MicroCapital Monitor
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FREE PREVIEW EDITION*

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MICROCAPITAL BRIEFS | TOP STORIES

RBI Adopts Most of Malegam Committee Proposals

The Reserve Bank of India (RBI), India's central banking authority, recently announced that it has accepted - with some modifications - the recommendations proposed by the Malegam Committee to prevent abuses in the microfinance industry. RBI will allow banks to count lending to microfinance institutions (MFIs) toward government-mandated "priority sector" quotas under the following conditions: annual interest rates for end-borrowers are capped at 26 percent; margins for MFIs and non-banking financial companies are capped at 12 percent; and borrowers are limited to rural households with annual incomes up to the equivalent of USD 1,350 and urban households earning up to USD 2,700. May 5. 2011

Mexico's Vinte Viviendas Issues $8m in Bonds for Housing, Guaranteed by IFC

The International Finance Corporation (IFC), the private-investment arm of the World Bank Group, recently announced a 50-percent credit guarantee of a local-currency bond issuance worth USD 8.4 million offered by Vinte Viviendas Integrales, a housing developer in Mexico. Vinte CEO Sergio Leal was quoted as saying, "IFC's structured financing will help Vinte access a new type of institutional investor to help expand our portfolio of affordable-housing projects." The funds are intended to create 3,000 affordable housing units. Financial details on Vinte are not available. April 18. 2011

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LeapFrog Invests $13m in Apollo for Microinsurance in Africa

LeapFrog Investments, a private equity microinsurance fund, recently placed a USD 13.5 million equity investment in Apollo Investments Limited, an insurance company that operates in Kenya, Uganda and Tanzania, in an effort to increase access to microinsurance for people with low incomes. Apollo Chief Executive Ashok Shah was quoted as saying, "Investments in microinsurance have diverse returns that evolve over time: reputational gains in the short term, knowledge and innovation in the medium term, and strong growth and profitability in the long term." Apollo Investments reports gross written premiums equivalent to USD 45 million and total assets of USD 91.6 billion. April 15. 2011

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

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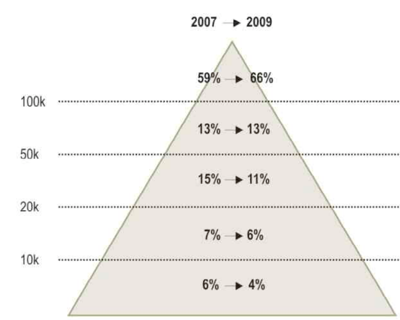
LATIN AMERICA & THE CARIBBEAN
MFI MARKET SHARE TRENDING 2007 TO 2009
BY MFI SIZE (NUMBER OF ACTIVE BORROWERS)



MARKET INDICATORS*

FIELD NOTES

Run Scared or Move Forward? The Microfinance Challenge in Guatemala

On a quick trip to Guatemala, I found many things that may discourage those interested in supporting microfinance there. Violence, for example is at an all-time high; extortion and murder have touched all levels of society (think Colombia in the 1980s). Political uncertainty is affecting business and consumer confidence, thus clouding the scene until elections in the fall. The microfinance sector itself continues to be fragmented, and few microfinance institutions (MFIs) have managed to reach "interesting" scale.

While the environment is challenging at best, this is exactly the reason we cannot afford to overlook Guatemala's microfinance sector. There are huge pockets of people that are disenfranchised from the financial sector, in particular, from access to sufficient capital to jumpstart or sustain an economic activity. My estimation is that the number of microcredit clients in the country is still pretty low at about 400,000 out of 14 million people. The expectation that Banco Compartamos is moving into Guatemala from the north suggests that unmet demand for microcredit services has been recognized.

