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THE MICROFINANCE NEWSPAPER

MARCH 2012 | VOLUME.7 ISSUE.3

FREE PREVIEW EDITION*

MICROCAPITAL BRIEFS | TOP STORIES

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Zambia's Mobile Transactions Lands $3m in Equity from Omidyar, ACCION

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

Triodos, Women's World Banking to Co-manage $60m Isis Microfinance Fund

Triodos Investment Management, which manages several venture capital and social finance funds, has announced that it will share management duties with Women's World Banking (WWB) Asset Management for Isis Fund, an equity fund that aims to invest in some of the 39 microfinance institution members of the US-based, nonprofit WWB network. The first closing of the fund was recently completed at USD 30.2 million, and the target size of USD 60 million is slated to be achieved by early 2013. The following organizations have invested undisclosed amounts in the fund: KfW Bankengruppe, a German development bank; Achmea, a Dutch insurer; the US-based Inter-American Development Bank; FinnFund, a Finnish development finance company; Triple Jump, a Dutch investment manager; and Storebrand, a Norway-based financial services provider. March 9. 2012

IFC, KfW, BMZ to Invest $100m in Micro Finance Initiative for Asia

The International Finance Corporation, the private-investment arm of the World Bank Group, reportedly plans to set up the Micro Finance Initiative for Asia (MIFA), a debt fund in which it plans to invest USD 20 million. Two German development institutions, KfW Bankengruppe and the German Federal Ministry of Economic Cooperation and Development (BMX in German), will also invest undisclosed sums. MIFA has a target size of USD 100 million and is to issue debt investments throughout the continent. March 8. 2012

76 Criminal Cases Pending in India Relating to Microborrower Suicides

The Indian state of Andhra Pradesh reportedly is prosecuting 76 employees of Indian microlenders for allegedly pushing poor borrowers to suicide. Top officials of Indian microlender SKS Microfinance have been accused of withholding information implicating SKS employees in some of approximately 200 suicides that were reported in 2010. Data cited include internal documents and interviews with current and former employees of SKS and families of the dead. In one case, a woman died after drinking pesticides after a loan agent reportedly told her to prostitute her daughters to repay her debt. She had the equivalent of USD 3,000 in loans and weekly income of USD 12. Employees of Indian microlenders Share Microfinance and Spandana Sphoorty Financial have also been implicated. The companies deny responsibility for the suicides, and SKS points out that it has been exonerated in 14 of 15 cases so far, with one still pending. February 27 and February 28. 2012

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

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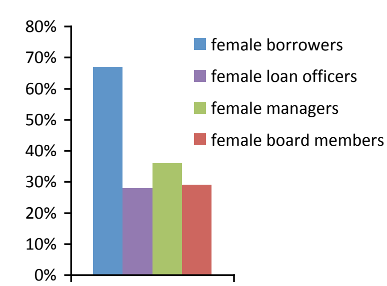
LATIN AMERICA AND CARIBBEAN
PERCENTAGE OF FEMALE STAKEHOLDERS 2010



SP INDICATORS*

MICROCAPITAL BRIEFS

Telenor Pakistan to Focus on Mobile Banking, Microfinance

Telenor Pakistan Limited, a division of Norway's Telenor that provides telecom services to 28 million Pakistanis, recently announced that it will increase its focus on mobile banking and attempt to expand the rural market share of Tameer Microfinance Bank in which Telenor Pakistan holds a controlling stake. While about 2 percent of Telenor Pakistan's revenue is generated by financial services, the firm's CEO, Lars Christian Iuel, was quoted as saying, "that figure will probably jump 'many-fold.'" Tameer reports USD 61 million in assets and 110,000 borrowers. In January, Telenor Pakistan's mobile banking service, EasyPaisa, handled transactions of USD 3.5 million. March 14. 2012

ENCASH Raises $2.5m in Equity for ATMs in the Philippines

Rural Impulse Fund II, which is managed by Belgium's Incofin Investment Management, and responsAbility Ventures I, which is managed by Switzerland's responsAbility Social Investments AG, recently infused a total of USD 2.56 million of equity into Electronic Network Cash Tellers Incorporated (ENCASH), a Philippine distributor of automatic teller machines (ATMs). ENCASH has 337 ATMs currently in service and also provides related services to rural financial institutions. While neither the size of the stake taken nor the amount of the investment made by each fund was released, only Incofin will take a position on the ENCASH board of directors. March 14. 2012

Telefonica Offering "mWallet" in South America, Europe

Spanish telecommunications company Telefonica and Sybase 365, a division of German software firm SAP, are developing mWallet, a mobile money account that is slated to be available to Telefonica's 300 million customers in 26 countries in Europe and South America by June. The service will include retail and peer-to-peer payments as well as a tie-in with credit and loyalty cards. March 9. 2012

