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# MicroCapital Monitor

THE MICROFINANCE NEWSPAPER

FREE PREVIEW EDITION*

## MICROCAPITAL BRIEFS | TOP STORIES



### $9m Purchase by Sequoia Gives Kalpathi Rich Exit from India's Equitas

Kalpathi Investments, the investment company of entrepreneur Kalpathi Suresh, recently sold its 10 percent stake in Equitas, an Indian microfinance institution, for the local-currency equivalent of USD 9.4 million after having purchased the stake two years earlier for USD 754,000. US-based venture capital firm Sequoia Capital acquired the stake in Equitas, which reports total assets of USD 61 million, a gross loan portfolio of USD 43 million, 339,158 active borrowers, return on assets of 1.52 percent and return on equity of 4.02 percent. February 2. 2010

### Norfund Takes 8.9% Stake in South Africa's Real People for $13m

The Norwegian Investment Fund for Developing Countries (Norfund), a development finance institution, has acquired an 8.9 percent equity stake in Real People, a company that provides credit management services and microcredit in southern Africa, for the local-currency equivalent of USD 13 million. Norfund also made a senior unsecured loan of the same amount to the South African that also operates in Malawi, Tanzania, Kenya and Lesotho. Founded in 2001, Real People reports total assets equivalent to USD 297.4 million. January 26. 2010

### Central Bank of Nigeria to Report Debtors to Law Enforcement

Nigerian newspaper *Vanguard* reports that the Central Bank of Nigeria (CBN) is currently compiling names of individuals who have failed to repay loans to microfinance institutions (MFIs) in order to "publish their names and hand them over to law enforcement agents to recover the loans." The report also indicated that CBN will revoke the operating licenses of MFIs that have been closed for more than six months, citing its responsibility to do so under the Banks and Other Financial Institutions Act. February 2. 2010

**CGAP MICROFINANCE DEALBOOK**

CAPITAL MARKET TRANSACTIONS
EVERY MONTH

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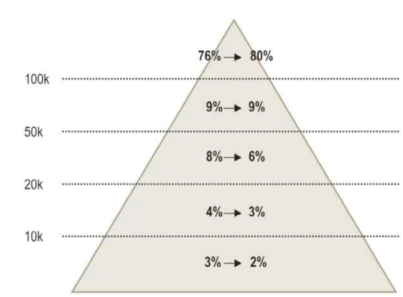
MicroCapital

GLOBAL
MFI MARKET SHARE TRENDING 2006 TO 2008
BY MFI SIZE (NUMBER OF ACTIVE BORROWERS)




MARKET INDICATORS*

**MEET THE BOSS**

*Nanno Kleiterp is CEO of the Netherlands Development Finance Company (FMO)*

## Nanno Kleiterp

The Netherlands Development Finance Company (FMO) is the international development bank of the Netherlands. FMO uses loans, mezzanine financing and equity investments to invest in financial institutions and other companies in developing countries. With an investment portfolio of USD 6.5 billion, FMO is one of the world's largest bilateral private sector development banks. FMO's mission is to create flourishing enterprises that can serve as engines of sustainable growth in their countries.

For over 20 years, FMO has made major commitments to microfinance. During these years, a vast network has been developed and valuable experience and knowledge gained. As of year-end 2009, FMO has a committed microfinance portfolio of USD 490 million, which is divided among Africa, Asia, Latin America & the Caribbean and Eastern Europe.

*MicroCapital: What role do you see development banks playing in social change?*

Nanno Kleiterp: The view of FMO is that we have to take risks that commercial parties are not able or willing to take. When possible, we try to catalyze commercial investment in order to maximize impact. In addition, we support our clients in getting to best standards in terms of the environment and transparent governance.

*MC: What makes FMO a leader in microfinance?*

NK: One of the reasons that I think we are very innovative is that we have a broad network of partnerships in the countries where we operate. In most cases, we are active right from the early stages, which makes us an interesting partner for other parties in this business. We were involved in the early stage of ProCredit, which is now a big success and one of the bigger players. We have worked on innovative products like the BRAC securitization, the BlueOrchard Loans for Development collateralized debt obligations and development of hedging services with MFX Solutions.

