MicroCapital Monitor

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MICROCAPITAL BRIEFS | TOP STORIES

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India's Ujjivan Raises $25m in Equity from FMO, Wolfensohn, Existing Shareholders

Please see page 2 for coverage of this "MicroCapital Deal of the Month"

IFC Loans $25m to Compartamos' Financiera Crear of Peru

The World Bank Group's International Finance Corporation is lending USD 25 million to Financiera Creditos Arequipa (Crear), a Peruvian microlender that is controlled by Mexican microfinance institution Compartamos, to expand its lending to micro- and small enterprises in Lima and southern Peru. Financiera Crear reports total assets of USD 151 million, a gross loan portfolio of USD 103 million, 87,000 borrowers, return on assets of 4.71 percent and return on equity of 33.6 percent. February 16. 2012

Malaysian Chinese Association Launches $16m Microloan Fund

The Malaysian Chinese Association (MCA), a political party in Malaysia, has launched the "1MCA Micro Credit for Youth Fund" with the equivalent of USD 16.4 million. Two cooperatives affiliated with MCA, Koperasi Jayadiri Malaysia Berhad and Koperasi Serbaguna Malaysia, will service the microloans. 1MCA will give priority to MCA members, NGO members and single parents. Loan sizes will range from USD 1,640 to USD 6,560 with terms of three to five years. The loans, which will bear an annual interest rate of 7 percent, will be accompanied by no-cost business development training. February 3. 2012

Nigerian MFIs Estimate Losses of $15m Due to Fuel Strike

A six-day strike in Nigeria over the removal of fuel subsidies has reportedly cost microfinance banks the equivalent of USD 14.9 million. Despite the setback, the Lagos State Chapter of Nigeria's National Association of Microfinance Banks is maintaining its goal for the year of more than tripling the number of borrowers that the chapter's 180 members serve to 4.2 million and reaching an aggregate loan portfolio of USD 620 million. January 24. 2012

UIG to Purchase Pakistan's Network Microfinance Bank

For an undisclosed price, Pakistan's United International Group (UIG) reportedly has purchased Network Microfinance Bank Limited (NMB), which will be renamed Apna Microfinance Bank and focus on serving farms, microenterprises and individuals. NMB reports total assets of USD 2.9 million, a gross loan portfolio of USD 719,000, return on assets of -6.10 percent and 5,700 borrowers. UIG's other holdings include Tawasul Insurance Abu Dhabi and SaudiPak Insurance Company. January 20. 2012

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

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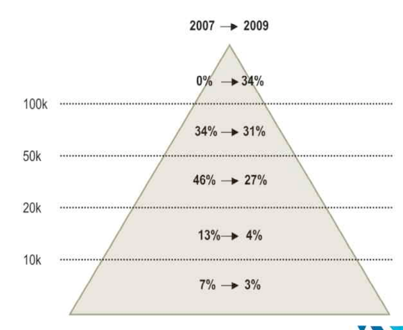
MicroCapital

KYRGYZSTAN

MFI MARKET SHARE TRENDING 2007 TO 2009

BY MFI SIZE (NUMBER OF ACTIVE BORROWERS)



MARKET INDICATORS*

MICROCAPITAL BRIEFS

MiGroF Reaches $85m Loaned to Latin American MFIs

The Microfinance Growth Fund, which is managed by Switzerland's BlueOrchard Finance in support of Latin American microfinance institutions, closed 2011 with USD 85 million in outstanding loans and USD 23 million in uninvested capital. Targeted to raise at least USD 140 million, the seven-year fund focuses on institutions in Bolivia, Ecuador, Colombia, Mexico and Peru. February 14. 2012

