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# MicroCapital Monitor

THE MICROFINANCE NEWSPAPER

FREE PREVIEW EDITION*

## MICROCAPITAL BRIEFS | TOP STORIES



### Bangladeshi Government Asks Yunus to Step Down

The government of Bangladesh has reportedly asked Nobel laureate Dr Muhammad Yunus to step down as director of microlender Grameen Bank, citing his age of 70 years as five beyond the retirement limit. February 15. 2011

### SNS Impact Investing Launched with $400m+ for Microfinance, Agriculture, Water

SNS Asset Management (SNS AM), a Dutch fund manager, has announced the launch of its impact investing unit, SNS Impact Investing, which will focus on investments in microfinance, sustainable agriculture and water. The new unit will consist of a team of 10 people, headed by Harry Hummels, who serves as a board member of SNS AM, and Theo Brouwers, who is a director of SNS AM. Mr Hummels stated that the investing unit will start with USD 400 million to USD 500 million in assets under management with plans to grow as large as USD 750 million by the end of 2011 and USD 1 billion by 2014. The goal is to achieve market rate returns along with social and environmental impact. As of 2009, SNS AM manages the euro-equivalent of USD 39 billion. February 11. 2011

### IFC Syndicates $45m Loan to Banco Industrial do Brasil for SMEs

The International Finance Corporation (IFC), the investment arm of the World Bank Group, recently syndicated a loan equivalent to USD 45 million to Banco Industrial do Brasil (BIB), with the intent of increasing financing for small and medium-sized enterprises. The funds were raised through banks including lead arrangers Banco Itaú Europa, a Portuguese credit institution focusing on developing markets, and Commerzbank, a German commercial bank. The loan comprises three tranches: a three-year loan of USD 15 million from IFC and two-year loans of USD 19 million and the euro-equivalent of USD 10.5 million from the syndicate. BIB reports total assets equivalent to USD 881 million. February 8. 2011

### Nigeria Deposit Insurance Corporation Reimburses Customers of Failed MFBs

The Nigeria Deposit Insurance Corporation has begun to repay depositors of the 103 microbanks that were not re-licensed after being closed by the Central Bank of Nigeria in 2010. The repayments, which are capped at the equivalent of USD 1,310 per person, have been completed for depositors in 76 institutions. An anonymous source reported that deposits in the initial 224 banks that were shut down in 2010 totaled roughly USD 13 million, but was unable to say what portion of that figure was owed by those banks that were not permitted to re-open. January 24. 2010

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

INSIDE



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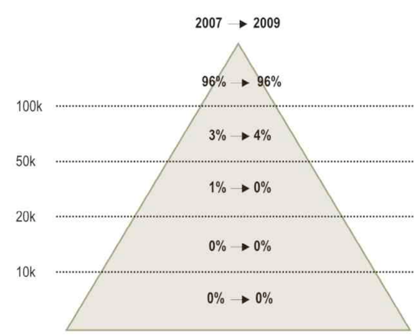
BANGLADESH

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

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## FIELD NOTES

### Mission IS-possible: Lessons After a Shake-out in Nicaragua

"Mission drift" is no longer a squishy term uttered only by slightly bohemian supporters of microfinance. Mission drift is a business risk. One interesting example is Nicaragua (yes, again), where the microcredit market has contracted by about half from 2008 to 2010, according to early estimates. Interestingly, some institutions with a strong focus on their mission are surviving, while those who lost sight of their mission in favor of pleasing shareholders have been through the wringer. Mission isn't the only reason, but there is something to be said about the strategic advantages of prioritizing your clients' welfare over that of private owners.

In 2007, when microfinance investment fund assets under management grew 80 percent worldwide, Nicaraguan microfinance institutions (MFIs) had easy access to capital. Yet having grown 87 percent from 2005 to 2007, the MFIs were strained. According to Julio Flores, Director of Nicaraguan MFI Fondo de Desarrollo Local (FDL), "it took restraint for some of us not to borrow as much as was being offered." Founded by Jesuits, FDL has a reputation for mission-led policies and programs. "Restraint" is a relative word, of course: FDL's portfolio grew 21 percent during 2007. However, larger, regulated institutions like Banex and ProCredit grew 42 percent and 37 percent, respectively, taking market share and fueling competition. Loan sizes rose, clients borrowed from multiple institutions and overindebtedness ensued.

When the world financial crisis hit in 2008, a mix of external factors (slowing demand, global credit-tightening, food and fuel price hikes, political pressures and declines in remittances) and internal factors (weak credit practices, poor risk management and fragile governance) unraveled the industry. Banex, a favorite of investors, subsequently failed, while the market leader, ProCredit, was recapitalized, abandoned the bottom segment of the microfinance market and lost almost 75 percent of its clients in two years. Some unregulated institutions also experienced fast growth and weak governance, resulting in a messy cocktail of severe contractions, takeovers, scandals and debt workouts.

