SEPTEMBER 2011 | VOLUME.6 ISSUE.9

MicroCapital Monitor

THE MICROFINANCE NEWSPAPER

FREE PREVIEW EDITION*

MICROCAPITAL BRIEFS | TOP STORIES

LeapFrog to Invest $15m in India's Shriram for Insurance, Savings

LeapFrog Investments, a US-based private equity fund focusing on microinsurance, will invest USD 15 million in the Shriram Group, an Indian provider of financial services to poor people, to help the organization expand its offering of microinsurance and savings products for up to 10 million clients. According to Dr Jim Roth, co-founder of LeapFrog, the money will be used to improve "cover for millions of financially excluded clients and their families in India while also generating healthy financial returns." Shriram reports assets under management of equivalent to USD 8.65 billion. Unitus Capital, a financial advisory firm with ties the US and India, served as the sole investment advisor for the deal. September 9. 2011

11 Nigerian Firms Acquire Mobile Money Licenses

The following 11 firms have been granted licenses by the Central Bank of Nigeria to offer electronic payments through mobile phones: Eartholeum, Ecobank, eTranzact, FET, Fortis Mobile Money, GTBank Mobile Money, Kudi, Monetise, Pagatech, Paycom and UBA/Afripay. To support its mobile money offerings, Fortis Mobile Money, a sister company of Fortis Microfinance Bank, reportedly will incorporate technology from Fundamo, a Nigerian mobile banking and payment software provider. September 7. 2011

Brazil to Subsidize Interest Rates

The Brazilian government reportedly is expanding its National Program of Oriented Productive Microcredit, an initiative through which the government provides funding to financial service providers for on-lending to small businesses and microentrepreneurs. The equivalent of USD 300 million has been budgeted over two years to fund a reduction in annualized interest rates paid by clients from approximately 60 percent to 8 percent per year. The cost of opening a line of microcredit will also fall from 3 percent to 1 percent of the borrowed value. The program reports a loan portfolio of USD 600 million serving 908,000 active borrowers. August 30. 2011

IFC Loaning $50m to Panama's Banco General for Housing Loans

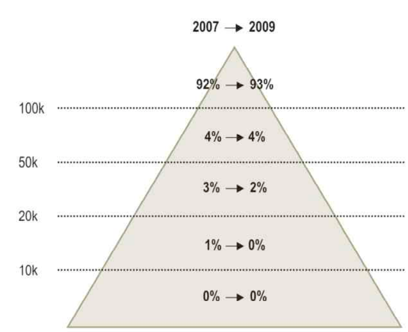
The International Finance Corporation, the private-investment arm of the World Bank Group, has agreed to provide a seven-year loan of USD 50 million to Panamanian commercial lender Banco General to grow the bank's mortgage lending program for moderate-income households. Banco General reports total assets equivalent to USD 8.8 billion and 490,000 clients served. August 26. 2011

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

INSIDE Page

MicroCapital

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



MARKET INDICATORS*

FIELD NOTES

Guess Who: Can Networks Meet the Challenges of Supporting Small-country Microfinance?

Please indulge me in a guessing game. (And don't skip ahead!)

Question: What has twice the population of Ghana and three times the population of Zambia? It has a lower UN Development Index ranking than Morocco and Namibia. Its GDP per capita is lower than that of Nigeria and South Africa, and its GINI coefficient is higher (indicating greater income inequality) than Ethiopia, Malawi, Tanzania and Uganda. Some of its regions have suffered from political instability, corruption and foreign government intervention. In most of the area, firearms are widely carried, with increasing violence and insecurity plaguing civil society. Its geographic diversity offers great natural resources but also makes it vulnerable to natural disasters that hit frequently and hard.

Answer: The area is not actually a country (sorry). Instead, I have aggregated the populations of six Central American countries (Costa Rica, Guatemala, El Salvador, Honduras, Nicaragua, and Panamá) and taken the population-weighted average of the indicators cited. Why would I go to all that trouble? Because I think that Central America merits our attention, yet is all too often forgotten by the big aid funders. Sandwiched between "middle-income" neighbors in North and South America, these small countries can hardly promise significant enough "impact" to merit the attention of international development organizations with scarce human and financial resources.

