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MicroCapital Monitor

THE MICROFINANCE NEWSPAPER

FREE PREVIEW EDITION*

MICROCAPITAL BRIEFS | TOP STORIES

INSIDE

responsAbility Lends $8m in DRC, India, Romania

Switzerland's responsAbility Social Investments recently reported to MicroCapital that it has made loans totaling the following amounts: USD 7 million to India's Bandhan Financial Services Private Limited, which reports total assets of USD 614 million; USD 1 million to FINCA DRC, which is located in the Democratic Republic of the Congo, reports total assets of USD 23.1 million and is part of the US-based FINCA International network; and the local currency equivalent of USD 215,000 to Opportunity Microcredit Romania (OMRO). A member of US-based Opportunity International, OMRO reports total assets of USD 16.9 million. November 15. 2011

Kenyan Farmers Receive $12m Payout from Kilimo Salama

After a drought struck crops in Kenya, roughly 1,400 farmers each have received USD 9,230 through the Kilimo Salama "safe farming" microinsurance program. Approximately 21,000 farmers have enrolled in the program by paying a 5-percent premium when they purchase seed or fertilizer. Launched in 2010, Kilimo Salama uses data from solar-powered weather stations to determine whether rainfall is high or low enough to negatively impact crop yield. When this occurs, farmers receive payouts through their mobile phones. November 9. 2011

Nordic Development Fund, MIF Commit $7m to Green Lending in Latin America

The Nordic Development Fund, a Finland-based international finance institution, and the Multilateral Investment Fund, a member of the US-based Inter-American Development Bank Group, have launched Ecomicro, a four-year, USD 7 million program to assist Latin American microfinance institutions in lending for energy efficiency investments and adjusting risk management models to incorporate climate change. November 3. 2011

India's Trident Microfin Defaults on Loan from Kotak

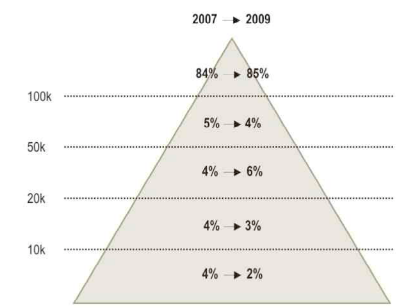
After reportedly being late on its repayments since January, Trident Microfin, a microlender based in the Indian state of Andhra Pradesh, has defaulted on a loan it owes Kotak Bank, an Indian commercial bank. Trident had previously registered the equivalent of USD 534,000 in repayments on the loan of USD 821,000. As of June, Trident had total assets of USD 39 million, a gross loan portfolio of USD 29.5 million, return on assets of -3.1 percent and return on equity of -23 percent. October 31. 2011

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

MicroCapital

MEXICO

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



MARKET INDICATORS*

FIELD NOTES

Building a Better Brazil with a Smile and a Smart Phone

I just returned from Rio de Janeiro after a 15-year absence. What a difference 15 years makes! Today's Rio is visited by the likes of Bono and Brangelina, and sushi bars rather than churrascarias are the place to go for dinner. Rio's government has been ridding its favelas (slums) of violence to secure a more inclusive Brazil. "Favela tours" have now become tourist attractions. Building a better Brazil is a priority now in particular as all eyes will be on the country during the 2014 World Cup football tournament.

In a country with a vast geography and a population of almost 200 million, achieving scale can be costly. Technology has been an important solution to this challenge. Brazil is fourth worldwide in terms of cell phone usage, with 227 million registered mobile phones. Today, 13.5 million Brazilians have access to high-speed internet, and the government is targeting 35 million homes - 88 percent of the country's land area - by 2014. (How else will they keep track of the World Cup scores?)

So while I was in Rio, I skipped the sushi bars and instead went on my own "tour" to learn about an interesting microfinance program managed by Itaú Unibanco - one of the largest banks in the southern hemisphere - that uses technology to facilitate microcredit in Brazil's low-income urban areas. The favelas are violent at times, but that doesn't usually stop a young loan officer named Daniela from visiting: "If I see police in the area, I know it isn't safe and I stay away."

Daniela has developed close relationships with her clients. One borrower generously drove us to take photos of a scenic area during our visit. An old woman stopped us to hug Daniela as we left the favela. One client told me: "Itaú has the lowest interest rates of the banks that come to the favela; their service is very good; the loan officer is so nice. I am satisfied."

While Daniela's work is extremely personal on the front end, it is almost completely virtual on the backend; she visits the bank branch only once a month. When she visits new clients, she sends photos of their inventories and documents to a virtual loan committee through her smartphone, which she can also use to punch their basic information into a loan simulator to determine ideal loan size and payment amounts. The loan committee approves or denies the loan within 24 hours. She prints out a payment order and loan payment schedule at an internet café and delivers it to her clients in person. They can make loan payments at non-branch outlets such as lottery stands or small grocers. What I find most interesting about this program is that it relieves the greatest cost pressure banks face: branch traffic. Yet it sticks to the basic premise of microcredit: a triangle of trust among the financial institution, its loan officer and its client.

Why would such a big bank bother climbing around in the favelas to make microenterprise loans of just a few thousand dollars? I suspect there are two reasons. The first is that management sees a future in these clients and their children. And the second is that - to be a truly Brazilian bank - Itaú must help build a Brazil of which it can be proud.

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, or you may follow her on Twitter at BarbaraatEA.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PAPER WRAP-UPS

Microinsurance: What Do We Know?

