional partners include Catholic Relief Service, Relief Society of Tigray and Save the Children UK, with technical assistance provided by SNV Netherlands, Feinstein International Center of Tufts University and CARE. March 20. 2009

Banker to the Poor Heads for Big Screen

Banker to the Poor, the autobiography of Grammen Bank founder Mohammad Yunus, is being adapted by Marco Amenta into an English-language feature film. There is no word yet on which institution will finance the USD 6 million production budget. March 6. 2009.

(Please refer to the subscriber edition for all five pages of briefs.)

Latin America - Caribbean Regional Microcredit Summit 2009

Cartagena
Colombia
June 8-10

Save the Date

Join the **President of Colombia Álvaro Uribe**, **Nobel Peace Prize Laureate Muhammad Yunus**, and more than 1,000 microfinance leaders and other stakeholders at the Latin America - Caribbean Regional Microcredit Summit to be held in Cartagena, Colombia from June 8-10, 2009.

We are pleased to announce that the **Microcredit Summit Campaign** has partnered with **Banca de las Oportunidades** to host the Summit.

We hope that you will save the date and plan on joining us.

photo | Poverty Fighters

MICROCREDIT SUMMIT CAMPAIGN
A Project of RESULTS Educational Fund

Summit Organizers |
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Banca de las Oportunidades

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PAPER WRAP-UPS

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Bosnia and Herzegovina Microfinance Analysis and Benchmarking Report 2008

Published by the Association of Microfinance Institutions in Bosnia and Herzegovina and Microfinance Information Exchange, January 2009, 14 pages, available at: http://www.microfinancegateway.org/files/55357_file_08.pdf

Based on data from twelve MFIs in Bosnia and Herzegovina (BiH), this report reveals that most MFIs grew by more than 50 percent in 2007 despite heavy competition from commercial banks. Active borrowers increased by 54 percent while gross loan portfolio (GLP) increased by 85 percent in local currency terms. GLP was estimated at USD 817 million.

Loan balances grew 31 percent to USD 2,087, which was the lowest among Bosnia's regional peers. Median loan balance as a percentage of per capita income decreased by 4 percent.

The top three loan portfolio sectors were agriculture (37 percent), service (25 percent) and trade (20 percent). Herzegovina had a 5 percent share of the total portfolio of Bosnian MFIs, suggesting significant growth potential there.

While a majority of initial funding for MFIs in BiH was donated, funding later diversified to include commercial sources. The commercial funding liabilities ratio (borrowings at commercial interest rate/average GLP) grew to 73 percent in 2007. Further, the report states that Bosnian MFIs became highly leveraged with debt-equity ratios doubling close to 4 times in 2007. Loans from microfinance investment vehicles increased by 280 percent. Funding from development financial institutions almost doubled. The share of subsidized funding decreased to 12 percent in 2007.

Adjusted return on equity increased by 2.6 percent to 19.6 percent in 2007. The research suggests that this was due to a reduction in operating expenses from 13 to 10 percent. A regional comparison of Bosnian MFIs illustrates they have the lowest cost structure coupled with the highest margins among their peers. Improvements in efficiency and productivity in terms of loan officer to borrower ratio have been instrumental in their success. The risk profile of Bosnian MFIs has been solid, with rates of portfolio at risk (over 30 days) under 2 percent from 2005 to 2008.

Bosnian MFIs may soon reach a point of saturation as MFIs serve roughly 49 percent of the region. This a high level considering that MFIs serve only 18 percent of the market across the Balkan region.

Microfinance Institutions: Does Capital Structure Matter?

By Vicki Bogan, published by Cornell University, May 2008, 42 pages, available at: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1144762

This paper examines microfinance institution (MFI) funding sources by geographic region and explores how changes in capital structure could facilitate future growth and improve the efficiency and sustainability of MFIs. The report establishes a relationship between capital structure and key performance indicators by analyzing the performance of select MFIs between 2003 and 2006.

In recent years, there has been increased pressure on MFIs to decrease dependence on subsidized funding sources. Reliance on donor funding limits the ability of MFIs to expand and meet the rising demand for services. A growing number of MFIs have sought to fund growth through public deposits or commercial funding. This paper explores the role that different funding sources play in determining the success of MFIs.

The performance indicators analyzed were outreach, efficiency and financial sustainability. These were compared against data for MFI capital structure variables (debt relative to assets, grants as a percentage of assets and shareholder capital as a percentage of assets)

and data for MFI characteristic variables (years in operation, assets, number of borrowers, number of savers, region, percentage of portfolio at risk and whether or not the MFI accepts deposits).

Regression analysis indicates that asset size directly impacts the sustainability and outreach of MFIs. Grants as a percentage of assets and share capital as a percentage of assets were found to be significantly and negatively related to the sustainability of MFIs. The results also show that an increase in grants does not necessarily lead to greater or more-costly outreach.

The author concludes that only by weaning off donor dependency and adopting a commercial orientation can MFIs attract the capital and savings base they need to scale up their portfolios, increase sustainability, lower lending rates, increase outreach and meet market demand. To address capital constraints, the study calls for transparency and innovative financing to decrease transaction costs and increase liquidity in the MFI funding market.

A Study Analyzing the Effects of Fuel and Food Inflation on Microfinance Institutions and Borrowers

By MF Analytics, published by the US Agency for International Development, January 2009, 38 pages, available at: http://www.cgap.org/gm/document-1.9.7450/Impact_and_Implications_of_Food_Crisis.pdf

This paper explored the impact that food and fuel inflation has on the sustainability of microfinance institutions (MFIs) and the well-being of MFI customers. According to the World Bank, global prices of staple foods….

(Continued in the subscriber edition; please refer to the subscriber edition for all three pages of paper wrap-ups.)