MicroCapital Monitor
THE MICROFINANCE NEWSPAPER

FREE PREVIEW EDITION*

AUGUST 2010 | VOLUME.5 ISSUE.8

MICROCAPITAL BRIEFS | TOP STORIES

IDB Approves $150m for MSEs in Latin America, Caribbean

The Inter-American Development Bank (IDB) has approved USD 150 million for the Latin America and Caribbean Subordinated Debt Facility, which is intended to strengthen financial institutions in the region through loans and guarantees to boost long-term financing to smaller business projects deemed to have a high social impact. The facility is a response to continued liquidity constraints caused by the financial downturn of 2008 that have reduced lending levels, particularly to smaller enterprises. The facility will utilize subordinated debt instruments financed chiefly by IDB and capital instruments to be financed chiefly by the World Bank Group's International Finance Corporation. August 11. 2010

Subsidies to Undercut Microloan Market in Tanzania

The government-controlled National Microfinance Bank (NMB) of Tanzania has announced its intentions to provide entrepreneurial "Juhudi" loans ranging from the local-currency equivalent of USD 3,300 to USD 330,000. With annual interest rates of 15 percent, the loans are intended to undercut reported market rates of 18 to 25 percent. Business skills training will also be provided by NMB and unnamed partner organizations. August 2. 2010

SKS Microfinance Launches India's First IPO by an MFI

After much anticipation, SKS Microfinance has launched India's first initial public offering (IPO) by a microfinance institution. The share price on the Bombay Stock Exchange and the National Stock Exchange of India is equivalent to USD 18.20 to 21.10 per share, which results in a company valuation of USD 1.6 billion. US-based Citigroup Global Markets, Credit Suisse of Switzerland and India's Kotak Mahindra underwrote the issue. As of March 2009, SKS reported total assets of USD 596 million, 3.5 million active borrowers, return on assets of 3.68 percent and return on equity of 18.72 percent. Please see page 12 for further coverage of the IPO and the debate it has intensified regarding the interplay of for-profit motivations with charitable intentions. July 30. 2010

IFC Provides $30m Guaranteed by Remittances to Fedecredito of El Salvador

The International Finance Corporation (IFC), a member of the World Bank Group, has agreed to loan USD 30 million to Fedecredito, a Salvadoran financial cooperative owned by 55 financial institutions, which will be guaranteed by future remittances sent by Salvadorans working abroad to family and friends at home. The precise structure of the guarantee arrangement is not detailed. Giri Jadeja, IFC Senior Manager for Financial Markets in Latin America and the Caribbean, said, "Fedecredito's ability to sustainably mobilize funding will help ensure credit access to otherwise underserved, low-income households and microenterprises in El Salvador. Given its development impact, we hope...

(For the continuation of the above story and for more top stories, please refer to the subscriber edition.)

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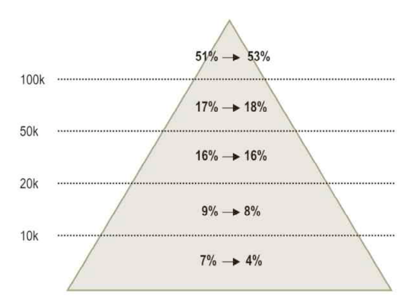
MicroCapital

SUB-SAHARAN AFRICA
MFI MARKET SHARE TRENDING 2006 TO 2008
BY MFI SIZE (NUMBER OF ACTIVE BORROWERS)



MARKET INDICATORS*

EDITORIAL

Mission Accomplished?

