MicroCapital Monitor
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MICROCAPITAL BRIEFS | TOP STORIES

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$9.7m Bond Issue by Tanzania's PRIDE Oversubscribed by 22%

Tanzanian microlender Promotion of Rural Initiative and Development Enterprises Limited has raised the local-currency equivalent of USD 9.7 million through a bond issue that was oversubscribed by 22 percent. The five-year bonds, which bear a fixed interest rate of 11.75 percent, are guaranteed by the US Agency for International Development. Standard Chartered acted as lead arranger for the issue, which is expected to benefit 10,000 small businesses and farmers. November 18. 2010

Indian MFIs Seek Emergency Funding, SKS Shares Drop 18%

With loan recovery at a "standstill" in the Indian state of Andhra Pradesh, Vijay Mahajan, President of the Microfinance Institutions Network, reports that microlenders are seeking the rupee equivalent of USD 221 million in emergency funding from banks. Shares of SKS Microfinance, which sold for INR 985 during its August IPO, fell as low as INR 735 on November 16 before recovering partially. Please refer to the subscriber edition of this newspaper for special coverage of the fallout from the suicides that have been associated with over-indebtedness and coercive collection practices in the region. November 17. 2010

CGAP, UN Group Set Standards for ESG Performance of MIVs

CGAP (Consultative Group to Assist the Poor), a think tank dedicated to expanding financial access for poor people, and the United Nations Principles for Responsible Investment, a network of international investors, have established the following criteria for measuring the non-financial performance of microfinance investment vehicles: environmental (carbon emission compensation, environmental exclusions and exposure to natural disasters); social (average loan size, client protection principles, breadth of services, percentage of consumption loans, percentages of female and rural borrowers and percentage of activity relating to health, education and women's empowerment); and governance (reporting, staff training, investee corporate social responsibility policies, investee anti-corruption policies, whistle-blowing protections and seats on investee boards of directors). November 2. 2010

AfDB, Denmark, Spain to Raise $300m for African Guarantee Fund

The African Development Bank and the governments of Denmark and Spain are creating the African Guarantee Fund (AGF), which is intended to boost the economy and reduce poverty in Africa through improved access to funds for small and medium-sized enterprises. AGF is intended to reach all of Africa, but initially will operate in Ghana, Kenya, Mozambique, Uganda and Zambia. AGF is expected to drum up USD 50 million in capital by the end of 2010, with a long-term funding goal of USD 300 million. While the initial capital will come primarily from donors and development finance institutions, shares are to be offered to private investors in later funding rounds. November 2. 2010

(For more top stories, please refer to the subscriber edition)

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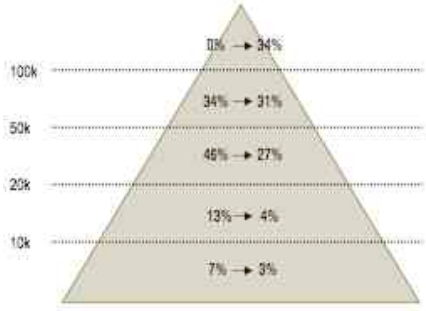
MicroCapital

KYRGYZSTAN
MFI MARKET SHARE TRENDING 2007 TO 2009
BY MFI SIZE (NUMBER OF ACTIVE BORROWERS)



MARKET INDICATORS*

EDITORIAL

Reinventing the Value Proposition of MFIs: Distribution, Distribution, Distribution

I have just returned from the sixth annual Munich Re Microinsurance Conference in Manila where - as always - few microfinance institutions (MFIs) were represented. It's largely a crowd of insurers, donors, regulators and researchers, with a peppering of MFIs and other delivery channels. Yes, MFIs, I just called you "delivery channels," as did most of the crowd in Manila. You were lumped in with churches, hospitals, telephone companies, retailers and others; and, in many cases, we were told that you were not even the best of these delivery channels! Churches can be more committed, retailers can achieve scale more quickly and cheaply through passive sales and phone companies can figure out payments more easily. Michael McCord of US-based consultancy The Microinsurance Centre emphasized throughout the event that the key to microinsurance sales is "distribution, distribution, distribution," and your value proposition as a distributor was seriously questioned.

