MicroCapital Monitor
THE MICROFINANCE NEWSPAPER

FREE PREVIEW EDITION*

MAY 2009 | VOLUME.4 ISSUE.5

MICROCAPITAL BRIEFS | TOP STORIES

Bangladesh Sets Limit on Microfinance Interest Rates

The Microcredit Regulatory Agency (MRA) of Bangladesh has announced that microfinance institutions (MFIs) will have to limit the interest rates they charge clients to a stated rate of 15 percent or an effective rate of 30 percent. The higher ceiling is aimed at the practice of charging deceptive "flat" interest rates on the original amount of the loan, even as the loan balance declines. In addition MFIs are barred from collecting deposits totaling more than 80 percent of their total outstanding loan portfolio. The MRA also encouraged NGOs offering microfinance to isolate their other business activities in order to keep these operations from falling under its supervision. May 6. 2009

Kenya's K-Rep Bank Replaces Manager After $4.4m Loss in 2008

K-Rep Bank, a Kenyan commercial bank that targets the microfinance sector, appointed Gerard Monteiro as Chief Operations Advisor after reporting a pre-tax loss equivalent to USD 4.4 million for 2008. This is in contrast to a USD 1.6 million pre-tax profit in 2007, at which time K-Rep reported 153,000 active borrowers and a gross loan portfolio of USD 81 million. One sign of trouble was a spike in non-performing loans from USD 5.4 million to USD 12.6 million in one year. Other issues included a failure to mobilize additional deposits after opening three new branches, failure to increase lending, decreasing liquidity, high costs due to overstaffing, rapid salary increases and a move of headquarters to a higher-cost location. In a separate report, the African Development Bank announced the investment of USD 2.2 million in K-Rep. May 11. 2009

CGAP MICROFINANCE DEALBOOK

MICROFINANCE CAPITAL MARKET TRANSACTIONS EVERY MONTH

DEALBOOK PAGE 5

CGAP

INSIDE Page

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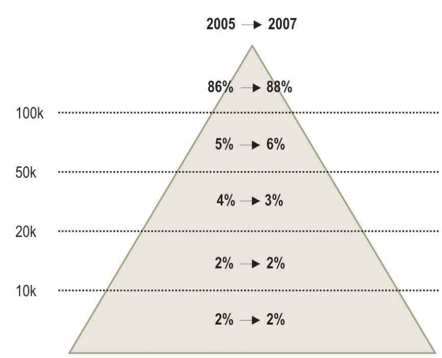
EAST ASIA AND PACIFIC
MFI MARKET SHARE TRENDING 2004 TO 2006
BY MFI SIZE (NUMBER OF ACTIVE BORROWERS)



MARKET INDICATORS*

mix

MICROCAPITAL BRIEFS

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CreSud Invests in Honduras, Peru
CreSud SpA, an Italian private investment company, recently reported three investments to the CGAP Microfinance Dealbook: an equity investment of USD 400,000 in Proempresa Edpyme of Peru, a loan of USD 250,000 to Comixmul of Honduras and a loan of USD 250,000 to Unidad Microfinanza Arariwa (UMA) of Peru. Proempresa was founded in 1997 by the IDESI Network, which consists of 12 local associations that offer business services to microenterprises. Proempresa reports a gross loan portfolio of USD 29.5 million, 30,000 active borrowers, a debt-equity ratio of 499 percent and return on assets of 2.04 percent. Comixmul, a Honduran cooperative, reports total assets of USD 15.9 million. UMA is an NGO with 14,000 borrowers and a gross loan portfolio of USD 3.9 million. CreSud, with microfinance assets of USD 3.7 million, raises funds through bond sales. May 11. 2009

MIF Invests $1.6m in Latin American "Micropensions"
The Multilateral Investment Fund, administered by the Inter-American Development Bank, recently committed to a Central American pilot project to develop privately offered micropensions through existing microfinance organizations. For a review of the fund's investments in small and medium-sized enterprises (SMEs), please see http://www.microcapital.org. May 4. 2009.

