MicroCapital Monitor
THE MICROFINANCE NEWSPAPER

FREE PREVIEW EDITION*

OCTOBER 2011 | VOLUME.6 ISSUE.10

## MICROCAPITAL BRIEFS | TOP STORIES



### RBI Requires MFIs to Hold Loans for 9 Months Before Securitizing

The Reserve Bank of India has announced that, before securitizing their loans for sale to investors, lenders must now follow a new set of regulations that stipulate loans with terms of up to two years must be held by the originating firm for at least nine months, and the originating institution must retain at least 5 percent of the loan value on its books. Also, retail lenders will be required to undergo periodic stress tests. October 11. 2011

### $25m African Agricultural Capital Fund Established

The African Agricultural Capital Fund, which is intended to boost small and medium-sized agricultural enterprises in sub-Saharan Africa, has been launched with a loan of USD 8 million from US-based financial services firm JP Morgan and a total of USD 17 million in equity from the UK's Gatsby Charitable Foundation and two US-based foundations, the Bill & Melinda Gates Foundation and the Rockefeller Foundation. The Development Credit Authority of the US government's Agency for International Development is guaranteeing 50 percent of the loan from JP Morgan. Pearl Capital Partners, a Ugandan agricultural investment fund manager, will manage the fund and reportedly plans to invest in 20 businesses in East Africa, with the aim of increasing the capacity of local management teams to generate both strong financial returns and significant social impact. October 10. 2011

### Mexico's Banco Compartamos Issues $147m in Long-term Debt

Mexican microfinance institution Banco Compartamos has issued certificados bursatiles bancarios (local bank bonds) amounting to the equivalent of USD 147 million in the local debt capital market. The bonds have a five-year tenor and an interest rate 85 basis points above the 28-day tasa de interés interbancaria de equilibrio (interbank equilibrium interest rate). The issuance was oversubscribed 1.78 times. Publicly traded Compartamos reports total assets of USD 1 billion, a gross loan portfolio of USD 992 million, return on assets of 18.3 percent and return on equity of 37.8 percent. October 3. 2011

### IDB Approves $30m Loan to Support Small Business in El Salvador

The Inter-American Development Bank, a US-based development finance institution, recently approved a loan of USD 30 million to the "Program to Support Production Development for International Integration," which will be carried out by El Salvador's Ministry of Economy, Ministry of Foreign Affairs and export promotion agency, the National Investment Promotion Agency. The program aims to co-finance 1,000 small businesses to enable them to "access markets, develop cleaner production, create franchises and improve labor standards and production quality" over four years. The program will also engage unspecified advisors to help the firms identify new markets, promote trade and attract investment. October 2. 2011

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

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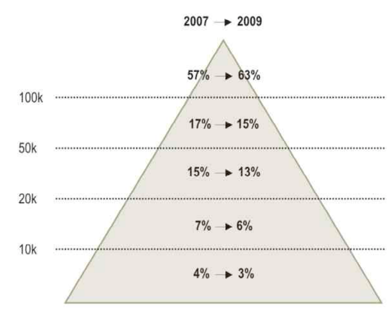
SUB-SAHARAN AFRICA
MFI MARKET SHARE TRENDING 2007 TO 2009
BY MFI SIZE (NUMBER OF ACTIVE BORROWERS)




MARKET INDICATORS*

# FIELD NOTES

## Funding Microfinance: Can "Patient" Capital Replace Grants?

I am almost embarrassed to say that I am writing this in the middle of one of my busiest work seasons from a fancy beach resort in Ixtapa, Mexico. Have I lost my senses? Become hopelessly irresponsible? Possibly. But I am here on an intellectually restorative activity, one that is against my nature but that I hope will energize my work in the months to come. I am writing from the Opportunity Collaboration "un-conference," an event that is only about three years old but which has gained a cult-like following of both young and old, experienced and novice professionals working to alleviate poverty in different ways.

This event couldn't be any more different than the Inter-American Development Bank's annual FOROMIC that I also attended eagerly last week in Costa Rica. The Opportunity Collaboration group wears loose shirts and comfortable sandals, while the FOROMIC crowd was dressed in suits. This group has "conversations" in small circles, while FOROMIC had panelists sitting on a stage using PowerPoint.

