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Micro Housing of India Lands \$5m in Equity from Dell, IFIF, Unilazer

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

EFSE Loans \$30m in Serbia, Romania

Germany's Finance in Motion, fund advisor to the government-backed European Fund for Southeast Europe (EFSE), recently informed MicroCapital that during September EFSE loaned the equivalent of USD 27 million to Komercijalna banka Beograd of Serbia and USD 3.4 million to Patria Credit of Romania. Komercijalna banka Beograd, which is 43-percent government-held, reports assets of USD 4.1 billion. Patria reports a gross loan portfolio of USD 71 million and 12,000 borrowers. EFSE holds a label from the Luxembourg Fund Labeling Agency verifying that the fund actually invests in microfinance. October 10, 2013

ACAD of Palestine Attracts \$5.3m in Support as It Converts to For-profit

The Arab Centre for Agricultural Development (ACAD), a nonprofit microlender in Palestine, has secured funding and training commitments worth USD 5.3 million from the following organizations: the EU's European Investment Bank (EIB); the Luxembourg-based Grameen Credit Agricole Microfinance Foundation; French NGO Solidarite Internationale pour le Developpement et l'Investissement; and Dutch microfinance fund manager Triple Jump. While the nature of the commitments from the other participants has not been released, EIB is contributing technical assistance and funding of USD 1 million. A portion of the services will support ACAD in converting into ACAD Finance, a for-profit entity regulated by the Palestine Monetary Authority. As of 2011, ACAD reported a gross loan portfolio of USD 4.5 million. October 8, 2013

Microlenders in Ghana Allegedly "Reaping Heavily" via High Rates

Microfinance institutions (MFIs) in Ghana reportedly are "reaping heavily" from consumers who do not understand the flat-rate interest calculation method used by most microlenders in the country. This method involves charging interest on the initial loan amount throughout the term of the loan rather than on the remaining loan balance. The Bank of Ghana, the nation's central bank, reportedly is concerned over the surging numbers of MFIs in the country, many of which are out of regulatory compliance. September 29, 2013

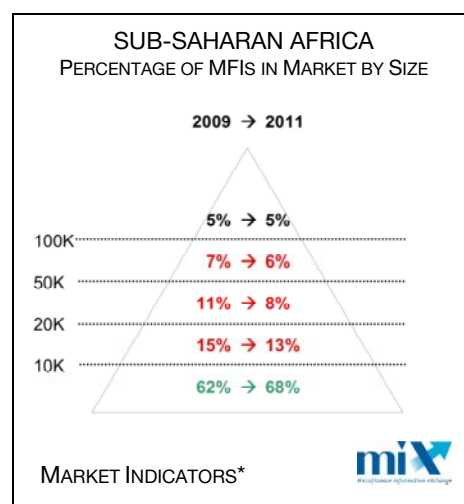
Dominican Republic's ADOPEM to Offer Flexible Farm Loans

Asociacion Dominicana para el Desarrollo de la Mujer (ADOPEM), a microbank in the Dominican Republic, recently announced that it will collaborate with Codespa, a Spanish NGO, and the Spanish government's Agencia Española de Cooperación Internacional para el Desarrollo, to provide loans to 12,000 farmers in the Dominican Republic. The borrowers also will receive agricultural training and have a choice of repayment schedules that correlate with crop cycles. ADOPEM reports total assets of USD 102 million. September 18, 2013

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

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MICROCAPITAL BRIEFS

MicroCapital to Cover European Microfinance Week Onsite

We at MicroCapital are pleased to announce that we have been contracted again to provide onsite reporting from European Microfinance Week, a production of the 140-member European Microfinance Platform. We will publish multiple postings at <http://microcapital.org> and on Twitter @MicroCapital during the event, which will take place in Luxembourg from November 12 through November 14. For more details, you may refer to the ad on page 4 of this newspaper and <http://e-mfp.eu>. October 11, 2013

SKS of India Securitizes \$52m in Microloans

Indian provider of microcredit and microinsurance SKS Microfinance reportedly has securitized a package of microloans and sold it for the equivalent of USD 52 million to an unidentified public-sector bank. The fresh liquidity is expected to fund microenterprise loans for 475,000 women in rural areas. As of September 2012, SKS reported total assets of USD 354 million and 3.9 million borrowers. As of March 2012, the microbank reported return on assets of -46 percent and return on equity of -110 percent. October 10, 2013