Insurance, Credit Grow as Philippines Bans "Flat" Interest

The Insurance Commission of the Philippines reportedly has announced that 3.1 million microinsurance policies were sold domestically in 2011, an unspecified increase from 2010. Bangko Sentral ng Pilipinas (BSP) reports that the number of microborrowers rose from 932,000 in September 2010 to 963,000 in June 2011 and that the total of outstanding loans increased from USD 148 million to USD 164 million during the same period. BSP has since mandated that lenders use the "declining balance" method of calculating interest rates rather than "flat" rates, which may appear cheaper but levy interest on the original loan amount even after much of it has been repaid. February 13. 2012

Bangladeshi Government Seeking Control of Grameen "Empire"

After forcing Grameen Bank Founder Dr Muhammad Yunus from his position as managing director of the bank in 2011, the government of Bangladesh reportedly is taking steps to exert control over some of the 48 firms affiliated with Grameen. While the bank is 95-percent borrower-owned, the government maintains that its small stake entitles it to a share of Grameen's affiliates - firms that Dr Yunus maintains are independent entities. Among these are Grameen-Veolia, a water company majority-held by France's Veolia Water, and Grameenphone, a telecoms provider majority-held by Norway's Telenor. Grameen Bank reports assets of USD 1.7 billion. February 11. 2012

MicroCapital Deal of the Month

India's Ujjivan Raises $25m in Equity from FMO, Wolfensohn, Lok, IFIF, Sequoia, Unitus, Elevar

Indian microlender Ujjivan Financial Services has raised the equivalent of USD 25 million in its fifth round of equity financing. The funding is expected to allow Ujjivan to boost its loan book to USD 300 million. While existing investors Lok Capital, India Financial Inclusion Fund, Sequoia Capital, Mauritius Unitus Corporation and Elevar Equity participated in the funding round, two groups investing in Ujjivan for the first time provided most of the new funds: USD 6.37 million from the Netherlands Development Finance Company (FMO in Dutch) and USD 7.82 million from a unit of US-based Wolfensohn Capital Partners. Keesjan de Kruijf, senior investment officer at FMO, said, "We are very happy to work with Ujjivan, which is constantly searching for ways to better serve the urban poor. Their firm focus on their mission to alleviate poverty and strong business credentials make Ujjivan a very interesting partner for FMO." Ujjivan reports assets of USD 129 million, a loan portfolio of USD 121 million, return on assets of -1.86 percent and 744,000 borrowers.

RESPONSIBLE MICROFINANCE: A Letter from the Microfinance CEO Working Group

This letter from the leaders of eight nonprofit microfinance organizations strikes a chord with us at MicroCapital. We are strongly in favor of the sentiments expressed herein, not least because we see ourselves as a contributor to transparency in the sector. We welcome all parties that wish to use this space to help figure out how we can all best work toward these ideals. In addition, we appreciate the argument that "microfinance plus" services such as education and health must be delivered alongside financial services to significantly alleviate poverty. We offer this space to those who hold this viewpoint as well.

Road Map for the Microfinance Industry: Focusing on Responsible and Client-Centered Microfinance

From the Microfinance CEO Working Group
January 2012

In less than 40 years, microfinance has spread around the world, today providing access to credit and other financial services to more than 205 million poor clients, most of whom were previously ignored by mainstream financial institutions. From modest roots, microfinance has built a global network of institutions dedicated to serving low-income people. It has transformed our understanding about the power of opportunity.

In early 2011, a group of CEOs from microfinance organizations that work globally began to have regular, informal conversations about the future of the microfinance sector as it matures and faces new challenges. We found that we shared many of the same values and concerns, including a desire to work together to help improve our organizations and advance the industry. From these conversations emerged the Microfinance CEO Working Group.

Those values and concerns have led the Working Group to adopt a shared approach to the future of microfinance, which this paper outlines, and to urge others to endorse this approach.

The Challenges: Client Focus and Responsible Finance

As leaders in the microfinance industry, we applaud the achievements of microfinance practitioners around the world. Every day, legions of committed, passionate individuals rededicate themselves to their work in support of helping millions (and ultimately billions) of people gain access to financial services. We believe deeply that microfinance is a powerful tool for improving the lives of the poor and that the field has not yet reached its full potential. The number of poor people who could benefit from financial services is staggering: by some estimates, as many as 2.7 billion people in developing countries are unbanked. The microfinance industry has much more work to do. However, in order for the industry to continue to serve as a vital and creative force in the world, it must recognize and actively address several issues that are crucial to its continued success.

