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Pakistan's Microlenders Expect Flood Losses to Hit \$35m

Microlenders in Pakistan are anticipating the equivalent of USD 35 million in losses due to the effects on borrowers of recent floods. The Pakistan Microfinance Network is reportedly working with donors and the State Bank of Pakistan to refinance client loans. Pakistani microfinance institutions reporting to the Microfinance Information Exchange (MIX) held an aggregate gross loan portfolio of USD 114 million as of 2009. September 21. 2010

RBI: Withdraw Priority Sector Status from Microfinance Institutions

An unreleased report from the Reserve Bank of India (RBI) is said to recommend that, by March 2012, RBI withdraw microfinance institutions' (MFIs') priority sector status, which allows them borrow at lower interest rates. Private and foreign banks have been lending heavily to MFIs to satisfy priority sector lending targets of up to 40 percent of net bank credit. The targets, set by RBI, are intended to promote financial inclusion. September 15. 2010

Nicaragua's Banex Liquidated

Nicaraguan banking authorities have announced the liquidation of microfinance institution Banco del Exito (Banex), despite recent attempts to restructure the institution's finances. Banex reported total assets of USD 178 million and a gross loan portfolio of USD 137 million as of fiscal 2008. September 9. 2010

IFC, Daiwa to Issue \$323m in Bonds for Microfinance

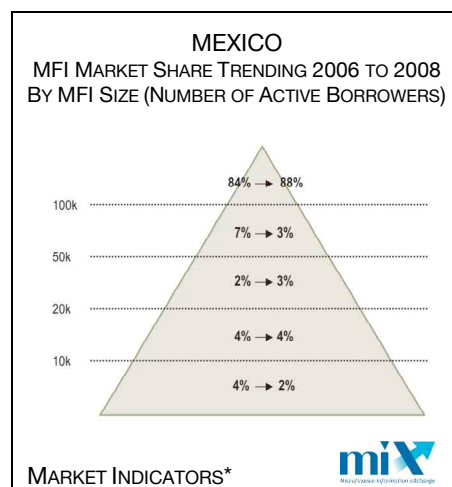
The International Finance Corporation, a member of the World Bank Group, and Daiwa Securities Group, a Japanese financial services holding company, recently announced the details of a bond expected to raise the equivalent of USD 323 million for microlending in poor countries. The three-year bonds will be denominated in Australian dollars - paying 4 percent annual interest - and South African rand - paying 5.7 percent. The issue will be arranged and distributed by Daiwa subsidiaries to Japanese retail and institutional investors. September 3. 2010

Central Africa Raises Capital Reserve Requirements to \$20m

The Committee of Banking Supervisors of West and Central Africa, an organization that supervises lenders and sets banking regulations in 11 African countries, announced that financial institutions under its purview, including microfinance institutions, will be required to have capital reserves of at least USD 20 million starting in 2014, up from the current level of USD 4 million. September 1. 2010

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

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EDITORIAL

Everything that Glitters in Peru Is Not Gold

Alas Peru. In response to a recent post that I wrote on the Financial Access Initiative's blog hypothesizing about the causes of the recent liquidation of Banex, a former microfinance star in Nicaragua, a Peruvian colleague wrote back: "Many [of these] causes are also part of many MFIs' [microfinance institutions'] problems in Peru.... I wonder if the market, the superintendence and funders are aware." The comment piqued my interest because I have suspected this for some time. Last year, I visited Peru a number of times and was surprised by the money sloshing around the sector in a year that proved tough on many MFIs worldwide.

And the party isn't over. Loan portfolios continue to grow - by an expected 20 percent in 2010. I would caution against ignoring the numbers behind this growth, however. CMAC Arequipa's loan portfolio, for example, grew 90 percent between 2007 and June 2010; yet the average loan balance increased 35 percent while the number of active borrowers grew by only 41 percent. During the same period, Mibanco, whose loan portfolio surpassed the USD 1 billion mark last year, showed spectacular loan portfolio growth of 136 percent. However, this occurred with a 74-percent increase in loan size and only a 35-percent increase in borrowers.

During the year ending June 2010, Peru's gross domestic product grew 12 percent - one of the world's highest rates. Foreigners are taking notice. This month, the British newspaper Financial Times stated that foreigners held 20 percent of Peruvian local-currency bonds in June. Money is similarly flowing to MFIs in Peru, helping to fuel portfolio growth. But is a bubble boiling? Elvis Alva, one of EA Consultants' new Advisory Board members (and no relation to the King of Rock and

Roll), has just moved back to Peru. He reports, "People are dreaming; there is no sense that this bubble will pop in the near term, so no innovation takes place. All we can do is hope that the economy doesn't sour." That's an ambitious hope for a country with a history of hyper-inflation, hyper-recessions, hyper-weather, hyper-political conflict and - now - hyper-optimism.