It's time to rethink the value proposition of MFIs, many of which see themselves primarily as lending outfits. Vertical growth (in number of clients and portfolio size), profitability and even social impact have been tough in mature markets where multiple loans are already in the hands of many of the poor. So how can MFIs get more bang for their buck? US-based nonprofit Freedom from Hunger has found that leveraging existing MFI infrastructure could keep the cost of delivering health education down to USD 1.50 per client per year. Pro Mujer has been "delivering" health education and services with loans for 20 years. Other MFIs are broadening their range of financial services to include savings, remittances and insurance. Some MFIs, such as India's SKS, explicitly incorporated the idea of being a delivery channel into their strategies from the start. Their philosophy was that a loan platform could serve as a platform for anything. The trick is, of course, is to define what clients actually want, need and trust you to offer. Does it make sense for MFIs to sell soda and beer? Would that crowd out savings, for instance? Could or should MFIs sell political messages? The possibilities are endless, as are the strategic and ethical dilemmas.

It's important to consider that new services may not translate into vertical growth. More likely, they can help MFIs grow horizontally. They may contribute to consolidating growth, reducing the marginal cost of obtaining new clients and broadening social impact, but few expect add-on services to be even close to loans in terms of profitability. In Manila, it was noted that few MFIs have excelled in delivering insurance to the poor. Adding insurance to an existing platform requires strong governance, solid vision and smooth processes. MFIs should consider these improvements imperative if they are to reinvent themselves as delivery channels for more and better services.

On the other side of the coin, I would like to encourage the microinsurance community to give MFIs a bit more time to show that they can leverage client relationships to expand the range of financial products they successfully offer their customers. Many have nowhere to go but sideways, and as they come to terms with this they should see that products such as insurance are worth the effort. Once that happens, I have confidence that many can excel as delivery channels, perhaps even better than the neighborhood retailer or house of worship. Like credit and savings, after all, insurance is part of a sound risk management strategy, unlike new shoes and at least somewhat less like prayers.

About the Author: 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.

PAPER WRAP-UPS

The Impact of International Influence on Microbanks' Performance: A Global Survey

By Roy Mersland, Trond Randoy and Reidar Oystein Strom; forthcoming in the International Business Review; available for purchase at: http://dx.doi.org/10.1016/j.ibusrev.2010.07.006

International influence on microfinance institutions (MFIs) comes in many forms: MFIs borrow money from international capital markets, have international directors, may be founded by international organizations (international initiators) or be members of an international microfinance network such as Women's World Banking, FINCA or Opportunity International. The authors investigate the impacts of each of these influences on the social and financial performance of MFIs.

Using financial data from 2001 to 2008 obtained from rating reports by microfinance rating agencies such as MicroRate, Microfinanza, Planet Rating, Crisil and M-CRIL, the authors conduct regression analysis to tease out the effects of various international influences.

They find that international influence is correlated with enhanced social returns, but has an inconclusive correlation with financial sustainability, contrary to the widely held view that international influence boosts MFIs' financial performance over time. In particular, the paper considers the four following hypotheses:

Hypothesis 1: MFIs with an international initiator achieve better financial and social performance

The authors find that MFIs with an international initiator on average have higher levels of outreach to women and lower levels of rural outreach. It is argued that most international initiators have an "exit strategy" in mind and thus tend to stay away from efforts to bolster rural outreach, which are often considered to be costly.

After adjusting for unspecified subsidies, the paper found no statistically significant correlation between being founded by international actors and improved financial performance. However, a negative relationship between having an international director and operational self-sufficiency was identified. The authors posit that costs related to having international directors, such as high salaries, might represent a significant cost burden for MFIs.