MicroCapital Deal of the Month

Zambia's Mobile Transactions Lands $3.7m in Equity

Omidyar Network, a US-based social investment firm, and ACCION International, a US-based microfinance nonprofit, have invested USD 3.2 million in equity in Mobile Transactions International, a Zambia-based mobile financial services company, in an effort to expand financial access to poor and underserved populations. Mennonite Economic Development Associates, a Canadian nonprofit that aims to alleviate poverty through financial investment, also converted USD 500,000 in debt as part of the equity raise. Mobile Transactions plans to use the funding to develop its leadership team, agent network and technology platform. As part of the agreement, representatives of Omidyar and ACCION will join the board of directors of Mobile Transactions, which has 50 agent locations in Zambia. CEO Mike Quinn of Mobile Transactions said, "Omidyar Network and ACCION share a commitment to our mission and are ideal partners to help us reach our goal to become a pan-African mobile payments business."

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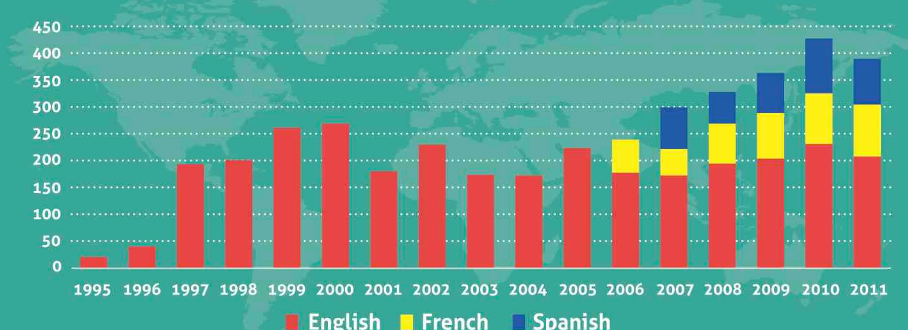

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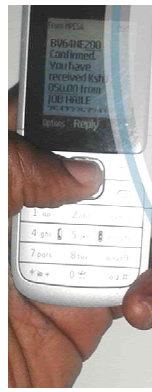

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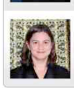

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FIELD NOTES

Small Is Beautiful...Thoughts About the Value of Smaller MFIs

Last week, I ventured to downtown New York City to attend a discussion on "Sources & Consequences of Microfinance." David Roodman of the US-based nonprofit Center for Global Development offered a summary of his new book, Due Diligence: An Impertinent Inquiry into Microfinance, noting that the "value" of microfinance has not been proved in terms of client social welfare or empowerment. The only way to "prove" value, argued Mr Roodman, is through randomized controlled trials, and simply not enough of these have been completed. He suspects that microfinance is not doing much harm, but noted that the only "proof" of value we have is the sector's ability to create thousands of jobs at microfinance institutions worldwide. Roodman's assessment suggests that only the larger microfinance institutions (MFIs) probably create enough jobs to offer "value." But, I thought, what about the little guys?

Chuck Waterfield, CEO of the US-based nonprofit Microfinance Transparency, offered no better hope for the small MFI. He displayed some charts that stirred the young idealistic bankers in the room, illustrating that smaller loans cost clients more in interest. So which MFIs are making these smaller loans?, I quickly scanned the MIX Market database of MFIs worldwide segmenting those that serve the low, broad, high, and small and medium-sized enterprise markets. Since 2001, their average total assets were USD 22 million, USD 36 million, USD 62 million and USD 53 million, respectively. The relationship was to be expected, but also suggests that smaller MFIs are the ones making smaller loans to "low" markets and thus charging higher interest rates. It makes you wonder if it isn't a matter of time before their competition scoops up their clients by offering cheaper products.

It didn't get any rosier for small MFIs as the evening went on. Camilla Nestor of the US-based nonprofit Grameen Foundation pointed at Grameen's own efforts to develop new products that meet its clients' needs more effectively than the one-product model of working capital loans on which microfinance has based its past success. These include savings accounts and mobile payments. Because MFIs aren't typically enthusiastic about investing to develop new products when they are already doing well, Ms Nestor explained that subsidies can push them along. But even with subsidies, I suspect large MFIs will be most willing and able to invest in new products and technologies. CJ Juhasz from US-based Women's World Banking Asset Management added that MFIs should be thinking about the potential income from cross-selling credit products with savings and insurance. I worry that smaller MFIs may not have the scale or capacity to add a product "suite" to their existing infrastructure.

