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MicroCapital Monitor

THE MICROFINANCE NEWSPAPER

FREE PREVIEW EDITION*

MICROCAPITAL BRIEFS | TOP STORIES

IFC, EBRD, CRG Capital Launch Special Situations Fund

The International Finance Corporation; the European Bank for Reconstruction and Development; and CRG Capital, a private equity firm with offices in Vienna and the US, recently launched the Central and Eastern Europe Special Situations Fund to focus on the "acquisition, turnaround, and resolution of corporate distressed assets." While the three founders have provided an initial EUR 36 million, the fund aims to raise EUR 200 million. CRG Capital invests in direct control equity investments, non-performing debt instruments, stranded or end-of-life regional private equity funds and other "distressed or special situation" companies in Central and Eastern Europe. January 12. 2010

Uganda Revenue Authority Demands Stamp Duty from MFIs

Following a miscommunication over regulations, the Uganda Revenue Authority is asking microfinance institutions (MFIs) to pay outstanding stamp duty fees, which the MFIs claim are "almost impossible" to recover at this point. Debate is continuing over whether the duty should be levied at a rate of 0.5 percent of the principal amount of the loan or at a flat rate equivalent to USD 2.50 for every loan extended. January 5. 2010

Grupo Fortaleza Taps Bolivian Market for $17.9m for Small MFIs

Grupo Fortaleza, a Bolivian financial services company that caters to small and medium-sized enterprises, has placed a local-currency, closed-end fund worth USD 17.9 million on the Bolivian stock exchange, with the proceeds to be used for local-currency loans to Tier-II and Tier-III microfinance institutions. The fund has a five-year term, extendable for one or two additional periods of two years each. Investors in the shares include the Multilateral Investment Fund, which is housed at the Inter-American Development Bank; CAISA Agencia de Bolsa; and Banco de Desarrollo Productivo, the Bolivian development bank. December 28. 2009

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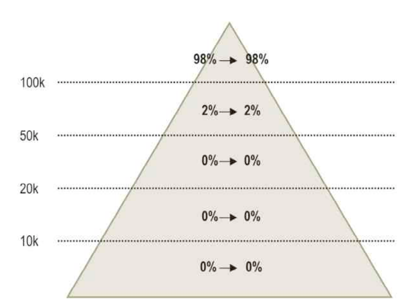
INSIDE

BANGLADESH

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



MARKET INDICATORS*

PlaNet Finance
Your money can change the world

MEET THE BOSS

François Durollet is the Managing Director of PlaNet Finance.

François Durollet

PlaNet Finance Group is an international organization with the mission of alleviating poverty through the development of microfinance. The group consists of a non-governmental organization (NGO) called PlaNet Finance, which has historically been at the heart of the group and offers advisory and training services, as well as a set of social businesses. Among these, Planet Rating is a microfinance rating agency, PlaNIS is specialized in the structuring and management of microfinance funds, MicroCred is a microfinance holding company investing in greenfield microfinance banks and non-banking financial institutions, PlaNet Guarantee provides microinsurance and FinanCités is a venture capital company that invests in very small enterprises in French urban areas.

François Durollet joined PlaNet Finance Group as PlaNet Finance's Managing Director in late 2009. After completing graduate studies in Law and Public Finance at the University of Pantheon-Sorbonne in Paris, France, Mr Durollet was a financial manager for several municipalities. He then spent 20 years in the banking sector, holding leadership roles in risk management and technology and serving as Chief Financial Officer for Dexia Crédit Local, a French subsidiary of Belgium's Dexia Group.

MicroCapital: This will be the fifth profile MicroCapital has published on key PlaNet Finance Group staff members over the past year; would you please explain how the different units of the organization work together?

François Durollet: PlaNet Finance Group was created over ten years ago by Arnaud Ventura and Jacques Attali and functions in a unique way that combines social business activities and nonprofit activities. It is the power and efficiency of this business model, which is something quite difficult to implement, that drew me toward PlaNet Finance. We use emerging initiatives and techniques, such as mobile banking, asset management, risk management and social responsibility, to pull communities in developing countries out of poverty.

MC: How is the PlaNet Finance Group model unique?

FD: PlaNet Finance holds a very unique position in the sector as the only organization that combines nonprofit and social businesses activities within the same group. This model gives PlaNet Finance the flexibility to design innovative projects such as one that provides microinsurance for agricultural crops via PlaNet Guarantee. Here we have been able to provide both technical assistance and micro-insurance schemes in the same package to set up microinsurance programs in Asia, Latin America and the Middle East.