Consumer confidence is at a peak, fueled by the momentum created by strong mineral exports during the past four years. This year, mineral prices have slumped, and ongoing growth has been on the back of consumption, including a housing boom. Peru's central bank seems spooked and has sent signals that the boom is vulnerable, for example to climatic events. If today's loans are financing consumption rather than tomorrow's growth, there is cause for concern. When MFIs don't compete on price or service, but on volume, there is no incentive to innovate, reduce costs or create efficiencies. There is even less incentive to spend profits on training and business development services to help support the growth of the small businesses to which the MFIs are lending. Yet this is exactly what needs to be done in the good times to prepare for the bad times that may come in the future. On October 8, at the Inter-American Development Bank/Multilateral Investment Fund's annual Foromic Conference, I will be speaking on a panel about the growth of businesses run by MFI's customers. I invite you to join the discussion and bring new ideas to the table.

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.



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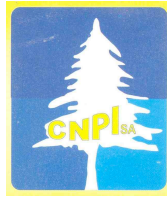
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MEET THE MICROBANKER

Francis Njung serves as Research and Development Officer of Caisse Nationale Pour la Promotion de l'Investissement SA

Francis Njung

Caisse Nationale Pour la Promotion de l'Investissement SA (CNPI) is a registered savings and credit cooperative with 14 branches in Cameroon. CNPI reports 11,000 clients and USD 1.7 million in total assets as of 2008.

MicroCapital: What services does CNPI provide?

Francis Njung: CNPI provides microcredit and savings accounts to its clients. It also provides local money transfers. CNPI used to carry Western Union but the charges weighed too heavily on the MFI [microfinance institution]. Loans are given to individuals, groups, NGOs and small-business persons.

MC: What differentiates CNPI from its competitors?

FN: CNPI is different from its competitors in that it does a mix of commercial and social business. While it disburses the salaries of military persons and some business entities, it does care predominately for the poor. Out of its 14 branches, we have 12 in rural and suburban settings including several that serve Hausa people in the northern part of the country who are known for cattle rearing and are heavily discriminated against. Over the past 10 years or so, CNPI has received only one donation. It was about USD 100,000 from the Canadian government and was supervised by them for two years.

MC: What in your background has led you to this work?

FN: I've just been with CNPI now for two years. I worked in a classic bank after high school and read development economics at the University of Minnesota [in the United States], which gave me some clear ideas of what development is all about.

MC: What have been CNPI's greatest successes and challenges?

FN: Its greatest success has been the miracle of sustaining itself despite greatly reduced capital reserves. The demand for its services keeps increasing, and demand is rarely fulfilled. We are able to meet just above 70 percent of the loan amounts for which clients qualify.

CNPI's basic challenge is the need to recapitalize because its customer base is growing at a geometric rate. It is hard to meet the constant demand for credit given the constricted global financial climate. We also could use technical assistance with technologies like mobile money and instant credit. If CNPI can recapitalize significantly, that will allow for the disbursement of longer-term loans. With about 10,000 customers and growing, the road ahead will be long without any foreign partner or assistance. The stress on CNPI's reserves during pay periods is quite remarkable!

Another new challenge is the recent decree by the Committee of Banking Supervisors of West and Central Africa that all banks must have a minimum deposit with the central bank of USD 20 million (with a possible lower requirement of USD 5 million for microfinance institutions). In light of the insecure global financial climate, this decision was intended to help these institutions withstand possible future financial shocks.

Lastly, financial reporting from CNPI's remote branches is done manually and sometimes over the phone, which is less than satisfactory. With technology growing cheaper, all branches - no matter how remote they may be - need an antenna so they can go online to submit data to the analysts in the home office. In short, we need integrated information systems both horizontally and vertically so management can make decisions based on the right data.

MC: What is the organization planning for the future?

FN: Given sufficient financing, CNPI would expand to serve all 10 regions of the country, sponsor some long-term projects like the building of low-cost housing, enter into animal husbandry and grant sustainable loans to small and medium-sized businesses. New innovations like mobile money, medical loans, instant credit and the financing of farmer groups are options that could be explored.

Microfinance is the way to go here in Cameroon and in other parts of Africa because we have seen lives changed completely just by making loans of say USD 1,000 to micro- and small-business persons. Low-end military persons often borrow about USD 3,000 to USD 4,000 repayable say in 24 to 36 months. Most of these loans are covered by local insurers, but we get complaints about the cost of the insurance.

Given sufficient financing, CNPI would expand to serve all 10 regions of the country, sponsor some long-term projects like the building of low-cost housing, enter into animal husbandry and grant sustainable loans to small and medium-sized businesses.

The crux of the matter is that in general MFIs need infusions of capital, but the main roadblock is coming up with the right guarantees, which usually results in them not getting the capital they need. With about 70 percent of the population classified as poor, you can imagine that there is a very big market out there. Partnerships with some prime banks is helpful, but not good enough because of their commercial motives.