We also have a unique ownership structure; there are not many development banks that have private investors on board. There are no governmental or other direct representatives of our shareholders on our board of directors. That makes us flexible because our put-through time is quite low. That is not uncommon for a for-profit company, but for a development bank, we are a special case. On the other hand, because of our relationship with the Dutch government, the Ministry for Foreign Affairs has provided us with funds for financing projects in high-risk countries or high-risk sectors. One of these is the local-currency MASSIF (Micro- and Small Enterprise Fund).

In Cambodia we have made loans to and invested equity in quite a number of institutions. We've been involved with ACLEDA right from the beginning. We've seen it evolve from a grassroots NGO into a successful commercial bank covering all of Cambodia and have recently sold our stake to a commercial party, which we regard as an important milestone. ACLEDA is now starting a new bank in Laos, in which we have invested share capital and substantial technical assistance. We have invested in Amret and been involved with PRASAC and Sathapana. Cambodia is a small country - a fairly small microfinance market - and I think FMO made a difference there, not only in developing one institution with financing and knowledge transfer but in giving a push to the sector as a whole.

*MC: How were you first introduced to microfinance?*

NK: I started at FMO 22 years ago in microfinance, although it wasn't called that yet. What we did - I think FMO was one of the first - was create a local-currency fund, then called the Small-scale Enterprise Fund, now MASSIF. That fund has grown since 1987 and has shown a positive return. At the time, nobody believed that it was possible for a local-currency fund to make a profit providing loans and equity to financial institutions that dedicate themselves to micro- and small enterprises.

*MC: What led you to believe that local currency was possible and appropriate?*

NK: We were convinced that local-currency-earning entrepreneurs should be financed with medium- to long-term, local-currency loans in order to avoid their exposure to foreign currency risk. In the beginning - frankly - we did not know that it would be possible. Over the years, we improved our techniques, proving that local-currency lending was commercially viable.

*MC: How does microfinance fit into the broader landscape of enterprise development?*

NK: FMO focuses on access to finance, access to energy and access to housing. It is our view that not only credit is important, but also access to savings, to insurance, to a broad palette of different products. We think microfinance is important, but we are also very active in the missing middle - in small- and medium-enterprise financing.

*MC: What trends do you see now and on the horizon?*

NK: In the last year, microfinance has become a mainstream asset class. I am quite convinced that, after the crisis, the track record will really be established because then you will see how the sector has held during the crisis. You see that the portfolio of microfinance institutions is deteriorating a little bit, but not dramatically. In 2011 or 2012, commercial interest will come back much stronger even than before.

We will also see increasing competition, which dramatically decreases the cost of delivery. We were at the start in Bolivia with BancoSol when interest rates were over 50 percent. Today interest rates are around 20 percent because of competition that pushes institutions to become more efficient instead of letting their clients pay for their inefficiencies.

There is also a lot of debate about whether microfinance institutions should strictly stick to serving microentrepreneurs. We see it as positive when microfinance institutions move upscale based on their experience with and the growth of their clients. This is one of several ways that an inclusive financial sector can foster economic growth and social change where they are needed most.