IFC Encourages "Micro-Leasing" in Rwanda
At an event organized by Rwanda's Association of Micro Finance Institutions, International Finance Corporation called upon financial institutions to embrace microleasing, whereby a person with no collateral can obtain the use of a productive asset. May 4. 2009 ♦♦♦

CGAP MICROFINANCE DEALBOOK

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TOP MARCH AND APRIL 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	Bank Danamon	EAP	372,000,000*	Equity
European Bank for Reconstruction and Development	VTB24	ECA	150,000,000	Debt
European Bank for Reconstruction and Development	BCR	ECA	100,000,000	Debt
European Bank for Reconstruction and Development	Center-Invest Bank	ECA	35,000,000	Debt
Yes Bank Ltd	SKS Microfinance	SA	27,200,000*	Debt
International Finance Corporation	Banco Continental	LAC	20,000,000	Equity
Yes Bank Ltd	SKS Microfinance	SA	17,200,000*	Debt
International Finance Corporation	Access Bank	ECA	15,000,000	Debt
IndusInd Bank	Bandhan	SA	14,800,000*	Debt
European Bank for Reconstruction and Development	Raiffeisenbank	ECA	13,400,000	Debt
Punjab National Bank	Bandhan	SA	11,800,000*	Debt
Lok Capital, Aavishkaar Goodwell, Small Industries Development Bank of India	Bhartiya Samruddhi Finance Limited	SA	10,000,000*	Equity
European Bank for Reconstruction and Development	SKB-Bank	ECA	10,000,000	Debt
International Finance Corporation	Microcredit Foundation EKI	ECA	9,370,000	Debt
Yes Bank Ltd	Share Microfin	SA	8,600,000*	Debt
responsAbility Global Microfinance Fund	Mibanco	LAC	7,500,000	Debt
International Finance Corporation	Rawbank	SSA	7,000,000	Debt
Development Credit Bank	Bandhan	SA	4,900,000*	Debt
MicroVentures	Equitas Microfinance Ltd	SA	4,400,000*	Equity
International Finance Corporation	Bai Tushum	ECA	4,000,000	Unspecified
Kotak Mahindra Bank	Bandhan	SA	3,900,000*	Debt
MicroVentures	Sahayata Microfinance Pvt Ltd	SA	3,680,000*	Equity
responsAbility Global Microfinance Fund	EDYFICAR	LAC	3,072,911*	Debt
responsAbility Global Microfinance Fund	Edpyme Raiz	LAC	3,000,000	Debt
Dexia Micro-Credit Fund	FINCA Kyrgyzstan	ECA	3,000,000	Debt
Dexia Micro-Credit Fund	Imon International	ECA	3,000,000	Debt
Dexia Micro-Credit Fund	Kompanion Financial Group Microcredit	ECA	3,000,000	Debt
Yes Bank Ltd	Equitas Microfinance	SA	2,500,000*	Debt
Mercy Corps	Andara	EAP	2,100,000	Equity
Bistum	Crear Arequipa	LAC	2,061,835*	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*

Local Currency: *Deals denominated in local currency are indicated by an asterisk (*) in the "Amount" column*

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MEET THE BOSS

Arnaud Ventura is Co-founder and Vice President of PlaNet Finance; he is also President and CEO of MicroCred. He is based in Paris

Arnaud Ventura

MicroCapital: What is the story of PlaNet Finance's founding?

AV: PlaNet Finance was started a little over 10 years ago. In 1997, after completing a master's degree in Information & Communication Technology (ICT) and initiating a couple of internet ventures in France and Asia, I moved to Buenos Aires to work on the development of a bank in Argentina. After a couple of years, on the verge of pursuing a long career in banking, I decided that - before entering the traditional business path - I would like to contribute to creating a better world. At the time I thought the best contribution would be to start a nonprofit venture, which would use ICT to support the development of microfinance, health, education and NGOs. While working on the project's design with a group of friends, I contacted Jacques Attali on a web forum to let him know about my initiative. Although I did not know him personally, Mr Attali was well known as a writer and advisor to the French President Mitterrand. After a first phone conversation, we eventually met in Paris in 1997. I had the opportunity to present him with my initiative, and he spoke of a major paper he had written for a conference at the Aspen Institute describing the failure of international institutions to reduce poverty in the twentieth century and the potential of information technology and microfinance to change this fact in the twenty-first century. The paper ended with a proposal to create PlaNet Bank. Jacques offered me the opportunity to write the business plan for what would become PlaNet Finance. This is how we started in 1998.

