Bangladesh to Limit Microloan Interest Rates (Again)
Bangladeshi Finance Minister Abul Maal Abdul Muhith recently announced that Bangladesh will limit interest rates charged by microfinance institutions (MFIs). As reported in the May 2009 issue of this newspaper, the Microcredit Regulatory Authority (MRA) of Bangladesh “temporarily” limited the interest rates MFIs charged clients to a flat 15 percent or an effective rate of 30 percent. An MRA official noted that the move was an interim measure, and that MRA would announce a final interest rate policy for MFIs after “conducting an in-depth study.” No such final policy has yet been announced. April 13, 2010

Nepal Allows MFIs, NGOs to Mobilize Deposits
The Nepal Rastra Bank, Nepal’s central bank, is now allowing licensed microfinance institutions (MFIs) and NGOs to mobilize deposits from the general public. To qualify, organizations must have earned profits for three consecutive years, have non-performing loan ratios of no more than 5 percent and a minimum of 2,500 members. April 9, 2010

LeapFrog Microinsurance Fund Raises $65m from BMZ, IFC, Flagstone, Soros, KfW
LeapFrog Investments, a for-profit microinsurance fund that focuses on Africa and Asia, recently announced that it has raised an additional USD 65 million in commitments, bringing the fund’s total to USD 112 million. New investments in the fund are: the equivalent of USD 22.8 million from the German Ministry for Economic Cooperation and Development (BMZ); USD 20 million from the International Finance Corporation, the lending arm of the World Bank; USD 12 million from Flagstone Reinsurance, a global reinsurer based in Bermuda; USD 7 million from the nonprofit Soros Economic Development Fund; and USD 3 million from KfW Bankengruppe, a German development finance institution. March 30, 2010

Financiera Independencia of Mexico Sells $200m in Notes
Financiera Independencia, a Mexican microfinance institution, recently announced that it has placed USD 200 million in senior guaranteed notes in the international market. The notes have a five-year maturity and pay an annual interest rate of 10 percent. The transaction moves Independencia toward its “goal of diversifying our funding sources so that no single institution represents more than 25 percent of the company’s funding,” commented Independencia CEO Noel Gonzalez. Independencia reports a total outstanding loan balance equivalent to USD 380 million and a labor force of 9,600. March 29, 2010

SKS Files to Raise $250m in IPO, Replaces Akula as Promoter
SKS Microfinance Limited has officially filed plans to raise the local-currency equivalent of USD 250 million in its much-anticipated initial public offering... (Continued in the subscriber edition)
MC: What is the investment philosophy?

Triodos has branches in the Netherlands, the UK, Belgium, Spain and Germany, so we will look for more investors from these countries. Triodos has a tax incentive for Dutch investors to invest in Triodos Fair Share Fund, so it’s not a suitable vehicle for institutional investors or investors outside of the Netherlands. We created Triodos Microfinance Fund in 2002 for retail investors in the Netherlands; and now Triodos Microfinance Fund is active in emerging markets. I sent an open letter to the human resources manager of Triodos bank, and she invited me for an interview. She said that she could see me working on the Triodos microfinance team. I hadn’t heard of microfinance at that time, but when she explained it to me, I knew that microfinance was what I should do.

MC: Please tell us a bit about your background.

Femke Bos: As the fund manager of Triodos Microfinance Fund, I am responsible for the investment portfolio and the delivery of expected returns to our investors. I also join colleagues in presentations to pension funds, family offices or larger investors in the fund. I joined Triodos in 2002 from ABN AMRO Bank, where I was involved with corporate clients on the commercial banking side. I’ve always had a passion for traveling, and on a trip to Southeast Asia I was inspired by a German fellow who was clearing unexploded bombs from the war. Not because I wanted to clear bombs, but because I respected this man who was so committed to making a difference. When I returned, I actively started looking for ways to help alleviate poverty. I made it to the Triodos website and saw it was active in emerging markets. I sent an open letter to the human resources manager of Triodos bank, and she invited me for an interview, She said that she could see me working on the Triodos microfinance team. I hadn’t heard of microfinance at that time, but when she explained it to me, I knew that microfinance was what I should do.

MC: Please describe Triodos Microfinance Fund and how it differs from other Triodos funds.