Hypothesis 2: MFIs that have undertaken international commercial or subsidized debt have better social performance

The authors find that MFIs that undertake international commercial debt have higher levels of rural outreach, while MFIs that undertake more subsidized debt generally have greater outreach to women. The authors argue that this is because most international lenders are concerned with the double bottom line (social and financial returns) and thus specifically want MFIs to target female clients.

Hypothesis 3: MFIs that have an international board member have better financial and social... *(Continued in the subscriber edition)*

2009 MFI Benchmarks

Published by the Microfinance Information Exchange, October 2010, spreadsheet format, available at: http://www.themix.org/sites/default/files/2009%20MFI%20Benchmarks.xls

This data set includes information on financing structure, outreach, macroeconomics, revenues, expenses, efficiency, productivity, risk and liquidity from approximately 1,000 microfinance institutions that reportedly serve 85 percent of microfinance borrowers worldwide.

The Adoption and Impact of M-PESA: A First Look at Some New Data

By Billy Jack and Tavneet Suri, published by Mobile Money for the Unbanked, October 2010, available at: http://mmublog.org/africa-east/the-adoption-and-impact-of-m-pesa-a-first-look-at-some-new-data/

Early results from a survey of Kenya's M-PESA, a cellphone-to-cellphone money management service, examines the impact of the service on its users. The survey indicates that, in 2008, 43 percent of households nationwide had at least one member using M-PESA and that this increased to 69 percent in 2009. The number of M-PESA agents where cash can be deposited or withdrawn increased from 4,000 in 2008 to 12,000 in 2009. Impact in rural areas has also been significant, with the portion of rural households using M-PESA doubling from 29 percent in 2008 to approximately 60 percent in 2009.

M-PESA is also reaching women, with the portion of females using the program rising from 38 percent in 2008 to 44 percent in 2009. The authors find that increased use of M-PESA is correlated with growing numbers of remittances, both sent and received. Of those who were M-PESA users and non-users both years, there was little change in the number of... *(Continued in the subscriber edition)*

African Financial Systems: A Review

By Franklin Allen, Isaac Otchere and Lemma Senbet; published by The Wharton Financial Institutions Center; March 2010; 69 pages; available at: http://www.microfinancegateway.org/gm/document-1.1.8282/African%20financial%20systems.pdf

The paper analyzes the economic markets in four regions of Africa: Arab North Africa, West Africa, East and Central Africa and Southern Africa. It covers each region's central banks, banking infrastructure, government bond markets, stock markets and microfinance markets. The authors note that prior to the market downturn in 2008, African economies began to experience a "growth renaissance," which has now slowed significantly. The authors also examine the impact of microfinance on African economies during the financial crisis. This paper wrap-up focuses on the elements of the study that relate to microfinance.

In Arab North Africa, the authors find that microfinance appears to be experiencing steady growth, with the exception of Algeria, where all microlending programs are run by the government. In Tunisia in 1997, the Tunisian Solidarity Bank was established to support microenterprises by channeling funds to microfinance institutions (MFIs) whose interest rates may not exceed 5 percent per year. Morrocco boasts 10 MFIs, but all are limited by restrictions that prevent them from offering savings and limit them to supporting "productive activities" with loans of no more than USD 3,000 each.

In West Africa, microfinance has had a presence for many years, experiencing significant growth under the supervision of the Central Bank of French West Africa (known by the French acronym BCEAO). There are approximately 400 financial institutions offering microcredit services in West Africa with about 3,000 branches, but the authors note that these services cater disproportionately to urban populations, at the expense of rural customers.

In English-speaking West Africa, Gambia began adopting microfinance operations in the early 1970s through the creation of Indigenous Business Advisory Services, a government agency seeking to support indigenous microenterprises. The Gambian microfinance sector has seen growth among village savings and credit associations, retail non-banking financial institutions, rural microfinance projects and commercial banks. Microfinance practitioners in Gambia so far reach... *(Continued in the subscriber edition)*