Guatemala's Banrural has a head start. When I visited with staff there last week, I was impressed by their outreach. With 478 branches and other points of service nationwide, this bank gives the word "access" a new meaning. The bank hires women and men from indigenous communities that look, talk and dress like their clients. Barriers to savings have also been reduced by introducing accounts with no minimum balance. According to a 2009 study from rural-development nonprofit Procasur, Banrural held 1.8 million savings accounts, the majority with balances under USD 1,000. In contrast, the bank's microcredit portfolio serves just 200,000 clients, with one product serving both consumer and enterprise needs.

Despite the efforts of Banrural and others, the nature of banks' size and risk aversion suggests that they may not be well positioned to expand credit to a wider population, including the poorer women, small-scale rural farmers and young people that make up a large part of the country's poor. Compartamos has limited expertise in lending to the young and to farmers, to say nothing of its interest rates! Predatory lenders are popping up in small towns, looking to sweep up some of the excess demand. Smaller MFIs and cooperatives that are closer to the ground may have an advantage.

Last week, I met with representatives from one of the microfinance networks, Red de Instituciones de Microfinanzas de Guatemala, who noted that most of the country's MFIs, the majority with fewer than 10,000 clients, are focused on offering savings (with varying levels of regulatory permission). But I wonder whether they aren't breaching unconquered territory in vain. While there may be demand for savings, it seems that the country's bank network has wide enough outreach to handle this. In contrast, the fragmented credit market suggests that local MFIs could become an important motor in expanding credit access. But they are at a stalemate; like banks, they take few risks and have limited access to funds. Capacity building, capital and hard work are needed.

If investors, donors, nonprofit MFIs and other stakeholders aren't willing to step in, private groups will likely dominate the sector at the risk of leaving many people out. So the question is: Will stakeholders run scared - turning to easier challenges - or will they move forward, taking calculated risks to reach those groups that are hardest to serve?

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PAPER WRAP-UPS

Reaching the Poorest: Lessons from the Graduation Model

By Syed M Hashemi and Aude de Montesquiou, published by CGAP (Consultative Group to Assist the Poor), March 2011, 16 pages, available at: http://www.microfinancegateway.org/gm/document-1.9.50806/Reaching_the_Poorest.pdf

This document presents findings from the CGAP-Ford Foundation Graduation Program, an initiative launched in 2006 to test and adapt the "Challenging the Frontiers of Poverty Reduction/Targeting the Ultra Poor" (CFPR/TUP) approach of BRAC, a Bangladeshi development organization that was established in 1972 as the Bangladesh Rehabilitation Assistance Committee. The BRAC approach is premised on the idea that with the right mix of interventions the poorest can "graduate" out of extreme poverty. The Graduation Program consists of a series of 10 pilot projects engaging partners on four continents to test the transferability of the BRAC approach to other regions.

The Graduation Program applies the BRAC approach using the following steps: targeting to ensure only the poorest households are selected for the program; provision of cash or food to stabilize food security; transfers of livestock or other assets to launch self-sustaining economic activity; and savings services and education to build assets and "financial discipline."

The authors identify three barriers to successful implementation: (1) Some groups of people may simply be unable to embark on new economic activities and create their own pathways out of extreme poverty; (2) While the program takes market challenges and opportunities into account, it does not directly tackle the conditions of the marketplace in which entrepreneurs do business and thus cannot eliminate certain challenges entrepreneurs are likely to face; and (3) The absence of physical infrastructure (such as access to customers or clean water), the unavailability of basic health services and vulnerability to ecological and other macro-level shocks can prevent sustained progress out of poverty.

Despite these challenges, Mr Hashemi and Ms de Montesquiou argue that initial results of the Graduation Program demonstrate that a well-sequenced, intensively monitored program combining access to savings, livelihood training and an in-kind asset transfer can lead to... *(Continued in the subscriber edition)*

Measuring Changes in Client Lives Through Microfinance: Contributions of Different Approaches

By Mayada El-Zoghbi and Meritxell Martinez, published by CGAP (Consultative Group to Assist the Poor), May 2011, 4 pages, available at: http://www.cgap.org/gm/document-1.9.50966/MeasuringBenefits_Brief.pdf

This brief examines approaches that are used to gauge the effect of microcredit on poor people including: (1) qualitative evaluation methods such as interviews or focus groups and (2) quantitative evaluation methods such as non-randomized "quasi-experiments" or randomized controlled trials (RCTs) that seek evidence of causal relationships between interventions and client impact compared with a control group. The authors argue that RCTs, despite being costly to implement, are superior to qualitative methods and non-randomized experiments because they can overcome selection bias and evaluate causality more precisely.