MC: What was the vision for PlaNet Finance at its beginning?

AV: The initial project was to create a virtual bank to support the microfinance sector. But in the course of 1998, we launched a pilot project that I led in Kenya. We received advice from numerous leaders in the field such as Muhammad Yunus and Kimanthi Mutua, who supported us from the beginning. This led to the transformation of PlaNet Bank, a virtual bank supporting microfinance, into PlaNet Finance, whose goal would be to provide both expertise and finance to the microfinance sector.

MC: What were the first years like? How did the organization develop?

AV: We started with very ambitious ideas, but modest resources. One might say that PlaNet grew in two stages: from 1998 to 2003 PlaNet Finance grew from an organization with two permanent staff members in Paris to an international nonprofit with more than 80 staff members running programs in 30 countries. Funding was mostly from private sector contributions or international institutions' grants and contracts. During this first stage, PlaNet Finance developed programs supporting local microfinance NGOs, providing them with training, rating and financing (with local currency loans through MicroFund). In a second stage from 2004 to 2008, the organization grew and restructured itself around separate business units operating as autonomous companies with distinct management and staff. At the end of 2008, PlaNet Finance Group included more than 700 staff in close to 80 countries.

MC: What is next for PlaNet Finance?

AV: In the next 5 to 10 years, we will continue to develop our business units to support more people. We will also pursue innovation and the creation of new activities to address the challenges of financial inclusion. We are now working in two areas that could drastically accelerate the growth of microfinance: one is based on the use of mobile phones to accelerate the outreach of microfinance and the second one uses the internet to increase access to funding for microfinance banks.

MC: How has your role changed as PlaNet has grown?

AV: At the creation of PlaNet Finance I was its CEO, and Jacques Attali was its President. From the start I had the chance to lead most of the development of PlaNet Finance: its geographical expansion, the creation of many of our country operations and later the creation of its different business units - from consulting and technical assistance to rating and financing. In 2005, I began to focus on launching and running MicroCred as its President & CEO. MicroCred is the Business Unit of PlaNet Finance that invests in the creation of "greenfield" microfinance banks.

MC: What do you identify as the area of greatest innovation in microfinance?

AV: With MicroCred, I am focused on building new microfinance banks. I am very interested in how we can use mobile phone technology to build new types of microfinance banks. Next week, I will be in the Philippines to meet with SMART, one of the largest mobile phone providers in the country. They have 35 million clients, 7 million of which are using phones to transfer money. We just signed a major agreement to look at how the use of mobile money can accelerate microfinance's outreach. I find this new possibility very exciting.

I am very interested in how we can use mobile phone technology to build new types of microfinance banks.

MC: You are speaking to us from Madagascar; what are you doing there?

AV: Madagascar is one of the countries where we are the most active. PlaNet Finance provides advisory services and has 3 major programs there to support microfinance institutions, while MicroCred has a microfinance bank in the country. In total PlaNet Finance Group has close to 200 staff members working in Madagascar. MicroCred Madagascar was started only two years ago and has become the largest microfinance institution in Antananarivo, the capital, where it operates today with seven branches and over 10,000 clients. It is already a profitable bank.

MC: What is your most important achievement to date?

In over ten years, we have built a global organization staffed by local experts. Because we are global, we regularly cross-fertilize ideas among countries. Because our people are local, we can operate with lower costs and greater cultural awareness. I have constantly been warned over these 10 years that we are trying to do too much at the same time. Nonetheless, in many of our business units, we are established among the top leaders today. I hope we can continue to remain so and do even better in years to come. ♦♦♦