First, the microfinance industry must raise its standards of responsibility to clients. For many years, microfinance organizations emphasized the twin objectives of achieving scale and financial sustainability. At times, in the focus on growth and institutional development, client interests were subordinated to the achievement of financial objectives. Furthermore, new forces were introduced as the industry grew, such as increased competition for clients in some saturated markets and the entry of players that lacked a genuine social-mission orientation. Problems of client over-indebtedness in a number of markets (India, Bosnia, Nicaragua, and Morocco, among others) have received substantial media, political, and in some cases regulatory attention, with repercussions for the larger microfinance community. To ensure greater focus on client benefit and prevent future problems, microfinance needs to develop robust practices to protect, effectively serve, and support clients. The industry needs high-quality and standardized principles and procedures that ensure ethical, transparent business and client safety.

Second, the sector must create real, measurable social and economic value for clients. For too long, many microfinance organizations have relied on credit as their primary product offering. Recent research demonstrates that the poor live far more complex financial lives than previously assumed. While microcredit is a compelling tool that has helped millions grow their businesses and establish more stable lives, it is clear that clients need a range of services, such as savings and insurance. To effectively support people as they work to improve their lives, microfinance institutions (MFIs) should aspire to offer a broader array of products and services that are tailored to meet client needs. And they need to actively manage their social performance in order to hold themselves accountable for achieving the results they seek.

We envision a microfinance industry that protects its clients, is transparent, and measures and achieves social outcomes and impact.

Advancing Industry Standards Inside and Out: The Three Key Initiatives

We believe that careful, systematic efforts to improve our performance are vital. These efforts must span numerous fronts, including developing strong consumer protection practices and meaningful measures of transparency, and establishing industry standards for social performance. In this vein, we have focused our initial efforts on promoting and supporting three existing initiatives working to raise standards across the microfinance industry: the Smart Campaign, MicroFinance Transparency, and the Social Performance Task Force's universal standards for social performance management.

All three of these initiatives are working to put in place an architecture that will assist the industry to reach and maintain its highest goals and standards. Each has made important initial accomplishments, and each will need full industry support in order to achieve its potential.

- **The Smart Campaign** is an unprecedented effort to make client protection part of the DNA of microfinance. Declaring that "protecting clients is not only the right thing to do; it's the smart thing to do," the Campaign supports institutions as they ensure that they treat clients fairly and respectfully, and avoid the harm that improper use of financial products can sometimes cause. The Smart Campaign assists the industry to integrate the widely endorsed Client Protection Principles thoroughly into practices at all levels. This year, the Smart Campaign will be piloting its certification program, through which institutions can demonstrate their adherence to the Client Protection Principles via third-party verification. The Smart Campaign has been endorsed by more than 2,400 microfinance organizations, investors, and individuals in 130 countries - reaching organizations that serve more than 40 million people.
- **MicroFinance Transparency** focuses on moving microfinance to full pricing transparency. It has published detailed information on pricing by 317 microfinance institutions in 12 countries, representing more than 36 million client loans in all, with 14 additional countries

forthcoming. MFTransparency provides a public forum for MFIs to demonstrate their commitment to transparency and integrity, and serves as an important resource for comparative information for investors, regulators, and eventually clients. MFTransparency also provides training and advice to ensure that disclosure strengthens the microfinance industry overall. Since 2008, nearly 900 industry leaders have endorsed MFTransparency's work.

- The **Social Performance Task Force** (SPTF) is a collective effort by more than 1,000 industry stakeholders to develop common tools for measuring social performance and mission fulfillment. Subscribing to the belief that you can only manage what you measure, the SPTF aims to support microfinance organizations to effectively translate their social missions into reality. This ambitious initiative is in the process of developing "universal standards for social performance management" for MFIs and will ultimately establish benchmarks for performance measurement and management.