I was left with some burning questions that I did not have a chance to pose at the event, so I will share them in this space. To Mr Roodman: Can we "prove" that smaller MFIs have been valuable? And if not, Mr Waterfield, should they continue to exist, or would clients be better served by accessing larger institutions that may be able offer them new products at lower prices? These are not easy questions for me since some of my favorite MFIs are "small" institutions. And I see value in their efforts. Many know their clients well, and they often reach regions or market niches that larger institutions shy away from. Ultimately, those small institutions that can commit to a strong mission and a "harder" target market should be able to demonstrate their value. But many of these institutions have been moving up-market to diversify revenues and gain market share. They should be cautioned to remain "on mission" - serving the working poor - lest they lose what value they do offer vis-à-vis their larger competitors.

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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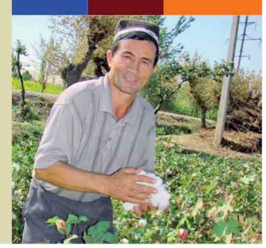

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PAPER WRAP-UPS

The Challenge of Understanding Pricing of Micro-loans

By Chuck Waterfield, published by MicroFinance Transparency, June 2011, 12 pages, http://www.mftransparency.org/pages/wp-content/uploads/2011/06/The-Challenge-of-Understanding-Pricing-of-Micro-Loans_Jun2011_ENG.pdf

This article explores the difficulties in understanding and comparing interest rates charged by microfinance institutions (MFIs), using Compartamos Banco of Mexico as its main example. The report cites as key challenges the lack of regulations requiring transparency in many countries in which MFIs operate and the misrepresentation of interest rates by some MFI staff.

In the example of Compartamos, a micro-finance bank founded in 1990, the bank communicates an interest rate of 4 percent per month to its clients, but charges 107 percent interest if calculated on an annual percentage rate (APR) method and over 150 percent when calculated using an effective interest rate (EIR) formula. According to information given by Compartamos to its clients, for a loan equivalent to USD 300, borrowers will make equal payments of USD 22 per week for 16 weeks for a total of USD 355. Mr Waterfield points out that, if a client continues to borrow and repay such loans for one year, the client will pay USD 180 in interest on an average loan balance of USD 130.

Mr Waterfield also calls attention to the fact that Compartamos charges "flat-rate" interest, meaning borrowers are charged interest on the full amount of the loan each week even after they have repaid part of the balance. This contrasts with the "declining-balance" method, which involves calculating interest each period on only the outstanding loan balance. Taking into account the charging of flat-rate interest by Compartamos, the annual interest rate reaches 86 percent, rather than the 48 percent that might be expected from its claim to charge 4 percent monthly interest. In addition, Compartamos actually charges 4 percent interest every four weeks, not every month, which allows the bank to charge clients an extra "month" of interest each year. According to MFTransparency's calculations, this raises the APR from 86 to 93 percent.

Compartamos also requires borrowers to save 10 percent of their loan amounts as soon as they receive the loans. If the borrower fails to repay, Compartamos seizes the money. Although borrowers never effectively receive the complete amount of their loan, they are still charged interest on this money.

In addition to these factors, many MFIs charge fees and... *(Continued in the subscriber edition)*

Building Livelihoods: A Field Manual for Practitioners in Humanitarian Settings

Published by the Women's Refugee Commission, May 2009, 378 pages, available at: http://www.womensrefugeecommission.org/docs/livelihoods_manual.pdf

This wrap-up covers the "Microfinance Interventions" chapter of *Building Livelihoods*. That chapter describes the benefits of providing microfinance programs to displaced people as well as the potential mistakes of poorly planned interventions. It also recommends how to incorporate age-, gender-, ability- and conflict-sensitive approaches in such microfinance programs. Finally, it provides resources for developing interventions, mapping the needs of a targeted population and creating guidelines for monitoring and evaluation.

A case study of the American Refugee Committee, which provided loans to Liberian and Sierra Leonean refugees in Guinea and Liberia, Sudanese refugees in northern Uganda, and Burmese refugees in Thailand, indicates that serving displaced people allows them to create a positive credit history that can facilitate the use of microfinance services from linked providers in the area of return.

Concern Worldwide, an Ireland-based agency working... *(Continued in the subscriber edition)*

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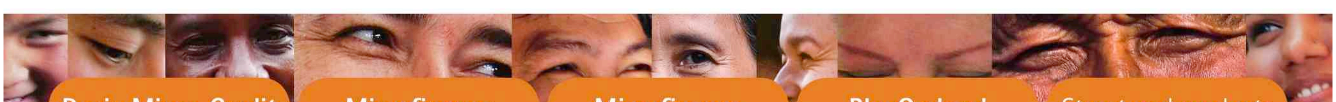

Dexia Micro-Credit Fund (DMCF): Senior debt, fully hedged

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