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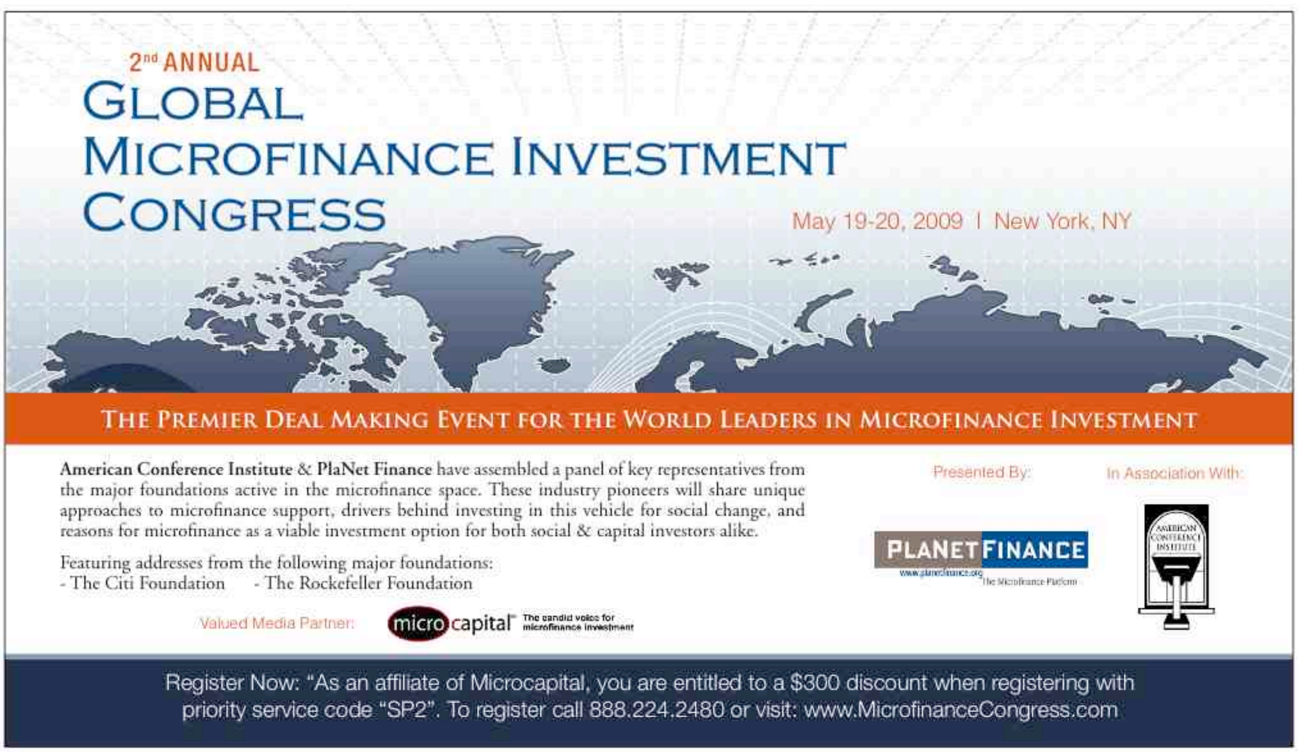
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American Conference Institute & PlaNet Finance have assembled a panel of key representatives from the major foundations active in the microfinance space. These industry pioneers will share unique approaches to microfinance support, drivers behind investing in this vehicle for social change, and reasons for microfinance as a viable investment option for both social & capital investors alike.
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PAPER WRAP-UPS

Cautious Resilience: The Impact of the Global Financial Crisis on Latin American & Caribbean Microfinance Institutions

By Sebastian von Stauffenberg, published by MicroRate Inc, March 2009, 52 pages, available at: http://microrate.com/wp-content/uploads/2009/03/cautious-resilience2.pdf

This report examines the impact of the global financial crisis on microfinance institutions (MFI) in Latin America and the Caribbean (LAC) during the last quarter of 2008. While MFIs initially reported that the global financial crisis had yet to affect the economy in LAC, data suggests that lending in 2008 slowed significantly more than MFIs admitted during October and November 2008. MFIs reduced the number of loans to higher risk clients, enforced stricter lending criteria and strengthened provisioning policies, with some MFIs reducing their average loan balance.

Microfinance investment vehicles (MIVs) also reduced their lending in late 2008 due to the instability of the financial markets (not necessarily due to funding difficulties). In addition, MIVs were accumulating cash in anticipation of an investor slowdown and the possibility of an increase in redemptions.

The author expects that MFIs will be greatly affected by the global crisis due to the fact that they are more "tightly integrated" with the financial sector than was the case in the past. He predicts MFI growth rates in 2009 will decrease significantly to 10% due to declining economies, tightening liquidity, stricter lending policies, decreasing average loan size, shifting portfolio mix and a focus on less-competitive market segments. Additional challenges include regulatory obstacles and expenses incurred when transforming into deposit-making institutions. A key risk is the possibility that depositors may stop saving as the economic situation worsens.