This is why I am especially intrigued with the work of REDCAMIF, a network of Central American microfinance institutions (MFIs), which has recently added the Dominican Republic to its membership. What can sometimes seem like an "old boys" network of MFI managers interested only in retaining their footholds in their local markets is also a surprisingly well-functioning institution that offers a unique value proposition. Those donors that don't have time to support individual programs to strengthen microfinance in these fairly small countries can access this "super-network" to channel programs through seven national MFI networks to reach 128 MFI members, which serve almost one million clients with a total portfolio equivalent to USD 1.3 billion. REDCAMIF's programs include the first regional initiatives that I've seen offer micropensions and microinsurance. I was also thrilled to see a crowd of both men and women at REDCAMIF's conference on Gender and Microfinance in Honduras last year sign an agreement to establish some key principles of gender equality. A training program launched this year to strengthen risk management also responds to a critical need.

On the down side, it's still primarily run by a group of tightly connected veterans of the sector. Innovation trickles slowly and painfully, and much of the dynamism comes from its politically astute and extremely bright general manager, Ivan Gutierrez. With so much left to be done in Central America and with microfinance in the region so desperately in need of retooling, it seems like REDCAMIF is positioned to take on a greater and more active role, strengthening its members as well as its own capacity. To do so, its leaders have been reaching outside their inner circle to help them think through some of these issues; I encourage you all to participate.

Note: REDCAMIF will be holding a workshop on October 10 during the annual FOROMIC in October in Costa Rica with the objective of increasing the sustainability and social impact of its member institutions.

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.

PAPER WRAP-UPS

Impact of the Global Financial Crisis on Microfinance and Policy Implications

By Gabriel Di Bella, published by the International Monetary Fund (IMF) as IMF Working Paper WP/11/175, 2011, 41 pages, available at: http://www.imf.org/external/pubs/ft/wp/2011/wp11175.pdf

The author of this paper considers the following manifestations of the growth of the microfinance industry: scaling-up of microfinance institutions (MFIs), diversification of funding structure (away from subsidized lending toward commercial borrowing), adoption of better management practices and information systems and transformation of nonprofit NGOs into regulated financial institutions partially funded by private capital. In many countries, microcredit now constitutes a significant portion of both GDP and private-sector credit. Consequently, abrupt changes in microcredit delivery in these countries may have adverse macroeconomic consequences. However, before the global financial downturn that began in 2007, it was hard to establish a relationship between MFIs' usual performance indicators and international capital market developments - and even domestic macroeconomic conditions.

This paper sheds some light in this area by reevaluating the issue of general MFI risk and finds - contrary to what was commonly believed prior to 2007 - that MFI performance is linked to both domestic economic conditions as well as to changes in international capital markets. The paper uses data from 353 MFIs from 1998 through 2009. Regressions were performed for various cross sections, time periods and MFI groupings to investigate whether relative systemic risk varies depending on location, legal status (regulated or un-regulated), institution type (NGO, bank, co-operative etc), purpose (for-profit or nonprofit) and age.

The study finds that worldwide microcredit growth rates sharply decreased due to the global financial crisis as MFIs' balance sheets were negatively affected both on the liability side - due to a decrease in liquidity - and on the asset side - due to increases in loan delinquency and write-off ratios. Also, MFIs' relatively high interest rates and their lack of transparency in some countries resulted in government-mandated interest rate caps.

The empirical findings suggest that links between MFI performance indicators and both domestic and international economic conditions are stronger than previously believed. In particular, MFIs in Mexico, Central America and the Caribbean (MCAC); Eastern Europe; and the Middle East and Central Asia seem most sensitive to changes in the domestic and international economic environment; while from an institutional standpoint, banks and non-bank financial institutions show the closest links. These results suggest that MFIs' increased attention toward financial sustainability - ie growth and the commercialization of portfolios - have made them more similar to conventional financial institutions.

The paper also analyzes the factors behind MFI lending rates and interest rate spreads. Results indicate that average loan size, MFI productivity and age explain differences in the rate at which loans are disbursed. Empirical evidence also suggests that more mature MFIs charge lower lending rates. Other variables tracking asset quality and MFI funding structure also appear to be correlated with lending rates. However, the study finds no significant link between lending rates and domestic economic conditions.

Although these links are consistently observed across various regions, institution types, legal status, MFI purposes and age, the systemic risk of some MFI groupings appears to be higher. From a regional perspective, the results...
(Continued in the subscriber edition)

SUBSCRIBE TO THE MICROCAPITAL MONITOR

Upgrade to the complete edition of the MicroCapital Monitor by subscribing today to support a representative voice for microbankers and microcapital investors at MicroCapital.org or by calling us at +1 617 648 0043. All subscriptions include twelve new monthly issues plus access to all back issues.

Bronze: USD 149 per year
Sent to one email address

Silver: USD 299 per year
Sent to three people at an organization

Gold: USD 699 per year
Customized, organization-wide access

Discount: USD 99 per year
Available only OUTSIDE rich countries