Everybody's still talking about SKS. I should run the other way, but here I go anyway. I first turned to the CEO of Compartamos, Fernando Alvarez Toca, to ask what advice he would give SKS in light of his experience with the Compartamos initial public offering (IPO). His words suggest that SKS will have a tough time putting mission over money: "From now on and sooner rather than later, their team needs to focus on what they should be doing to meet the expectations of all the stakeholders, especially the new ones that are the IPO buyers...." Fernando's rightly makes a point that there is a difference between early investors and "IPO buyers." Early promoters raised money for SKS by selling a mission; IPO buyers want to protect the value of their investment. The hullabaloo over SKS's IPO is partly caused by public indignation that its early investors were in it to eradicate poverty, yet they gained large sums of money from charging clients high interest rates (to the detriment of poverty alleviation) in order to ensure SKS's profitability, and yes, ultimately outreach. One of these, Unitus, unexpectedly announced its exit from microfinance last month. Unitus's mission was, "Unitus fights global poverty by accelerating the growth of microfinance…where it is needed most." The poor are still poor, so the cry of "mission accomplished" suggests that Unitus' dual goals of accelerated microfinance institution (MFI) growth and poverty alleviation may not be as directly related as they initially seemed. There lies the conflict the microfinance industry is now struggling to resolve. Is the value of microfinance its ability to alleviate poverty, promote financial inclusion or some combination of the two? If the answer is the former, are profits appropriate? Muhammad Yunus of Grameen Bank recently commented on the SKS IPO, stating "there are ethical issues about making profits from the money of the poor." SKS disagrees, arguing that microfinance should not be a "social business" without profit: "If the microfinance industry is going to provide the estimated USD 45 billion of credit needed by the poor, it must tap commercial capital markets - and that means structuring microfinance so that investors can expect a return on their investment." Sectors outside microfinance that provide needed services to low-income people would agree, but they don't typically have missions (or PE ratios for that matter) like that of SKS: "Our purpose is to eradicate poverty. We do that by providing financial services to the poor and by using our channel to provide goods and services that the poor need." Reliance is one of India's largest cell phone companies. Words like "eradicate" and "poverty" are nowhere to be found in its mission statement. Instead, we see: "Customer expectations; processes; products and services that are value for money and excite customers; loyalty, inspiration, and leadership." If phone companies provided all this, the world would be a better place, though not necessarily less poor.

My view is that we need better segmentation of MFIs, investment funds and investors. Without sufficient transparency of social and financial objectives and performance, the industry risks alienating social investors like Unitus and pushing microfinance to be more like Reliance, following the route of Compartamos and SKS by obligation rather than by choice.

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PAPER WRAP-UPS

Microfinance Programs and Better Health: Prospects for Sub-Saharan Africa

By Paul M. Pronyk, James R. Hargreaves and Jonathan Morduch; published by the Journal of the American Medical Association; Volume 298; Number 16; October 2007; available at: http://jama.ama-assn.org/cgi/reprint/298/16/1925.pdf

This paper examines evidence on the potential for microfinance to contribute to achieving the UN's Millennium Development Goals, with specific focus on improvements in health and the challenges and opportunities for expanding such outcomes in Sub-Saharan Africa.

It is argued that microfinance institutions (MFIs) have the potential to reduce poverty directly, while simultaneously producing wider benefits such as improvements in health. At the most basic level, access to reliable ways to borrow and save can make it easier to pay for medicines and clinic visits. Increased and steadier income also makes it easier to feed one's family everyday; better nutrition, in turn, leads to better health.

Several microfinance programs have recognized the potential connection between economic and health gains and have sought to provide additional health services, health education or health insurance products. A number of studies have demonstrated the positive effects of these programs, which include higher immunization rates, healthier breastfeeding practices and better management of diarrhea. One study from Bangladesh suggests that such programs may lead to a greater use of contraception among those who do not participate in microfinance but live in villages where MFIs operate. Several programs in Bangladesh have also demonstrated positive effects on nutrition, such as increased upper-arm circumference in children and... *(Continued in the subscriber edition)*

The State of Iraq's Microfinance Industry

By the Louis Berger Group Incorporated, published by the US Agency for International Development, June 2010, 56 pages, available at: http://www.imfi.org/files/StateOfIMFI_USAID_en.pdf

The authors of this paper report that Iraq's microfinance industry was established in 2003 and is now comprised of 14 microfinance institutions (MFIs). As of April 2010, Iraq's microfinance industry had an outstanding loan portfolio of USD 86 million and served 63,000 active borrowers. Loans are made at an interest rate of 12 to 18 percent, and 15 percent of loans are made to women. The repayment rate on these loans is reportedly 99 percent. Iraq's microfinance industry employs 780 people in 100 offices.