FB: We have four different microfinance funds at Triodos: two closed funds called Hivos-Triodos Fund and Triodos-Doen Foundation, both of which were started in 1994; Triodos Fair Share Fund, which we started in 2002 for retail investors in the Netherlands; and now Triodos Microfinance Fund. There is a tax incentive for Dutch investors to invest in Triodos Fair Share Fund, so it’s not a suitable vehicle for institutional investors or investors outside of the Netherlands. We created Triodos Microfinance Fund in order to offer a vehicle for these investors. We launched in March 2009 at the height of the financial crisis with the equivalent of USD 31 million. It was difficult timing because many pension funds could not increase their investments in so-called “alternatives” mainly because of problems in other parts of their portfolios. Fortunately we found a few anchor investors including Netherlands-based insurance company Achmea and four British organizations: CCLA Investment Management, the Waterloo Foundation, Aviva Investors and Cazenove Capital Management.

Triodos has branches in the Netherlands, the UK, Belgium, Spain and Germany, so we will look for more investors from these countries. Finding suitable investments remained challenging, however, because during the first quarter of 2009, due to the financial crisis, microfinance institutions (MFIs) also reduced growth and thus sought fewer loans.

MC: What is the investment philosophy?

FB: The general investment philosophy for all the funds is the same in that we are long-term investors that focus on financial returns, social returns and environmental returns. Triodos Microfinance Fund and Triodos Fair Share Fund have equivalent investment philosophies. We focus mainly on established MFIs that have a strong track record and are regulated. Triodos’s other microfinance funds can take more risk.

Senior managers or senior investment officers often take seats on the board of directors in the case of equity investments, while sometimes we work with local representatives. This allows us to add value to the governance of the institution and to share the values of Triodos Bank.

The allocation to equity investments is currently only 29 percent, but we plan to increase this percentage to meet our target over the next year or two, allowing for potentially greater returns. We will be open to start-up institutions, but only when working with previously established and trusted partners.

MC: How are investments monitored?

FB: We always do our own due diligence. We work with 13 investment officers that know their markets very well. They go regularly to visit institutions and conduct periodic reviews to monitor individual investments.

We monitor MFIs on their performance on a quarterly basis. If we see increased risks, we move to monthly monitoring. We monitor their loan portfolio quality and financial performance, but we have a long-term approach to risk issues as well. As a result of the financial crisis, overindebtedness of MFI clients became more apparent. I think the problem is partially caused by an over-supply of money from investors abroad. We are very actively involved in initiatives like the Client-Protection Principles and Microfinance Transparency because we think we need to prevent this problem of overindebtedness in new markets. We make this a priority in our due diligence by seeing if there are discussions on credit bureaux, how transparent the markets are, how easy it is for MFIs to check if a borrower has several loans from different institutions, if there are informal agreements between MFIs, etc. We must keep in mind that we are doing this for the clients of MFIs and their long-term welfare.

MC: What else would you like the public to know?

FB: I talk to many investors, and more are becoming interested in microfinance and socially responsible investing. There is a bright future for microfinance investment, with a focus on products becoming more diversified. For example, we invested in LeapFrog Financial Inclusion Fund, the first microinsurance fund in the world, because we want to stimulate new product development. Another trend we see is green microfinance, with more MFIs becoming involved in projects related to access to energy. There are many solutions for low-income people to access renewable energy sources. There is still so much to do!
The CGAP Microfinance Dealbook is a compilation of microfinance capital market transactions that closed between March 2009 and March 2010. We heartily thank all of the organizations and individuals that participated. Complete listings of the collected transactions appear at MicroCapital.org. In the future, one “Deal of the Month” will continue to be published each month on CGAP’s (Consultative Group to Assist the Poor’s) Investors’ Corner website. Transactions may be submitted for consideration for the Deal of the Month by contacting MicroCapital. Data on microfinance investments will continue to be compiled on an annual basis by CGAP through its Microfinance Investment Vehicle (MIV) Survey and the CGAP-JP Morgan Equity Valuation Survey.

<table>
<thead>
<tr>
<th>Investor</th>
<th>Investee</th>
<th>Region</th>
<th>Amount (USD)</th>
<th>Type</th>
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<td>Debt</td>
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**Regions:** ECA - Europe and Central Asia, LAC - Latin America and Caribbean, MENA - Middle East and North Africa, SA - South Asia, WW - Worldwide

**Amounts:** Deals denominated in local currency are indicated by a tilde (~)
EDITORIAL

Self-regulation: A Preemptive Strike

Last month, India’s Microfinance Institutions Network (MFIN), comprising 31 microfinance institutions (MFIs), announced the creation of Alpha Micro Finance Consultants Private Limited, an MFI credit bureau. Alpha will include information on 20 million borrowers in the MFIN network of regulated non-banking financial companies (NBFCs), representing 80 percent of microfinance borrowers in the country. Complementary activities within MFIN include a code of conduct on: fair lending practices, the promotion of transparency, fixing overall per-client lending limits, data sharing, recruitment practices, whistle blowing and enforcement mechanisms. India’s microfinance lending boom and stories of clients with multiple loans are unnerving given the fallout in some other countries from the global financial crisis. The MFIN initiative is a smart preemptive effort to allay market concerns of a microfinance credit bubble in India. It seems a good investment for MFIs to spend time and money reporting to and consulting with credit bureaux.