Over the past several months, the Microfinance CEO Working Group has worked to engage with each of these initiatives. We have urged the three initiatives to work more actively with each other in a smoother, more coordinated fashion. We have provided detailed feedback to the SPTF Steering Committee on the proposed universal standards and on the strategic direction of the SPTF going forward. We have met with Smart Campaign representatives for an in-depth discussion on the Campaign's proposed certification program, in order to provide feedback and learn how our own organizations and affiliates can become involved. We are tracking our organizations' participation in each initiative, as a challenge to one another to deliver on our word.

While we believe that these initiatives hold significant potential for the industry, we also continue to seek out and encourage exciting new ideas that hold power for the future. We note that there are other promising industry-wide initiatives under development, and we will comment on, endorse, and urge others to support some of them in due course. We also recognize that other networks of microfinance advocates and practitioners are proposing new standards and actions that are constructive steps, such as the Paris Appeal for responsible microfinance, and the Seal of Excellence for Poverty Outreach and Transformation in Microfinance.

As members of the Microfinance CEO Working Group, we commit to embed the principles and practices of the three initiatives into our own networks. But while our organizations' networks collectively serve tens of millions of clients on five continents, we by no means represent microfinance as a whole. We call on our valued peers and colleagues throughout the industry to endorse these three initiatives and to accelerate their adoption within their own organizations.

At this moment, microfinance has an opportunity to build on past successes, learn from, and respond to the challenges it faces in order to be a more responsive, responsible, and transformative industry. By taking sincere and systematic action, we can build more successful financial institutions that help change the lives of the people we serve.

We welcome comment and feedback from the greater microfinance community and beyond.

Signed,

Michael Schlein, President and CEO, ACCION

Rupert Scofield, President and CEO, FINCA International

Steve Hollingworth, President, Freedom from Hunger

Alex Counts, President and CEO, Grameen Foundation USA

David Simms, Board Chair, Opportunity International Network

Rosario Perez, CEO, Pro Mujer

Scott Brown, President and CEO, VisionFund International

Mary Ellen Iskenderian, President and CEO, Women's World Banking

FIELD NOTES

Dream Big! Linking Products and Services to Clients' Aspirations

I have spent the last few days talking to immigrants, young borrowers and older borrowers - both male and female - about their dreams and aspirations. Dreams can have business implications, and financial service companies that see these linkages can profitably target "aspirational" low-income markets. A fun example is an advertisement from Taiwan's TC Bank about retirement-age "dream rangers" living their dreams of crossing the country by motorcycle despite their ailments. The ad appears to be hitting a nerve, receiving over 4 million hits on YouTube. Linking financial services to dreams should be a no-brainer. The "American Dream" of homeownership, for example, has stimulated and often over-stimulated home loans in the United States.

Given the close link between having dreams and financing dreams, you might think that those of us who work in microfinance would know a lot about the aspirations of low-income people. But we simply don't spend enough time learning about clients' dreams. It might be that we think we know the answers: poor people want to not be poor. But there is more to it than that, and over the last week I've had the privilege and opportunity to listen to and be inspired by a few of these dreams.

In Nicaragua, I spoke to women microborrowers that share dreams of improving their communities and their schools. One woman wanted to become mayor, another a city council member. Most dreamed of improving their businesses. One wanted to leave her business to her children for them to manage. Another woman wanted to make sure her grandchildren were educated. A couple of young women wanted to go to Panama to buy merchandise to build a "global" business. The women also spoke of dreams that they still haven't achieved after years of running a business and borrowing, such as making improvements on their homes ("there is always something more important") or going back to university ("I know I will one day"). A group of young men I spoke to dream of growing their businesses to make enough money to leave their parents' homes. A few wanted to buy a vehicle for their business. One single man in his mid-20s dreams of becoming a good father.