Airtel, MicroEnsure, Pan Africa to Offer Mobile Insurance in Kenya

MicroEnsure, a UK-based microinsurance intermediary, has announced that it will launch a mobile life insurance product with Airtel Kenya, a subsidiary of Indian mobile phone company Bharti Airtel, and Kenyan insurer Pan Africa Life. The product, called "Bima Mkononi," which means "money in your hands" in Swahili, will be available to Airtel's 3 million mobile-money subscribers in Kenya. The product will provide life insurance coverage of as little as USD 284 for USD 0.17 per week, with no restrictions based on prior medical conditions. Airtel serves 261 million subscribers worldwide. MicroEnsure serves 3.5 million clients in the Caribbean, Africa and Asia. Pan Africa Life holds USD 194 million in assets. October 9, 2013

Bangladesh Tightens Grip on Grameen Bank

The Bangladeshi government reportedly has decided to place the Grameen Bank, a Bangladeshi microfinance institution, under the control of the Bangladesh Bank, the country's central bank, allegedly in order to "better monitor" the microcredit organization. Grameen is currently regulated under the Grameen Bank Ordinance of 1983, but the central bank is working to regulate the bank under the Banking Companies Act of 1991. Under the new provisions, the Bangladesh Bank would regularly inspect Grameen, although it reportedly would not introduce major changes to the bank's shareholder structure. The government owns 25 percent of the equity in Grameen, while its customers own the remainder. Grameen reports total assets of USD 1.9 billion and 6 million active borrowers. October 9, 2013



MicroCapital Deal of the Month

Micro Housing Finance Lands \$5m in Equity from Dell, India Financial Inclusion Fund, Unilazer

Micro Housing Finance Corporation, an Indian provider of housing loans, recently announced that it has raised the equivalent of USD 5.6 million in equity. The breakdown of funding by investor has not been released, but the participants included two existing shareholders: the US-based Michael and Susan Dell Foundation and the USD 90 million India Financial Inclusion Fund. India's Unilazer Ventures, an investor in early-stage businesses, also participated in the funding round, investing in Micro Housing for the first time. Micro Housing provides loans of up to USD 8,000 at rates of 11 percent to 13 percent per year with terms of up to 15 years. With the new investments, the firm holds total capital of USD 12.4 million. For 2011, the Dell Foundation reported USD 817 million in assets. Unilazer is valued at the equivalent of USD 130 million.

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EBRD Issues \$1.5m to First MicroCredit Company of Kyrgyzstan

The European Bank for Reconstruction and Development, a multilateral financial institution, recently loaned the local-currency equivalent of USD 1.5 million to First MicroCredit Company of Kyrgyzstan to support on-lending to micro-, small and medium-sized enterprises, especially those in the agricultural sector. First MicroCredit reports total assets of USD 12.4 million, a gross loan portfolio of USD 11.8 million and 16,500 borrowers. October 6, 2013

Law Union and Rock Launches Microinsurance in Nigeria

Law Union and Rock Insurance Public Limited Company of Nigeria reportedly has established a unit to provide microinsurance services to individuals and microenterprises. As of 2011, Law Union and Rock reported total assets equivalent to USD 44 million. Details on the policies to be offered have not been released. September 26, 2013



FIELD NOTES

Behind the Scenes at FOROMIC 2013

I had the pleasure of being one of almost 1,800 people at last week's XVI Inter-American Forum on Microenterprise (FOROMIC) in Guadalajara, Mexico, celebrating the 20th anniversary of the Inter-American Development Bank's Fondo Multilateral de Inversiones (FOMIN or, in English, the Multilateral Investment Fund). Sixteen years after the first FOROMIC, which was also held in Mexico, seemed like a good time to reflect on how the microfinance industry has changed over this period. One notable shift is that the audience has broadened. At this year's FOROMIC, representatives of investment funds were launching health and clean energy funds; mobile phone operators were there, talking about payments; and crowdsourcing platforms, like Kiva, drew lots of attention.

FOMIN's general manager, Nancy Lee, also noted that not just the players, but the conversations have changed significantly since that first FOROMIC in 1998. Back then, attendees spoke about formalizing NGOs, whereas over 1,000 microfinance institutions (MFIs) in the region are regulated today. Meanwhile, new regulatory issues have been raised, including how to address mobile money and social impact bonds. Internally, FOMIN is adapting to these changes by thinking more about its role as a knowledge center that feeds innovation. But Ms Lee also noted that some topics have stubbornly remained on the agenda over the years with little progress, specifically savings and rural finance. She reflected that perhaps FOMIN and others in the community had focused excessively on credit and serving urban areas over the years. This was clearly the easier road. To reach rural areas, MFIs must improve efficiencies and reduce risk. Last week, many were talking about offering microinsurance products to guarantee their rural borrowers' crops. But a better first step may be to improve their understanding of their primary underlying risks (for example, by quantifying how much

corn they are financing prior to joining forces with crop insurers that cover only corn). Additionally, few MFIs are addressing inherent flaws in their models, which have stagnated over the years with inefficiencies and perhaps excessive decentralization, exacerbated by the geographic challenges of rural loans. Reducing administrative costs and not just risk can also make a difference, especially for large MFIs. This may be a good place to start when tackling the rural challenge.