By Sabrina Régent, Sophie Chauliac and Benoit Rigollet; published by PlaNet Finance and Planet Guarantee; 2011; 119 pages; available at: http://admin.planetfinancegroup.org/upload/medias/fr/pfgroup-market_study_microinsurance_2011.pdf

This document considers a project funded by Dutch development finance institution Financierings-Maatschappij voor Ontwikkelingslanden that was intended to develop microinsurance products adapted to the needs of low-income people who are unfamiliar with risk management strategies. Conducted in 2008 in Argentina, Colombia, Guatemala, Peru, Egypt, Burkina Faso, Mali and Senegal, the effort was implemented by PlaNet Finance, a French NGO with the mission of alleviating poverty through microfinance, and its microinsurance affiliate, PlaNet Guarantee.

The authors argue that access to credit, savings and insurance is a key to fighting poverty because these services allow people to manage financial risks. Microentrepreneurs often rely on savings as their primary risk management tool, leaving themselves vulnerable to unexpected events such as disease, accidents, death and natural calamities that could threaten their livelihoods. The authors find that neither the insurance market nor local social security systems sufficiently cover the risks of the low-income population in developing countries. While "still an infant compared to microfinance," the authors state that "microinsurance has huge potential" for assisting low-income people in managing risk.

The project includes market studies; the design and implementation of microinsurance products; and the design and implementation of games, leaflets and other tools for training clients about insurance.

The five phases of the study are: contextual, social and economic study; market survey; study of distribution channels; study of regulatory framework; and analysis, reporting and recommendations.

The authors find that most microentre-preneurs pay an insurance premium with their credit products unknowingly. Consequently, they often do not file claims for which they are eligible. The authors argue that education regarding insurance products is needed among both microentrepreneurs and microfinance institution staff.

The top risks faced by microentrepreneurs vary by region, with theft being a major problem in... *(Continued in the subscriber edition)*

Microfinance Investment Vehicles in Sub-Saharan Africa: Constraints and Potentials

By Bertrand Moulin, published by the Centre for European Research in Microfinance, August 2011, 20 pages, available at: http://mpra.ub.uni-muenchen.de/32967/

To explain the drivers of investment decisions in the African microfinance sector, this paper attempts to shed light on the constraints and potential of interactions between microfinance investment vehicles (MIVs) and the two main African microfinance models: cooperative, which is widespread in West Africa, and commercial, which is common in East Africa. The author particularly considers microfinance institutions (MFIs) that are moving away from self-financing and public subsidies toward attracting more funding from MIVs.

The author reviews various types of MIVs as follows. "Registered mutual funds" such as the Dexia Micro-Credit Fund invest primarily in Latin America and Eastern Europe. "Commercial fixed-income investment funds" such as Incofin's Impulse Microfinance Investment Fund grant relatively large loans, reducing their costs and thus increasing returns. These funds tend to invest in areas where microfinance is most developed such as Latin America and the Caribbean, Eastern Europe and Central Asia. "Structured vehicles" use both direct and indirect securitizations. Direct securitization involves the securitization of a portfolio of microcredits from one MFI such as the BRAC Micro Credit Securitization Series I Trust. Indirect securitization involves the securitization of debts of several MFIs as does BlueOrchard Microfinance Securities I. The majority of these MIVs employ collateralized debt obligations.

Among the types of MIVs more active in Africa, the author cites "blended-value funds," which require lower financial returns and usually pursue social objectives. Private individuals, foundations and NGOs supply these funds with 85 percent of their funding. They often prefer to invest in small and mid-sized MFIs located in underserved areas. Oikocredit, the Dutch cooperative, is an example of this type of vehicle. Due to the samller size of the loans granted, these structures incur higher operating costs. "Microfinance bank holding companies" such as Germany's ProCredit Holding receive much of their funding from development financial institutions, which also may offer technical assistance. These MIVs supply 31 percent of Africa's microfinance funding. Finally, the author introduces "private equity funds" as relatively new to... *(Continued in the subscriber edition)*

2011 MicroFinance 100: Latin America and the Caribbean

By Renso Martínez Ramírez, published by the Multilateral Investment Fund and the Microfinance Information Exchange, October 2011, 24 pages, available in English and Spanish at: http://www.themix.org/publications/

mix-microfinance-world/2011/10/microfinance-americas-top-100

This annual ranking of 100 leading microfinance institutions in Latin America and the Caribbean is based on the institutions' performance in the following areas: outreach, efficiency and transparency. The overall picture is deemed "positive" with microfinance activity continuing to grow in the region. The top-ranked institutions include: (1) Caja Nuestra gente of Peru, which achieved a 46 percent increase in lending to micro-enterprises; (2) Banco FIE of Bolivia... *(Continued in the subscriber edition)*

'And Who Listens to the Poor?' Shocks, Stresses and Safety Nets in India and Pakistan

By Karishma Huda, Sandeep Kaur and Nicolina Lamhauge; published by the BRAC Development Institute; 2011; 34 pages; http://www.trickleup.org/solution/andwholistenstothepoor.cfm

This paper documents the cases of 20 female participants in the "Ultra Poor Pilot Program" that was conducted in 2009 by US-based nonprofit Trickle Up in an effort to "graduate" women from extreme poverty to sustainable livelihoods through the provision of training, mentoring and financial services. The study, which took place in the Indian state of West Bengal and the Sindh province of Pakistan, documents each woman's early childhood, transition to adulthood, experience with the program and progress over the nine months after the program ended.

The investigation led to the following findings: (1) the "life trajectory" of the woman before she began the program had a significant effect on the impact of services offered; (2) women in seemingly similar financial positions sometimes had very different needs for resources such as mentoring and training; (3) the performance of the field worker had a strong bearing on the impact on the individual served; (4) feedback from each individual was a "snapshot" of her current economic situation, which could change rapidly; and (5) a number of saving and credit groups did not continue once the program ended due to infighting caused by power imbalances among members.

Based on the findings, Trickle Up concluded that... *(Continued in the subscriber edition)*