In New York City, undocumented immigrants shared with me their dreams of sending their children to college, but also told me that this is impossible because they don't think they would qualify for financial assistance. Even if they could go to college, they might have a difficult time finding work afterwards. Another immigrant shared with me that she dreams of going back to Ecuador and starting a business.

Some of the dreams I have heard about are ambitious - maybe unlikely - but many are realistic. More importantly, most of the people who shared these dreams with me believe they are achievable. I think we owe it to them to do our part. Financial access isn't a panacea, but it can play a role in helping people achieve their dreams. Asset-building tools for immigrants (either in their adopted countries or at home) might be useful, as might insurance that protects families from major shocks. In the case of young microentrepreneurs, understanding that their dreams differ from those of their parents is critical to offering them financial services that can help them grow out of poverty. Microfinance institutions often focus on the instability of youth while overlooking its potential. What if microfinance institutions segmented their client groups by dream when developing products? The financial institutions that can dream as big as their clients will perhaps end up bigger themselves!

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

The Debate on Outreach & Impact: What Do We Know and How Do We Know It?

By David S Gibbons, commissioned for the 2011 Global Microcredit Summit, June 2011, 16 pages, available at: http://www.microfinancegateway.org/p/site/m/template.rc/1.1.13634

In this paper, the author argues that many studies on the impact of microfinance frame their question poorly, leading them to fail in assessing the positive impact of microfinance on poverty.

As evidence of this impact, Dr Gibbons cites the high degrees of satisfaction expressed in surveys of borrowers from the Indian nonprofit microfinance institution (MFI) Cashpor Microcredit as well as the generally high repayment rates observed in the sector and the rapid spread of microfinance across the world.

Dr Gibbons finds a significant gap between the opinions of clients that claim microcredit reduces poverty and the results of various randomized controlled trials (RCTs) that show no such impact. He argues that this discrepancy is due to the poor choice of questions in RCTs.

For example, in a recent study called "Measuring the Impact of Microfinance: Taking Another Look," Kathleen Odell argues for the importance of RCTs in attempting to determine whether "women who have continued access to microfinance have significantly higher household incomes than similar women who don't have such access." Dr Gibbons argues that the answer may not be the same for all poor women, irrespective of their physical and entrepreneurial acumen. Instead, the author suggests that the research question should be presented as, "Is continued borrowing of microfinance - for say at least 5 years because the loans are small - strongly and positively associated statistically with being no longer poor?"

While some RCTs seek a correlation between microcredit use and increased incomes, Dr Gibbons contends that sustained access to microfinance helps poor women, "but not always in the form of increased incomes." He argues that this is due to the vulnerability of poor people to shocks such as seasonal food shortages, illness of household members, natural disasters and social obligations.

Furthermore, the relationship between opportunities for employment and interest in microfinance is inversely related: demand for microfinance decreases when more employment opportunities are available and vice versa. For example, in Malaysia...
(Continued in the subscriber edition)

Global Microscope on the Microfinance Business Environment 2011

Published by the Economist Intelligence Unit, October 2011, 72 pages, available at: http://issuu.com/idb_publications/docs/global_microscope_2011

This paper examines microfinance business environments in 55 countries, comparing them across three categories: supporting institutional framework, political stability, and regulatory framework and practices. It is the fifth annual paper in the series, covering the 12-month period ending June 2011. The research comprises data collected in 21 countries of Latin America and the Caribbean, 11 of Sub-Saharan Africa, seven of Eastern Europe and Central Asia, seven of East Asia, five of South Asia and four of the Middle East and North Africa.

The authors argue that while microfinance has become more mature and sustainable, the global financial downturn led to a downgrade in the quality of some loan portfolios, resulting in the need for improvement especially within risk management. The factors included in the scoring are: regulation and supervision of microcredit portfolios, legal recognition for microfinance institutions (MFIs), regulatory and supervisory capacity for microcredit and other microfinance services, deposit policies....
(Continued in the subscriber edition)

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