The growth rate for MFIs in Iraq was approximately 31 percent for the year ending in April 2010. Donal Cotter, author of the report's preface and Chief of Party for the US Agency for International Development (AID)-Tijara, reports that his organization is largely responsible for this rapid growth. USAID-Tijara is an economic growth organization with a five-year mandate to promote private sector growth and employment in Iraq.

The authors report that draft regulations to enable NGO MFIs to transform into non-banking financial institutions would promote greater accountability.

Iraq's "post-conflict environment" continues to impede the growth of microfinance in many ways:

1) Many people are dependent on public-sector employment and are therefore reluctant to start private, income-generating activities.

2) Security and violence are still problems.

3) Current laws preclude the many displaced persons in Iraq from borrowing money by requiring borrowers to have lived in the same place for two years.

4) The cash-based economy increases the risk of fraud.

5) There is a shortage of... *(Continued in the subscriber edition)*

A Business to Call Her Own: Identifying, Analyzing and Overcoming Constraints to Women's Small Businesses in Latin America and the Caribbean

By Jennifer Powers and Barbara Magnoni, published by the Inter-American Development Bank's Multilateral Investment Fund, April 2010, 100 pages, available at: http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=35282406

The authors of this study focus on the differences between male and female entrepreneurs in six countries in Latin America: Guatemala, Nicaragua, Colombia, Bolivia, Mexico and Peru. Specifically, they looked at the barriers that women encounter when they start a business. They also considered access to financial services and the microfinance industry.

According to the authors, barriers that prevent female businesses from growing include feeling too much responsibility to stay at home to manage the household, lack of access to financial services, risk aversion manifested as reluctance to borrow money, social conventions and a lack of education and training. The authors write that the reluctance to borrow is especially prevalent among women in lower income segments.

The authors find that women tend to reinvest their income into their households at a higher rate than men, suggesting that policy interventions to grow women's businesses would not only contribute to the economic growth of their communities through their businesses but also result in increased investment in children and education.

The authors also found that there are differences in how men and women use financial products because of women's propensity to avoid risk. Women sometimes fail to take advantage of... *(Continued in the subscriber edition)*

Why Microfinance Take-up Rates Are Low & Why It Matters

By Dean Karlan, Jonathan Morduch and Sendhil Mullainathan; published by Financial Access Initiative; June 2010; 13 pages; available at: http://financialaccess.org/sites/default/files/RFN11_Why_microfinance_takeup_rates_are_low%286-17-10%29.pdf

Data from 13 projects show that take-up rates vary from 2 to 84 percent of eligible individuals. The fact that participation is not complete indicates that microfinance is not for everyone - it is not a panacea. Participation rates also reveal information about customers' interest in particular products and services, which can help practitioners design and price products to best serve clients.

Three different ways to measure take-up rates are considered. The first makes use of population-based aggregate estimates from administrative records of regulators and other government entities. The second uses household surveys. And the third relies on analyses of specific products or services.

Two major points can be made based on the data considered. First, take-up rates measured by controlled analyses were lower (2 percent to 8.7 percent) than those measured by household surveys (38 to 76 percent). The former typically involve one lender only, which may explain the low estimates of take-up, because target individuals may already be borrowing or saving elsewhere. Household surveys, however, are able to capture take-up of a wider variety of products from more lenders.

The second major point is that no clear pattern emerges when comparing take-up rates of credit, savings and insurance products. Nonetheless, take-up of credit products demonstrates the largest... *(Continued in the subscriber edition)*