CGAP MICROFINANCE DEALBOOK

POWERED BY MicroCapital

## TOP JANUARY 2009 MICROFINANCE TRANSACTIONS

The CGAP Microfinance Dealbook publicizes microfinance capital market transactions in an effort to bring greater transparency to the industry. Additional deals are published periodically 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 |
|---|---|---|---|---|
| Various | Advans SA | WW | 33,000,000 | Equity |
| Norwegian Investment Fund for Developing Countries | Real People | SSA | ~13,000,000 | Debt |
| Norwegian Investment Fund for Developing Countries | Real People | SSA | ~13,000,000 | Equity |
| Unspecified | Family Bank | MENA | ~13,000,000 | Equity |
| European Fund for Southeast Europe | NLB Razvojna banka | ECA | 10,043,250 | Debt |
| CDC Group | ShoreCap II | WW | 10,000,000 | Unspecified |
| Sequoia Capital (US) | Equitas Micro Finance India Private Limited (purchase from Kalpathi Investments) | SA | ~9,400,000 | Equity |
| Dhanalakshmi Bank & others unspecified | Asirvad Microfinance, Sahayata Microfinance, Satin Creditcare Network & Sonata Finance | SA | ~6,500,000 | Debt |
| Dexia Micro-Credit Fund (BlueOrchard Finance) | Asmitha Microfin Limited | SA | 5,000,000 | Debt |
| Hivos-Triodos & Triodos Fair Share Funds & Triodos-Doen | Centenary Bank | SSA | ~4,300,000 | Debt |
| MicroVest I | Grameen FSPL (Grameen Koota) | SA | ~4,270,000 | Debt |
| Standard Chartered | Kashf Foundation | SA | ~4,200,000 | Debt |
| International Finance Corporation | Sistema Integral de Abasto Rural (Mi Tienda) | LAC | 2,500,000 | Equity |
| responsAbility Global Microfinance Fund | Prizma | ECA | ~2,145,150 | Debt |
| Triodos Microfinance Fund | XacBank | ECA | 2,100,000 | Debt |
| Impulse Microfinance Investment Fund (Incofin) | Financiera Confianza | LAC | ~1,557,000 | Debt |
| Dexia Micro-Credit Fund (BlueOrchard Finance) | Bai Tushum and Partners LLC | ECA | 1,500,000 | Debt |
| Développement international Desjardins | AfricInvest Financial Sector | WW | 1,400,000 | Equity |
| ASN-Novib Fund (Triple Jump) | Nueva Vision | LAC | 1,000,000 | Debt |
| Hivos-Triodos Fund & Triodos-Doen | Uganda Finance Trust | SSA | ~1,000,000 | Debt |
| ASN-Novib Fund (Triple Jump) | TPC | EAP | 779,116 | Debt |
| Oikocredit | VFSPL | SA | ~773,366 | Debt |
| responsAbility SICAV Mikrofinanz-Fonds | Prizma | ECA | 715,050 | Debt |
| responsAbility Global Microfinance Fund | Naranjillo | LAC | 600,000 | Debt |
| Dexia Micro-Credit Fund (BlueOrchard Finance) | AMK | EAP | ~517,189 | Debt |
| responsAbility Global Microfinance Fund | Fondeco | LAC | 500,000 | Debt |
| responsAbility SICAV Mikrofinanz-Fonds | TPC | EAP | 500,000 | Debt |
| responsAbility Global Microfinance Fund | TPC | EAP | ~498,414 | Debt |
| Oikocredit | SeedFinance | EAP | ~461,697 | Debt |
| MAS Financial Services Limited | Srivardan Sociodevelopment Foundation | SA | ~425,531 | 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, WW - Worldwide*

**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*

# EDITORIAL

## Overcoming Obstacles in Haiti

Over the past month, many of us have been consumed by the devastating effects of the earthquake in Haiti on January 12. I have been inspired by the strength and determination of so many, who have shown themselves to be resourceful and tenacious in the face of the crisis. One of my heroes in this crisis has been Anne Hastings, CEO of Fonkoze, a leading microfinance institution in Haiti. Anne wants to change the world and sees microfinance as a means rather than an end. Cited as a pioneer in microfinance at the Inter-American Development Bank (IDB) in 2009, this month, Anne has shown that she is not only a pioneer, but a relevant leader in the industry. Anne, Father Joseph and their team have been able to show that Fonkoze's value proposition is one of substance.