There is another point that I wish to highlight regarding the model of PlaNet Finance Group. All our new ideas are initially set up in the nonprofit part of the organization, which acts as an incubator. Once these activities become sustainable, they can become social businesses. At this point in the process, PlaNet Finance seeks either equity or technical partnerships with external organizations. PlaNIS's activity, for example, has been incubating within the nonprofit part of the organization since its inception three years ago. All of PlaNet Finance Group's social business activities are examples of this process.

One new idea that we are working on, which relates to the management of cross-currency risk when refinancing microfinance institutions, should start this process of incubation soon. We always have one or two ideas in our NGO incubator.

MC: What non-financial services does PlaNet Finance provide?

FD: This is a very important question, as far as the NGO is concerned. Our aim is to develop two types of services or missions in the field. The first kind of service is highly technical and investigates ways to help MFIs improve their microfinance activity through up-scaling, downscaling and the opening of greenfield institutions. We are also trying to develop "microfinance plus" activities that combine microfinance with gender empowerment activities, production optimization, the hunt for new markets and the organization of microentrepreneurs into cooperatives so that they can develop strong positions in the market.

All our new ideas are initially set up in the nonprofit part of the organization, which acts as an incubator. Once these activities become sustainable, they can become social businesses.

MC: In what areas has PlaNet Finance Group grown over the past year?

FD: There are now close to 1,000 people working for PlaNet Finance Group, and, of those, about 200 are working in PlaNet Finance, the nonprofit arm. Our number of employees has increased considerably because of the growth of MicroCred. Although we may be business-oriented, we always bear in mind the effects of our actions on communities on the ground. This motto is also apparent among PlaNet Finance's staff, in terms of human resources management. In particular, we promote solidarity and gender equality within the workplace by enforcing policies such as equal salaries for men and women.

MC: Where do you anticipate the most change over the next few years?

FD: As far as PlaNet Finance is concerned, the huge market for growth and innovation is definitely in Asian countries, mainly China and India, where PlaNet Finance is not in a very strong position. PlaNet Finance set up operations in China more than seven years ago and has been very active over the past three years, since it started MicroCred Nanchong, one of the first microcredit companies and the sole foreign-owned microfinance company in China. German development bank KfW and the International Finance Corporation are joint shareholders with us there.

MC: What do you predict for the future of the microfinance sector?

FD: This is not an easy question. I view microfinance as a long-term story. I have fears about possible difficulties in countries where MFIs aren't well regulated and there is insufficient transparency in the way loans are provided. There could be some regional bubbles, such as in India. I don't see a quiet story for the future of microfinance, but rather some ups and downs. However, on the whole, I expect impressive growth each year.

CGAP MICROFINANCE DEALBOOK

POWERED BY MicroCapital

TOP DECEMBER 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
Eton Park Capital Management	Financiera Independencia	LAC	~54,500,000	Equity
FMO (The Netherlands Development Finance Company)	Microfinance Enhancement Facility	WW	~22,500,000	Debt
BMZ (German Ministry for Economic Cooperation and Development)	European Fund for Southeast Europe	ECA	16,000,000	Unspecified
HSBC Private Equity, Intel Capital & International Finance Corporation	Financial Information Networks and Operation	SA	~15,000,000	Equity
European Union Neighborhood Investment Facility	European Fund for Southeast Europe	ECA	14,500,000	Unspecified
FMO (The Netherlands Development Finance Company)	Khan Bank	ECA	13,750,000**	Debt
European Bank for Reconstruction and Development	Access Bank	ECA	~10,000,000	Debt
Inter-American Development Bank	Mibanco	LAC	10,000,000	Debt
Inter-American Development Bank	Banco de Credito e Inversiones	LAC	~10,000,000	Guarantee
Small Industries Development Bank of India	Bandhan Financial Services Private Limited	SA	~10,000,000	Equity
FMO (The Netherlands Development Finance Company)	Kyrgyz Investment and Credit Bank	ECA	7,000,000**	Debt
BMZ (German Ministry for Economic Cooperation and Development)	European Fund for Southeast Europe	ECA	6,890,000	Unspecified
LeapFrog Investments	AllLife	SSA	~6,800,000	Equity
Triodos Fair Share Fund	Centenary Bank	SSA	~5,320,000	Debt
Dexia Micro-Credit Fund (BlueOrchard Finance)	Equity Bank	SSA	5,000,000	Debt
Dexia Micro-Credit Fund (BlueOrchard Finance)	Kenya Women Finance Trust	SSA	5,000,000	Debt
European Bank for Reconstruction and Development	Microinvest	ECA	~5,000,000	Debt
European Bank for Reconstruction and Development	Hamkor Bank	ECA	5,000,000	Debt
Finnfund	ShoreCap II Fund	WW	5,000,000	Equity
Inter-American Development Bank	Global Partnerships	LAC	5,000,000	Debt
Development Bank of Austria (OEeB)	European Fund for Southeast Europe	ECA	4,350,000	Unspecified
Advans SA SICAR	Advans Banque Congo	SSA	3,199,000	Equity
Dexia Micro-Credit Fund (BlueOrchard Finance)	ESAF Microfinance and Investments	SA	3,000,000	Debt
European Bank for Reconstruction and Development	Bank Respublika	ECA	~3,000,000	Debt
Impulse (Incofin)	XacBank	ECA	3,000,000	Debt
International Finance Corporation	AB Microfinance Bank	SSA	~3,000,000	Debt
NEA-IndoUS Ventures	Gradatim	SA	3,000,000	Equity
Triodos-Doen & Hivos-Triodos Fund	Opportunity International Bank Malawi Ltd	SSA	3,000,000	Debt
Incofin & Aavishkar Goodwell	Grameen Koota	SA	~2,800,000	Equity
Triodos Microfinance Fund	Mibanco	LAC	2,500,000	Debt
European Bank for Reconstruction and Development	Kyrgyz Investment and Credit Bank	ECA	2,500,000	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