Microfinance historically has focused on monitoring performance by tracking financial indicators rather than via experimental methods such as... *(Continued in the subscriber edition)*


Central Asian Microfinance Fair 2011
7th & 8th of July, 2011
Bishkek, Kyrgyzstan


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Mobile Value-Added Services – A Vehicle to Usher in Inclusive Growth and Bridge the Digital Divide

By Sachin Sondhi, Sandip Biswas, Gaurav Gupta, Prakash Bharwani; published by Deloitte Touche Tohmatsu India Private Limited; January 2011; 68 pages; available at: https://www.deloitte.com/assets/Dcom-India/Local%20Assets/Documents/Deloitte_ASSOCHAM_MVAS_Study.pdf

This research, jointly undertaken by the Indian arm of US-based consultancy Deloitte and the Associated Chambers of Commerce and Industry of India, assesses the current state and future outlook of the mobile value-added services (MVAS) industry with the aim of encouraging socioeconomic growth in India. Given the current reach and penetration of mobile phones in India, the authors argue that MVAS have the potential to transcend an array of barriers such as time, place and socioeconomic class to enable the delivery of basic services across a wide range of the population.

The authors report that 670 million out of 1 billion Indians are mobile subscribers and that mobile penetration is expected to increase to nearly 100 percent of the adult population by 2015. This emerging subscriber base has led to increasing demand - by consumers and service providers - for access to MVAS. Also, the Indian government recently placed inclusive growth at the core of its poverty reduction strategy and regards the use of technology as a means to overcome the lack of infrastructure that impedes access to basic services. On the supply side, there is a need for differentiation as falling handset prices are forcing telecommunication providers and device manufacturers to look for new revenue streams. Also, the increasing availability of large databases, including the anticipated issuance of unique ID cards to every Indian citizen, has encouraged suppliers that providing access to such data will be possible and profitable.

The authors distinguish between the following types of "utility MVAS," which can empower citizens to bridge socioeconomic disparities: information-based services, application-based services and enablement-based services. Information-based services are those that disseminate information to the public, such as epidemic alerts and disaster management updates, wherein the consumer plays a passive role. Application-based services require some level of consumer engagement, such as retrieving the status of payments and accessing language training or other educational services. Enablement-based services allow the mobile phone to serve as a platform to deliver services approaching... *(Continued in the subscriber edition)*

Leveraging Migration for Africa: Remittances, Skills, and Investments

By Dilip Ratha, Sanket Mohapatra, Caglar Ozden, Sonia Plaza, William Shaw and Abebe Shimele; published by the African Development Bank and the World Bank Group; March 2011; 194 pages; available at: http://www.afdb.org/fileadmin/uploads/afdb/Documents/Generic-Documents/Leveraging%20Migration-P4-rev-3.31.2011.pdf

This report presents evidence suggesting migration helps to reduce poverty in migrants' home communities in Africa through the return of over USD 40 billion in remittances. Two-thirds of migrants from Sub-Saharan Africa reportedly go to other countries in the region, while more than 90 percent of migrants from North Africa have relocated outside the African continent. Co-author of the report Dilip Ratha argues, "African governments need to strengthen ties between diaspora communities and home countries, protect migrants and expand competition in remittance markets [as] the potential of migration for Africa remains largely untapped." Mr Ratha proposes that Sub-Saharan African countries might raise up to USD 10 billion annually in diaspora bonds, which are sold by governments or private companies to nationals living abroad to support investment in their home countries.