Fonkoze was able to disburse some USD 1 million in money transfers and savings to its clients within a week of the earthquake. Yet it was not enough. As people were migrating back to rural areas from the capital city, demand for cash was becoming greater than the supply. Local commercial banks would not free up cash from Fonkoze's accounts, so Anne reached out to its banker at City National Bank in the US state of New Jersey and to the IDB, setting in motion a series of events that got over USD 2 million into the hands of rural Haitians in less than two days. The scheme required the collaboration of Fonkoze, the UN, the US Agency for International Development, the US State Department, the US Department of Defense, the IDB/Multilateral Investment Fund and City National Bank. Funds were converted to cash and sent on military planes to Haiti, where they were airlifted on military helicopters to 34 of Fonkoze's 42 branches across Haiti. Staff of money transfer firm MoneyGram flew alongside soldiers to ensure that recipients would not be intimidated by the military presence. All the while, Fonkoze was mourning the loss of three of its staff members. Katleen Felix, Fonkoze's diaspora liaison in the US, shared with me that, "Anne was handling the situation with so much elegance, but we were afraid that violence would break out if people did not get access to cash quickly; it could have been a disaster."

In development work, we can become frustrated by the time spent competing rather than collaborating with colleagues. It can seem like a superhuman feat to make changes or drive innovation. Over the past month in Haiti, there has been little room for formalities. With few institutions working and limited infrastructure, resourcefulness and collaboration are the only ways to get anything done.

*Ms Barbara Magnoni is President of EA Consultants of New York. An international development professional with over 14 years of international finance and development experience, she has worked at public and private organizations including Goldman Sachs, Chase, BBVA, EMPower and the US Agency for International Development's Development Credit Authority. She may be reached at +1 212 734 6461 or bmagnoni@eac-global.com.*

## PAPER WRAP-UPS

### Behavioral Foundations of Microcredit: Experimental and Survey Evidence from Rural India

*By Michael Bauer, Julie Chytilová and Jonathan Morduch, published by the Financial Access Initiative, December 2009, 47 pages, available at: http://financialaccess.org/sites/default/files/Behavioral%20Foundations%20of%20Microcredit%20-%20Bauer%20Chytilova%20Morduch%2012-18-09.pdf*

This paper examines the behavioral effects of time discounting and risk aversion as they relate to the acquisition of microcredit. Specifically, the authors seek to determine whether people with a "present-bias time inconsistency" exhibit unique financial behavior related to borrowing and saving. This group of people prefers less money sooner, as opposed to more money later, particularly when the reward is more immediate. The authors go on to demonstrate how microcredit can help these borrowers overcome the assumed lack of financial "self-discipline" associated with present bias and how microcredit can, in this sense, become a replacement for contractual savings.

The study involves a random sample of 573 villagers in Karnataka, a coastal state in southern India. To determine whether individuals exhibit "present-bias" and if they are "time-consistent," participants were first asked if they preferred to receive the equivalent of USD 5.34 tomorrow or USD 5.66 in three months. Four more similar questions were posed, with the amount to be received tomorrow remaining constant and the amount to be received in three months increasing in stages to USD 8.02. Participants were then asked about their preference to receive less money in 12 months instead of more money in 15 months. Individuals were identified as exhibiting "time inconsistency" if they chose the earlier but lesser reward any number of times in either survey. Individuals that preferred the earlier reward more times in the first survey than in the second survey were deemed to exhibit "present-bias time inconsistency." These people, who preferred relatively immediate rewards - even if the rewards were less - are the focus of the study.

About one third of the total sample was found to exhibit this bias, which was not found to be strongly correlated with variables such as level of education, wealth or seasonality of income. Individuals in this "present-bias" group were... *(Continued in the subscriber edition)*

### Successful Due Diligence When Evaluating Microfinance Investment Vehicles

*By Zoran Stanisljevic, based on an interview with Christina Leijonhufvud, published by MicroCapital.org, December 2009, 5 pages, available at: http://www.microcapital.org/downloads/whitepapers/Diligence.pdf*

As microfinance institutions (MFIs) continue their quest for more accessible and affordable financing, little information is freely available to the public regarding the due diligence required when evaluating microfinance investment vehicles (MIVs). This whitepaper provides a framework for how investors can evaluate MIVs. The author's interview with Christina Leijonhufvud, managing director of the Global Social Sector Finance Group at JP Morgan, results in a general framework that investors and MFIs can utilize to better understand one another's requirements and expectations in order to make informed decisions in meeting both social and financial goals while achieving rational, sustainable industry growth.

The report argues that the very first and most important screen... *(Continued in the subscriber edition)*