Microfinance in 2010… What's the Next Big Thing?

With the onset of a new year, I took some time to reflect on the outlook for the microfinance industry in 2010. Many microfinance institutions (MFIs) are still up to their ears in the muddy combination of low growth, high costs and limited capital, yet some are faring better than others. I took a quick look at some numbers in two countries where MFIs have developed a deposit base. These make a compelling argument for a focus on savings. In Peru, non-deposit-taking EDPYMEs (entidades de desarrollo de la pequeña y micro empresa), which have seen stellar growth over recent years, lost 22 percent of their clients and 26 percent of their portfolios in the 2009 through November. Deposit-taking CMACS (Credit Municipales de Ahorro y Credito) have fared better, gaining 11 percent in number of clients and 16 percent in portfolio in the same period. Their total deposits have also increased 23 percent in total during the period, adding 16 percent new savings clients. Time deposits (aimed mostly at the middle classes) led this trend, growing 26 percent yet savings accounts (targeting smaller clients) also grew a respectable 8 percent. In Bolivia, the Association of Financial Entities Specialized in Microfinance (ASOFIN) reports data from regulated deposit-taking MFIs, which saw net loan portfolio growth of 17 percent over this period, with stellar deposit growth of 34 percent.

So are savings the Next Big Thing? Certainly donors are focusing more on the issue, with new funding from Gates and the International Finance Corporation among others in the works. But what about savings? Dean Karlan notes that one randomized controlled trial shows MFI clients, especially women, preferred savings accounts structured like time deposits that limit short-term withdrawals. According to Professor Karlan, this gives clients security that they won't squander their savings. More experiments like Professor Karlan's should be put into practice.

Scale is essential to recover the costs of taking tiny deposits and many MFIs just don't have this scale. Donors should also encourage efforts to consolidate players in countries with large microfinance sectors. Some small MFIs do a great job of reaching poor people in remote locations and should not be squeezed out. One option is to encourage synergistic relationships between MFIs (which successfully reach poor people) and banks and other deposit-taking entities.

Offering insurance products with savings components at un-regulated MFIs through insurance companies is an interesting option for MFIs to broaden their product offering without having to set up back office and risk policies and procedures. Finally, there is a need for effective regulation and supervision and a supportive enabling environment for MFIs to take savings. This seems like the duller of the issues until weak governance lands an MFI manager in prison or depositors end up losing the money saved for their children's education.

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.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PAPER WRAP-UPS

CGAP Financial Access 2009: Measuring Access To Financial Services Around The World

Published by CGAP (Consultative Group to Assist the Poor), September 2009, 92 pages, available at: http://cgap.org/p/site/c/template.rc/1.9.38735/

According to this report, microenterprises with access to savings accounts invest more in their businesses, consume more and are less prone to sell off business assets to pay for medical emergencies. Policies that promote savings account ownership at microfinance institutions (MFIs), cooperatives and state-owned financial institutions, like postal banking networks, have the potential to reach many poor clients in developing countries. However, regulators in developing countries must also adapt traditional bank policies in order to maximize savings by poor people.