On the other hand, investors, whose holdings are quite liquid, need to continue to put their money to work; yet more and more MFIs are regulated and funding themselves through savings - and even local bond markets - at interest rates much below those that foreign funds can offer. We may be entering a period with a smaller pool of MFIs available for foreigners to invest in.

Investors face some hard choices about where to place their liquidity. They could: (1) fund smaller and perhaps less profitable institutions that focus on social rather than commercial returns; (2) diversify investments - perhaps into other regions or into fields such as health or the environment; and (3) seek to become cheaper and more efficient themselves - possibly by moving staff to lower-cost places or merging with other investors. Some combination of the three is most likely.

While FOMIN hasn't announced the venue for next year's event, I'm sure there will be great Latin music and lots to discuss...and perhaps an even broader array of actors than we can imagine today.

About the Author: Ms Barbara Magnoni is President of EA Consultants, a development consulting firm based in New York. She has 18 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

2012 MENA Regional Snapshot

By Audrey Linthorst and Melina Djre, published by the Microfinance Information Exchange (MIX), 2013, available at: <http://www.themix.org/publications/mix-microfinance-world/2013/06/2013-MENA-regional-snapshot>

This presentation summarizes the state of the microfinance market in the Middle East and North Africa (MENA) as of 2012. According to the authors, MENA “continues to be the smallest [microfinance] market in terms of both borrower outreach and gross loan portfolio.”

While the microfinance markets in Egypt and Morocco display “higher levels of outreach and scale,” microfinance markets are “younger” in Iraq, Sudan and Syria. Egypt has the largest microfinance market in terms of number of borrowers; however, Morocco leads in terms of aggregate loan portfolio. Despite social and political turmoil in the region, MENA exhibited “modest” returns on assets of approximately 1 percent during the year.

A Microcredit Crisis Averted: The Case of Bangladesh

By Greg Chen and Stuart Rutherford, published by CGAP (Consultative Group to Assist the Poor), July 2013, 20 pages, available at: <http://www.cgap.org/sites/default/files/Focus-Note-A-Microcredit-Crisis-Averted-July-2013.pdf>

In this paper, the authors discuss reasons that the microfinance industry in Bangladesh grew rapidly starting in 2004 and then suddenly leveled off in 2008. The work is based on interviews with 43 rural households and 10 years of data and internal documents from the following microfinance institutions (MFIs): ASA, BRAC, Buro and Grameen Bank.

The popularity of microcredit in the country increased steadily beginning in the 1970s, and the number of MFIs increased significantly during the 1990s. Between 2004 and 2007, the industry’s customer growth rate ranged from 15 to 28 percent per year. During this time, the aggregate gross loan portfolio of the four studied MFIs grew by 70 percent.

During the middle of the last decade, the MFIs began to access new sources of funding. Previously, liquidity had come mostly from international donations and loans from the UN’s International Fund for Agricultural Development and Palli Karma-Sahayak Foundation, a nonprofit backed by the government of Bangladesh. More recently, the four MFIs began to accept deposits from borrowers and the general public as well as borrowing on a wholesale basis from domestic commercial banks.

During this time, the MFIs began to compete significantly for borrowers. The authors argue that MFIs pushed harder to gain new clients because of: (1) regulation; (2) encouragement from abroad; and (3) a race to claim customers before the market became saturated.

The Microcredit Regulatory Act, which was passed by the Bangladesh government in 2006,

established a regulatory agency for MFIs. The agency proposed strict limitations on establishing new branches, which encouraged MFIs to rush to set up new branches before the new regulations took effect.

In 2008, the growth came to a halt due to market saturation and management problems caused by rapid growth. New branches were increasingly unable to attract enough borrowers to break even. The intense competition for new clients had led many lenders to be lenient on borrowing requirements, resulting in clients taking loans from multiple lenders that they could not repay.

The four MFIs began to halt the addition of branches, tighten borrowing requirements and reduce the range of products offered. Though the industry suffered between 2009 and 2010, the authors argue that a crisis was averted because of increased deposit levels and decreased loan sizes. The authors add that this marked a turning point in the microfinance industry in Bangladesh leading to today’s stability, continued focus on small-enterprise lending, broader savings offerings and increased mobile phone payment services. To sustain this stability, a special licensure for deposit-taking MFIs is proposed. ■

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