A Global monthly e-Magazine on Microfinance & Sustainable Development

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Head Office
Microfinance Focus—India
Avalahalli, Anjanpura Post , Bangalore(India)-62
P: +91.80.28436237 |f: +91.80.28436577
Email: info@microfinancefocus.com
Web: www.microfinancefocus.com

Branch office
Microfinance Focus— The US
717 Lawrence Street, NE | Washington, DC, 20017
Mobile +410.227.0498
Email: managingeditor_us@microfinancefocus.com
Web: www.microfinancefocus.com

Introducing New Logo…
Renewing our Commitment

Microfinance Focus seeks to play the role of a catalyst for promotion of best practices, knowledge exchange , policy advocacy and client protection in microfinance sphere.

3 Lights in our new logo

Three lights (in India it is the light of a *diya* or similar to a candle light) represent our endeavour to promote lights of knowledge , solidarity or respecting various cultures , and a call to action

The Yellow

Yellow colored light symbolizes that Microfinance Focus will promote good practices of Microfinance, will bring forth success stories, achievements and the ideas that the entire microfinance world should learn and follow. We will also generate awareness of microfinance to a new horizon.

The Red Light

Red colored light symbolizes that Microfinance Focus will prevent wrong practices by MFIs which potentially can harm poor people. Policy advocacy on behalf of the poor and MFIs for change whether by governments or other stakeholders like investors.

The Blue light

Deep Blue sky light symbolizes that Microfinance Focus as an organization will touch SKY and we will be Number 1 in our sector to serve the microfinance community. We, all employees and stakeholders of Microfinance Focus, will keep high spirit of achievement and togetherness.

From Managing Editor-India

Indian microfinance on a new beat

Send your feedback : naagesh@microfinancefocus.com

Naagesh Naaraayana
Microfinance Focus | Bangalore

Indian microfinance institutions are increasingly turning to newer products to address the poor and unbanked people. While Bidar-based Nirantara has already unveiled its foray into the education sector by emulating a model whereby children of its micro-credit borrowers are encouraged to study in their centers called 'Nirantara Kids'. Water.Org, a global initiative to provide water loans, is fast expanding its water loans to the poor through many local MFIs. The Kolkata-based Bandhan, apart from its micro-credits, has embarked upon opening schools and providing grants to the poorest of the poor category and its new program is equally insightful, that is, extending loans to the unemployed youth as well. The inspiration is visible and the drive to launch new products and avenues. It is a welcome direction and many can emulate such programs.

But, is the sector getting its funds for such expansion plans? The sector has accounted for 40 per cent of all private equity deals in the country in the past 18 months and many more are apparently in the pipeline. The rush for funds is, in turn, pushing the MFIs to expand their operations but the cost of private equity funding is very high and it is putting pressure on many MFIs. This is resulting in higher interest rates and the possibility of defaults.

Another misadventure that is affecting the sector is multiple lending in a region that has already reached its saturation. Instead of geographical expansion, many MFIs are now concentrating on an already explored region and shying away from the areas which have long witnessed conflicts or unrest, as pointed out by an RBI occasional paper recently.

The penetration of micro-credit in India is still quite low at 15 to 20 per cent but there are pockets overwhelmed by multiple borrowing and organized defaults. While the concept of credit bureaux is gaining currency to address the issue, move to set up such bureaux is limited to big players. Bringing all the MFIs under one umbrella would require greater efforts and even regulatory measures by the government.

From Managing Editor-US

What is a Socially Responsible Investor?

Send your feedback : managingeditor_us@microfinancefocus.com

Jerome Peloquin
Microfinance Focus | Washington D.C.

Recently I participated in an online conference on Social Investment under the auspices of the SEEP Network. It proved to be quite interesting, as I did not identify myself as being affiliated with this magazine, but as a small NGO with whom I consult. I learned some interesting things and discovered a few issues with which I was not previously acquainted.

First, it appears that an investment fund that calls itself a Socially Responsible Investor (SRI) is not necessarily an investor who puts money into social causes. It is a negative distinction. Such an investor is one that does not invest in, what the investment committee perceives to be, socially or, today, and environmentally destructive causes – a critical distinction!

There are several versions of the SRI including; so-called faith based investment funds. The point being that if one believes that an SRI will invest in socially redeeming projects, one could be seriously wrong!

A socially responsible investor is exactly the same in all aspects of the fund as a traditional Wall Street investment house with the exception that it has a proscribed list of companies in which it will not invest. SRI's give no consideration to social causes; they are not taking a lesser return than the market will otherwise seek from any investment. They (SRI) do not provide patient capital, or in any way give preferential treatment to a social mission project.