At both conferences, there was a noticeable tension between financing needs and opportunities. This was especially the case for microfinance in Latin America, where grant funding has dried up considerably, yet institutions still need to invest quite a bit to improve their value proposition. A publication titled "Opportunities and Obstacles to Financial Inclusion," which was produced by the US-based Center for Financial Inclusion and presented at FOROMIC, offers a long list of opportunities in microfinance including financial education, expanding product lines, correspondent banking, mobile banking, credit bureaux and capacity building. None are cheap, and - with microfinance institutions' (MFIs') returns in the region (and elsewhere) squeezed - it is difficult to find many cases in which these can be funded through internal capital investment. Liquidity from microfinance investment vehicles (MIVs) is still available, but with short terms and relatively high costs, it isn't always a fit. While MIV loans are well-suited to growing loan portfolios, much of the investment that MFIs need requires longer-term "patient" or grant capital. If we want to ensure that MFIs invest in providing clients with new, faster and more effective services, it will cost money. A new cadre of social impact investors, which invest in microfinance and other areas, offers some opportunities. These investors operate outside the traditional MIV sphere and tend to lend with longer terms or invest equity. While these sources might be an option, microfinance must compete for their attention against many other efforts.

My eight-year-old daughter is here in Ixtapa with me working on a newsletter with the bright 13-year-old daughter of another delegate. She explained to me that the pair could choose only one person who works in microfinance to interview because they want to cover a broad range of issues - from how dance can resolve conflicts to how water-carrying innovations can reduce burdens on African women and children. The kids aren't alone. Social impact investors are also trying to weigh microfinance against other alternatives to diversify their portfolios. Dance 4 Peace, a well-funded nonprofit, runs on a fee-for-service basis and aims to reach sustainability soon. Social impact investors are interested.

I think microfinance is far above the impact-investing curve in terms of proving a business case, but its stakeholders need to be smarter about showing investors there's significant social value if it is to vie for this type of funding.

*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

### Microfinance and the Role of Policies and Procedures in Saturated Markets and During Periods of Fast Growth

*By Adrian Gonzalez and Emmanuelle Javoy, published by the Microfinance Information Exchange and Planet Rating, September 2011, 10 pages, available at: http://www.themix.org/publications/microbanking-bulletin/2011/09/microfinance-policies-procedures*

Internal procedures and policies as well as external factors are important determinants of the portfolio quality of microfinance institutions (MFIs). This paper aims to assess the effects of internal factors such as governance, management information systems (MIS), risk management procedures and lending methods in different scenarios. In particular, the authors consider how internal factors interact with external factors such as market saturation and MFI growth rates. Questions such as the following are addressed: "Is governance more important in periods of accelerated growth than in periods of contraction? Are MIS more critical in highly saturated markets?"

The authors employ data from approximately 200 ratings of 130 MFIs by... *(Continued in the subscriber edition)*

### Symbiotics 2011 MIV Survey Report

*Published by Symbiotics Research and Advisory, August 2011, 34 pages, available at: http://www.microfinancegateway.org/p/site/m//template.rc/1.9.53112*

This survey of microfinance investment vehicles (MIVs), which was created on behalf of US-based nonprofit CGAP (Consultative Group to Assist the Poor), draws on survey responses from 70 MIVs with a total of USD 5.9 billion in assets under management, representing approximately 87 percent of the global MIV market. The microfinance institutions (MFIs) that are supported by these MIVs report an average loan size of USD 1,600 and average outreach to 137,000 borrowers, with 60 percent of borrowers being female and 44 percent living in rural areas.

The report identifies geographic concentration as a key trend over the last year with MIVs highly consolidated in terms of regional exposure as well as their five largest countries of investments. The top five MIVs account for 51 percent of all assets while the next five account for 14 percent. Growth rates also appear to be stabilizing, as MIVs reported 10 percent asset growth, which is the lowest yearly increase ever recorded by this survey, which has been conducted annually since 2007. In the last year... *(Continued in the subscriber edition)*

### List Randomization for Sensitive Behavior: An Application for Measuring Use of Loan Proceeds

*By Dean Karlan, Jonathan Zinman, published by the National Bureau of Economic Research, October 2011, available for purchase at: http://www.nber.org/papers/w17475.pdf*

This paper offers data indicating that enterprise microloan borrowers tend to underreport the percentage of the loan, if any, that they use for non-business purposes such as household expenses.

The study uses a survey technique called "list randomization" that allows researchers to calculate the average response to a question in a population without being able to connect individual answers with individual respondents. This is intended to allow respondents to answer more truthfully than if they are asked questions directly, which can result in respondents feeling pressure to "conceal" information to protect their loan eligibility or to provide socially desirable answers.

Using results from two surveys, the study shows that - when asked directly - less than 10 percent of respondents admitted to spending their loan proceeds on household expenses... *(Continued in the subscriber edition)*


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