In the case of India, self-regulation has filled key gaps in existing current regulatory and supervisory norms. While NBFCs are regulated under a special status, they are not required to report or consult with a credit bureau. Lawmakers should consider including these requirements when they regulate MFIs. The Inter-American Development Bank and the Association of Bankers of the Americas have recently drafted a set of “Guidelines for the Regulation and Supervision of Microfinance Operations,” on which we had the privilege to collaborate. The document seeks to encourage regulation and supervision of MFIs through the application of principles that are appropriate for these institutions. One of the key principles in this document is the need for credit bureaux that report both negative and positive information for regulated MFIs. Stronger regulation regarding credit reporting would benefit countries such as India. Other countries that have only a few regulated entities at this time, for example Mexico, would benefit in the meantime from self-regulation in the vein of MFIN’s efforts in India. Mexico’s well-known MFI, Banco Compartamos, is required to consult with the Mexican credit bureau as it is the only microfinance bank in the country. However, the majority of the country’s other institutions are not regulated and don’t voluntarily follow suit. According to Compartamos, “we have the largest market share in the country, and we report to the credit bureaus, but this can’t be effective if we are the only ones doing it.” Despite this frustration, Compartamos expects more institutions to join in time, with a nudge or two from Mexican MFI network Prodesarrollo. Prodesarrollo’s Director believes that even unregulated institutions should meet a minimum set of standards, and reporting to a credit bureau is one of them. I expect that MFIN will set a good example that will inspire donors and MFI networks such as Prodesarrollo to strike preemptively as well...or is this just wishful thinking?

Ms Barbara Magnoni is President of EA Consultants, a development consulting firm based in New York. She has 15 years of international finance and development experience and has worked with organizations including Goldman Sachs, Chase and BBVA and has advised institutions such as the International Finance Corporation, the US Agency for International Development and the International Labour Organization. She may be reached at +1 212 734 6461 or bmagnoni@eac-global.com.
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**PAPER WRAP-UPS**

**Assessing the Role of Microfinance in Response to Climate Change**


This paper examines 22 microfinance institutions (MFIs) in Bangladesh and Nepal to determine areas in which microfinance may be able to facilitate adaptation to climate change.

The authors first examine the relationship between microfinance and climate change adaptation in Bangladesh, a country threatened by increased flooding and increased monsoon and cyclone severity due to climate change. The Organization for Economic Co-operation and Development (OECD) has identified the top three priorities with regards to climate change adaptation in Bangladesh as: the protection of water resources, which are threatened by flooding; the protection of human health, which is threatened by faster spread of diseases due to... (Continued in the subscriber edition)

**Women and Income-Generating Activities: Understanding Motivations by Prioritising Skill, Knowledge and Capabilities**


This study examines a methodology for analyzing whether microfinance promotes income-generating activities among poor people, specifically focusing on women. The author proposes that it is critical to study the life of the credit recipient because local socioeconomic dynamics play a key role in determining a woman's income-generating activity. A “livelihood framework” explores people's strategies, motivations, skills, knowledge and capabilities to find patterns in determining what income-generating activity they will adopt.

The main idea of the livelihood framework is that “1) livelihood depends on people’s capabilities, 2) these capabilities are based on their resource base, their skills and their capacities to act, 3) this within specific social, economic, political, ecological and... (Continued in the subscriber edition)

**Does Microfinance Repayment Flexibility Affect Entrepreneurial Behavior and Loan Default?**


This study examines whether the length of time before initial loan repayments are due affects risk-taking and other forms of entrepreneurial behavior. The authors analyze the behavior of clients from Village Welfare Society, a microfinance institution (MFI) in the Indian state of West Bengal. The MFI loans only to women and typically charges an effective annual interest rate of 22 percent. Loans are generally repaid through fixed installments that begin two weeks after disbursement. For this study, loans were disbursed to 169 groups with five members each. Eighty-four of the groups were granted a two-month “grace period” instead of the standard two-week grace period. Loan sizes ranged from the equivalent of USD 87 to USD 219. All groups were given... (Continued in the subscriber edition)

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MFI Leaders

(Our audience just took a big jump.)

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