The market is still adjusting after more than two years. According to Nicaraguan MFI network ASOMIF, the industry-wide, 30-day portfolio-at-risk ratio has fallen from its peak of 25 percent to 17 percent as of December 2010. Bad borrowers have been skimmed out of the market, but so have many good borrowers. Mr Flores laments that those who have suffered most from asymmetries in the market are the poorest and those in the most remote areas.

Some MFIs, however, are back to pre-crisis credit quality. Those institutions with commitments to their missions and good governance have shown that this mix can be a recipe for survival. One example is Pro Mujer Nicaragua, which was once seen as a noble yet tiny player. It now serves 26,000 clients, more than the former behemoth ProCredit. Another is FDL, which has held on to almost 70 percent of its clients with nearly 60,000 in total.

Last week, CGAP (Consultative Group to Assist the Poor) issued its third annual Banana Skins survey of the industry's perception of risks in the microfinance sector, noting that credit risk is the number-one concern. Certainly it remains a central concern in Nicaragua. Mission drift is listed by CGAP at number 9. Yet the Nicaraguan example suggests that the effects of a boom-bust cycle can be cushioned far more by well-managed, mission-focused MFIs than by regulators or even private shareholders.

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## PAPER WRAP-UPS

### The Effect of Microinsurance on Economic Activities: Evidence from a Randomized Natural Field Experiment

*By Hongbin Cai, Yuyu Chen, Hanming Fang and Li-An Zhou; published by the University of Pennsylvania; December 2010; 28 pages; available at: http://www.econ.upenn.edu/~hfang/WorkingPaper/sow/insurance11.pdf*

How effective is microinsurance? To what extent does its availability affect the decisions of farmers in poor countries? This study investigates the theory that a lack of access to formal insurance markets precludes farmers in poor countries from engaging in riskier activities that can yield higher profits.

The authors concoct an experiment regarding the raising of sows in China: a dicey endeavor given the price fluctuations of pork and the high incidence of disease among the animals. The work was carried out in 480 of the 580 villages in Jinsha County, China, where farmers have access to government-subsidized insurance for their sows underwritten by the Property and Casualty Company (PCC) of the People's Insurance Group of China. Animal husbandry workers (AHWs) serve as an intermediary between PCC and farmers, promoting policies and processing claims.

The authors separated AHWs into three groups to encourage different levels of microinsurance promotion: a control group of AHWs in 120 villages who each received a flat fee equivalent to USD 6 for participating in the study; a "low-incentive" group of AHWs in 120 villages who received a base of USD 3 plus USD 0.30 for each sow they insured and a "high-incentive" group of AHWs in 240 villages who received a base of USD 3 plus USD 0.60 for each insured sow. The numbers of insured sows and total sows were tracked during the one-month program and both three months and six months after the conclusion of the program... (*Continued in the subscriber edition*)

### Over-Indebtedness and Microfinance: Constructing an Early Warning Index

*By Vivien Kappel, Annette Krauss and Laura Lontzek; published by the Center for Microfinance at the University of Zurich, responsAbility Social Investments AG, Triodos Bank and the Council of Microfinance Equity Funds; December 2010; 53 pages; available at: http://www.triodos.com/downloads/276627/over-indebtedness-report-full-study.pdf*

This study attempts to provide a methodology for establishing an early warning index for over-indebtedness to aid in preventing future microfinance "crises." Over-indebtedness is defined as the "inability to repay all debts fully and on time… if this situation occurs chronically, i.e. in several periods in a row, and against the borrower's will."

The rapid growth of microfinance in recent years has attracted new entrants into the sector. With this trend, some markets have become over-saturated with microfinance institutions (MFIs), sometimes resulting in clients taking on more debt than they can repay, often by borrowing from multiple MFIs. The issue of over-indebtedness is compounded by borrowing from informal lenders, a lack of credit bureaux and the aggressive growth policies of many MFIs.

Over-indebtedness can be both psychologically and socially detrimental to borrowers, as well as harmful to the relationship between borrowers and MFIs. Although it can be hard to measure, investors place great importance on over-indebtedness because it lowers MFI portfolio quality.