Credit to MFIs has become more expensive with an average increase of 200 to 600 basis points (in local currency). With nearly local credit disappearing, MFIs are now confronted with the choice to assume foreign exchange risk or curtail portfolio growth.

MFIs in the region have been successful at diversifying funding sources…. *(Continued in the subscriber version.)*

How Does Credit Access Affect Children's Time Allocation? Evidence From Rural India

By Nobuhiko Fuwa, Seiro Ito, Kensuke Kubo, Takashi Kurosaki and Yasuyuki Sawada, published by the Institute for Developing Economies, January 2009, 23 pages, available at: http://www.microfinancegateway.org/files/56716_file_ARRIDE_Discussion_No.183_kubo.pdf

The authors seek to quantitatively analyze the effect of credit access on the amount of time allocated by children to leisure, work and school. This study was conducted in the Kurnool district of Andhra Pradesh, where the child labor rate is high: 54.2 percent. Recent Research has shown that an increase in child labor does not necessarily lead to a decrease in schooling because leisure time is reduced instead. However, the authors claim that there has not yet been a comprehensive empirical study of how the allocation of time by various members of the household is linked to credit access. This study indicates that a lack of access to credit reduces time spent on both schooling and leisure and increases the time children spend working.

In an effort to base conclusions on data collection rather than experimental models, the authors determined the level of credit access by distributing questionnaires to each household on its interactions with formal credit sources during the previous year…. *(Continued in the subscriber version.)*

FREE PREVIEW EDITION

The New Money Lenders: Are the Poor Being Exploited by High Microcredit Interest Rates?

By Richard Rosenberg, Adrian Gonzalez and Sushma Narain, published by CGAP (Consultative Group to Assist the Poor), February 2009, 28 pages, available at: http://www.cgap.org/gm/document-1.9.9534/OP15_rev.pdf

The authors of this paper consider whether microcredit borrowers are being exploited by unreasonably high interest rates and explore the component costs - including profits - of microcredit interest rates in order to provide a framework to determine whether microlending rates are "excessive." The report uses data on 555 sustainable microfinance institutions (MFIs) reporting to the Microfinance Information Exchange through 2006.

The four main components that are reflected in an MFI's interest rates are: cost of funds, loan loss expense, operating expense and profit.

The report makes the following three conclusions: There is no evidence to suggest any widespread pattern of abusive MFI interest rates. The authors do find empirical evidence that operating costs are much higher for smaller microloans than for regular bank loans. Lastly, the analysis illustrates that in recent years there has been a rapid decline in interest rates, operating costs and profits. The authors expect this trend to continue in the medium-term future.

The median interest rate for sustainable MFIs was roughly 26 percent in 2006. While the report noted that Mexican MFI Compartamos' annualized interest rate was high at 85 percent, this case is considered an exception. MFI interest rates have been declining by 2.3 percentage points per year since 2003. When comparing other rates paid by low-income borrowers, MFI interest rates are significantly lower than consumer credit rates in 36 countries for which the authors report.

When comparing MFI rates to credit union rates in 10 countries, the average MFI rate was typically higher. MFI interest rates tended to be the same where credit unions offered a specialized microcredit product.

Cost of Funds

MFI's interest expense as a percentage of liabilities shows that their borrowing costs have been averaging 5.1 percent vs 3 percent for commercial banks in the same countries in 2006. Little detail is provided about this cost of funds figure. While it may be difficult for MFIs to meet the hurdles for depository licensing, deposits from savers do lower the cost of funds.

Loan Losses

Interest rates are neither increasing due to - nor influenced by - loan losses. Default rates due to borrower default were relatively low, at 1.9 percent worldwide in 2006. Loan losses above 5 percent tend to become unsustainable for MFIs. (A high average loan loss rate for Africa is driven by a small number of outliers.)

Operating/Administrative Expenses

Regression analysis provides evidence that there is a strong inverse relationship between loan size and operating expenses. Thus, tiny loans require higher administrative expenses that are not substantially offset by economies of scale…. *(Continued in the subscriber version.)* ♦♦♦