"Know your customer" rules are designed to verify the identity of bank clients and to protect the bank against illicit activity. Typically, potential clients must provide government-issued identification, proof of address or proof of legal status in the country. If applied… *(Continued in the subscriber edition)*

Microfinance as a Poverty Reduction Tool: A Critical Assessment

By Anis Chowdhury, published by the United Nations Department of Economic and Social Affairs as Working Paper No. 89, December 2009, 13 pages, available at http://www.un.org/esa/desa/papers/2009/wp89_2009.pdf

This working paper debates the effectiveness of microfinance as a tool for poverty reduction. The author begins by describing the conflicting opinions and dearth of credible studies that have analyzed the degree to which microfinance loans reduce poverty. Impact analysis in a limited number of previous studies has shown that microcredit loans do not decrease poverty. Instead, results show that, "a vast majority of [borrowing households] with starting incomes below the poverty line actually ended up with less incremental income after getting micro-loans, as compared to a control group which did not get such loans." However, Chowdhury points out that credit is not the sole factor at play when determining microfinance's success in boosting household income. There are, in fact, a plethora of complementary factors that are essential for microcredit loans to be more effective. On the supply side, these microloans are more beneficial… *(Continued in the subscriber edition)*

Microinsurance that Works for Women: Making Gender-Sensitive Microinsurance Programs

By Anjali Banthia, Susan Johnson, Michael McCord and Brandon Mathews, published by the International Labour Office, Swiss Agency for Development and Cooperation and Women's World Banking, 2009, 37 pages, available at: http://www.swwb.org/microinsurance-that-works-for-women

This paper analyzes what the authors call a "gendered approach" toward providing microinsurance to poor women. While microinsurance allows poor people to protect themselves against vulnerability shocks, it can also serve as an additional source of revenue for microfinance institutions (MFIs).

Two gender-specific risks that microinsurance products can account for include (1) health risks relating to pregnancy, childbirth and higher susceptibility to diseases such as HIV/AIDS and (2) the greater tendency of women, due to family responsibilities, to work in informal-sector jobs that makes them "more likely to fall victim to risks such as theft of assets and harassment by authorities."

Microinsurance addresses these risks by reducing women's needs to rely on inefficient forms… *(Continued in the subscriber edition)*

Climate Change and Microfinance

By Asif Dowla, published by the Grameen Foundation and Oxfam America, November 2009, 39 pages, available at: http://www.grameenfoundation.org/sites/default/files/Climate_Change_12-8-09.pdf

This report discusses the potential impacts of climate change on microfinance institutions (MFIs) and how MFIs will need to adapt to the changing environment. The author argues that developing countries in Africa, Asia and Latin America will be the hardest hit by adverse effects on crop growth, increased flooding and the spread of disease.

Citing anecdotal evidence that crop production is highly correlated with borrowers' repayment rates, the author claims that climate change, manifested in the form of natural disasters such as droughts and floods, will have significant "indirect consequences for these institutions [MFIs]." As climate change increases the frequency of disasters, defaults on microloans will increase. Furthermore, relief funds that were once used to mitigate isolated disasters will become far less accessible. The author predicts that in the future, MFIs will be pressured to forgive debt, which will "have the potential to destroy the cherished culture of repayment that [they] have painstakingly built over time."

Since the potential impacts of climate change are dire, "the top priority for MFIs should be to climate-proof their existing products: credit, savings and insurance." To climate-proof loan products, the author suggests that MFIs must be more flexible with repayment terms, allowing members to reschedule installments during or after natural disasters. He also suggests that MFIs build climate-oriented regulations into loan contracts. When providing a housing loan, for example, MFIs could require borrowers to plant trees around their houses, thereby limiting the effect of high winds and receding floodwaters.

To climate-proof savings products, the author advocates the use of voluntary savings accounts instead of compulsory savings accounts. While compulsory savings accounts act as a cushion for MFIs to provide further on-lending, borrowers are not allowed to use these funds during a crisis. As a result, they are more likely to become dependent during emergencies on usurious loans from moneylenders to pay for essential items. The author suggests that MFIs should provide voluntary savings in addition to developing "a line of credit they can access to meet the increased demand for withdrawals during…" *(Continued in the subscriber edition)*

Scenarios for Branchless Banking in 2020

By Mark Pickens, David Porteous and Sarah Rotman, published by CGAP (Consultative Group to Assist the Poor) and the UK Department for International Development (DFID), November 2009, 28 pages, available at: http://www.cgap.org/gm/document-1.9.40599/FN57.pdf

Based on data from 200 experts, this study identifies four forces that may be poised to affect the wide adoption of branchless banking: (1) the changing demographics of users, (2) the actions of increasingly activist governments, (3) rising crime and (4) the spread of Internet access via data-enabled phones even in poor countries and communities.

The study also identifies four uncertainties relating to branchless banking: (1) the types of entities that will be allowed to provide branchless financial services; (2) whether providers will craft viable business models for services beyond payments; (3) how competition will play out; and (4) how consumer, business and regulator confidence will be affected by the inevitable failures that will happen.

The study then imagines four scenarios involving fictional countries and organizations in which the forces and uncertainties combine to create four divergent outcomes by 2020…. *(Continued in the subscriber edition)*