Using data from a survey of 119 MFIs and a literature review including the relevant histories of Bolivia, Morocco and Bosnia and Herzegovina, the authors identify "leading indicators" that can signal forthcoming trouble. The 14 indicators include remittances per capita, market penetration, growth rate of total loan portfolio, quality and use of credit information systems, perceived commercial bank... (*Continued in the subscriber edition*)

### Is There a Business Case for Small Savers?

*By Glenn D Westley and Xavier Martin Palomas, published by CGAP (Consultative Group to Assist the Poor) as Occasional Paper 18, September 2010, 23 pages, available at: http://www.cgap.org/p/site/c/template.rc/1.9.47356/*

As observers of microfinance have focused in the past largely on credit, discussion of the sustainability of microfinance institutions (MFIs) has often centered on the reduction of costs associated with loan recovery and charging high lending rates. Recently, more MFIs have begun to diversify by offering services such as savings and insurance. In this study, the authors use data collected in 2008 to examine whether small savings accounts are profitable and what impact they may have on the sustainability of MFIs.

The study examines two MFIs, Asociacion Dominicana para el Desarrollo de la Mujer (ADOPEM), an MFI that was founded in the Dominican Republic in 1982, and Centenary Rural Development Bank Limited, a Ugandan MFI that was established in 1983. The authors define small savers as "the half of all savings clients with the smallest deposit balance." The balance for ADOPEM clients was calculated as the average daily balance over the 366 days in 2008, and the balance for Centenary Bank clients was defined as the balance on the last day of 2008. Marginal cost analysis is used to attempt to measure the costs associated with small savings accounts while eliminating fixed and quasi-fixed costs such as compensation for personnel, office rent, utilities and maintenance.

Dr Westley and Mr Palomas identify five sources of small-saver profits, which they call the five "Pathways to Profitability": (1) Loans, which account for the majority of profits from all services provided to small savers at both MFIs; (2) other cross-sold products such as insurance; (3) savings account fees; (4) technology such as automated teller machines... (*Continued in the subscriber edition*)

### Microfinance Rating Market Review 2010

*Published by the Rating Initiative, November 2010, 38 pages, available at: http://www.ratinginitiative.org/fileadmin/media/publications/Rating_Market/RI_Market_Review_2010.pdf*

This document, which updates and builds on previous similar reports released between 2006 and 2008, provides an overview of the global and regional microfinance ratings sector between 2008 and 2009 by collating information provided by participating microfinance institutions (MFIs) and rating agencies.

The ratings included in the review are categorized by type, financial versus social; funding source, MFI-funded versus subsidized; country; region; MFI; and rating agency. The review also includes a qualitative assessment to highlight both the motivations and the difficulties that MFIs and rating agencies face during the ratings process.

The data for the qualitative analysis were collected via online questionnaires and telephone interviews with MFIs and ratings agencies.

The Rating Initiative was launched by Appui au Développement Autonome... *(Continued in the subscriber edition)*

### Microfinance Market Report for Latin America and Caribbean 2010

*Published by the Microfinance Information Exchange and Red Centroamericana de Microfinanzas, January 2011, 20 pages, available at: http://www.themix.org/publications/mix-microfinance-world/2010/11/benchmarking-microfinance-central-america-2010*

Prepared in the context of the global economic downturn that began in 2008, this report covers the performance of microfinance institutions (MFIs) in the Latin American and Caribbean region in 2009. The report also analyzes trends in the region, compares current MFI performance to previous years and discusses implications for the future. Data from the Microfinance Information Exchange's MIX Market database, a platform that collates financial information from approximately 1,800 MFIs across the world, is used for the analysis, which is presented for the region as a whole, as well as by country.

The report examines the issue of "cross-indebtedness," a situation that occurs when a borrower has active loans with more than one MFI. MFIs in Ecuador are chosen for the purpose of this case study to understand the extent of cross-indebtedness and to determine its relationship with... *(Continued in the subscriber edition)*

### Rural Finance in Poverty-Stricken Areas in the People's Republic of China

*By Zhang Xuechun, Xu Zhong, Shen Minggao, and Cheng Enjiang; published by the Asian Development Bank; 2010; 211 pages; available at: http://www.adb.org/Documents/Books/Rural-Finance-PRC/rural-finance-prc.pdf*

This book suggests reforms to China's rural finance industry, including its microfinance industry, that the authors argue would help small businesses and alleviate poverty. The lack of institutional reform in the rural finance sector has reportedly exacerbated the economic gap between urban and rural areas in China. The authors recommend repealing laws that hinder the establishment of a competitive financial market and suggest new laws are needed to support microcredit institutions, financial cooperatives and informal finance. For example, local government agencies are required by law to appoint the managers of NGOs, including microfinance institutions (MFIs). These individuals, who are paid by the state, have no incentive to improve MFIs since they can simply return to their previous government positions if the MFIs fail.

Other barriers to the success of MFIs in China... *(Continued in the subscriber edition)*