The World Bank, African Development Bank, IFC [International Finance Corporation] and a whole host of multilateral agencies like the EU need to act as guarantors to support MFIs. These development agencies need to encourage Wall Street firms like Morgan Stanley to come down to Main Street if poverty is to be completely eradicated through sustainable development and growth. So much time has passed, and yet the Millennium Development Goals are still just a dream for a good majority. 🇳🇬



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PAPER WRAP-UPS

Microfinance Synergies and Trade-offs: Social versus Financial Performance Outcomes in 2008

By Adrian Gonzalez, published by the Microfinance Information Exchange (MIX), August 2010, 15 pages, available at: <http://www.themix.org/sites/default/files/MIX%20Data%20Brief%207.pdf>

The author conducted an econometric analysis to investigate whether there is a tradeoff between social performance and financial performance among microfinance institutions (MFIs) that reported data to MIX for 2008. He used data from 200 MFIs reporting social performance data and 1600 MFIs reporting financial performance data. The social performance indicators used are those employed by the Social Performance Task Force (SPTF).

The data indicate that investments in human capital are correlated with higher staff productivity and better portfolio quality, but these same investments in human capital are correlated with lower efficiency. He found these correlations to hold true regardless of loan size. He also found that targeting mostly very poor borrowers increases the cost to borrowers by an average of 2 percent due to the cost of outreach.

Mr Gonzalez also found that rural MFIs have higher rates of productivity and efficiency than urban MFIs and posits that this may be because rural MFIs, contrary to popular belief, are not always more spread out geographically than urban MFIs. Therefore, travel time and travel costs for loan officers may actually be lower for rural MFIs. He also found that the seeking out of poorer clients is related to lower productivity and efficiency, since targeting policies tend to create extra costs for MFIs.

The author makes several recommendations for the improvement of SPTF indicators. He suggests that... (Continued in the subscriber edition)

It's Time to Address the Microsavings Challenge, Scalably

By Bob Christen and Ignacio Mas, published by Practical Action Publishing, December 2009, 20 pages, available at: <http://www.microfinancegateway.org/gm/document-1.9.45939/Meeting%20the%20microsavings%20challenge.pdf>

The authors of this paper argue that microsavings will not only expand the livelihoods of poor people, but will help microfinance institutions (MFIs) secure a stable source of funding. Citing the recent global credit crisis, the authors argue financial institutions that offer savings services were largely unaffected because they rely less on international investment funds and local banks. They suggest that since MFIs have already mobilized large numbers of borrowers, they can easily benefit from simply offering the savings service to existing customers.

Concerning the challenges of deposit-taking institutions, the authors contend that MFIs must be able to capture the savings where the money is earned, because poor people are unable to regularly travel to deposit money at distant branches. Because new infrastructure is costly, the authors propose that MFIs leverage existing retail outlets. For this to be a viable solution, the authors note that a common, secure technology platform is necessary, through which transactions can be authorized and recorded in real time. Rather than approaching retail outlets individually, the authors suggest that MFIs tap into existing distribution channels.

Noting that distribution channels such as postal services are not always reliable, the authors suggest turning to mobile operators as business correspondents. They argue that "mobile operators ought to be allowed to run the payment and account management platforms on behalf of banks, leveraging their experience with handling low-value, high-volume prepaid platforms." The authors propose... (Continued in the subscriber edition)


Non-bank E-money Issuers: Regulatory Approaches to Protecting Customer Funds

By Michael Tarazi and Paul Breloff, published by CGAP (Consultative Group to Assist the Poor), July 2010, 12 pages, available at: <http://www.cgap.org/p/site/c/template.rc/1.9.45715/>

The authors introduce mobile network operators (MNOs) as common partners for microfinance institutions (MFIs) working to expand financial access through the use of mobile phones. While most MNOs that assume the role of "non-bank e-money issuers" claim to solely conduct money transfer services, the authors state, "Regulators are often reluctant to permit MNOs to directly contract with customers for the provision of financial services. Taking money from the public, even for purposes of effecting payment rather than for saving, is uncomfortably close to accepting public deposits – an activity almost always reserved for prudentially regulated financial institutions."

The authors consider two regulatory approaches to non-bank e-money issuers: "fund safeguarding," the requirement that issuers maintain unencumbered liquid assets equal to the amount of issued electronic value, and "fund isolation," the requirement that the funds underlying issued e-money be insulated from institutional risks, such as claims by creditors in the case of issuer bankruptcy.

While safeguarded funds are most commonly maintained in a regulated bank, the authors raise the concern that "in countries with weak banking sectors there is the risk of bank failure coupled with the possibility that no deposit insurance exists." Furthermore, "even where deposit insurance exists, the value of pooled accounts held by non-bank e-money issuers is typically much larger than deposit insurance coverage limits."

The authors also note that even if funds are maintained in insured, commercial banks, the accounts... (Continued in the subscriber edition) 



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