These SR funds do invest in the MFI (Microfinance Institution) in my opinion not because it is a good thing to do, but because it is a wise investment. It is secure and dependable (the poor pay back) and the MFI institutions in which they invest are charging what would be considered criminal interest rates if the loans were made here in the USA (or in The EU)

The question we have for those so called SRI's is: What responsibility does the investor have to assure that the institutions to whom THEY lend treat fairly in their markets. The SRI's who hold themselves out as lending to the poor are, in reality not lending to the poor at all, but lending to many MFI's who charge the poor a hundred percent interest. The SRI's appear to be failing in their implied social responsibility to help end poverty. Instead there are clear indications that they are part of the unspoken and silent process of demonetizing the poor. When confronted they seek to justify their behavior by quoting the high cost of doing business with the poor, yet these MFI's do not provide transparent financial information so one cannot determine if what they say is true, or not true. Dr. Yunus who has some experience in MF says otherwise.

It is, in my opinion, a quiet conspiracy of money changers in the temple calling themselves Socially Responsible Investors … yes, perhaps somewhat socially responsible but certainly, for those who fit this profile, not socially redeemable.

From Managing Editor-Europe

Me and Microfinance

Send your feedback : garrett@microfinancefocus.com

Garrett Wyse
Microfinance Focus | Tramore (Ireland)

Growing up in a small town on the south east coast of Ireland, I had my first bank account while still in school and a credit union account also. Having completed third level qualifications in business and law and worked in pre-Celtic tiger Ireland, the exponential increase in Ireland's GDP in recent years, which meant you worked abroad for a few years, I went back to college and completed a degree in economics and politics.

I worked and travelled in many countries and witnessed first hand the inconsistencies in the way the world actually worked and more to the point how it fundamentally did not work for the vast majority. Rhetoric and reality never quite seemed to match up, from the streets of the newly renamed Mumbai in the late 1990's to Paraguay and Australia and on such places as Uganda, Ghana and the United States. So what's a person to do?

I was keen to find out how the world worked in theory, after seeing how it did not work so well in practice, and set about trying to do my little bit to make it that bit better. Realising the positive power of the credit union in my home town, where the majority of adults are members, it occurred to me that access to financial services is crucial to people as a means of organising, controlling, protecting and potentially expanding their resource bases.

And so I managed to get involved in the area of microfinance, firstly with the Irish aid and development organisation Concern in Haiti and then in Kosovo with a local MFI, which was expanding its operations into Business Development Services
, education and general microfinance support activities.

The idea of 'people on the street' in developed countries somehow being able to play an important role in the expansion of financial services available to people on the street in developing countries intrigued me and so one area of microfinance I have been working on is the development of retail investment in MF. To me, expanding access to financial services was the primary aim of the microfinance industry and providing access to funds appeared to be one appropriate avenue to explore.

Having bought a share in a MF investment fund a number of years ago the idea was to offer this to my local credit union as a means of initiating a 'global credit union' of sorts and getting others to invest likewise. Kiva has taken this idea to a different level and I feel that there is a world of work to do with this simple idea. More of that another time.

Living in Ireland through the demise of the Celtic Tiger, where the average Irish person was convinced by the great and the good that everyone being a property developer was a good thing, I have witnessed first hand how easy access to too much credit can be a destructive force. No access at all on the other hand is also destructive.

In an earlier article for MF Focus I pointed out that my share in the MF investment fund had performed better than any blue chip investments in the past two years, yet still the concept of retail investing in MF is met with scepticism by those in the conventional investment community that can make it reality and can affect poverty on a potentially global scale. The possibility of attracting investment from the developed world is one potential way to scale up access to financial services in the developing world. Rest assured that the concept of investing in flesh and blood is gaining ground, that it is an even better investment than in bricks and mortar,. The person on the street seems to have a firm grasp of such simple ideas, even more than those that must be convinced in order for it to happen on a scale that can affect real change. While visiting Uganda I had the good fortune to meet some people that I had lent money to. Witnessing first-hand how a widow could rent land and buy farming inputs, growing enough to support her family and with the sale of the surplus to send them to school had a profound effect on me, but even more on that family's livelihood. This simple transaction and its positive effect, financial and non-financial spurs me on to do ever more. And there is no shortage of things to do.

My interest in MF has meant my holidays for many years have consisted of attending various conferences, seminars and courses in places as diverse as Ghana, Geneva, New York, Luxembourg, Boulder. While this has given me an understanding of many MF issues it has also led me to believe that a comprehensive overhaul of financial systems needs to take place in order that people may have access to timely, efficient, effective, demanded and tailored services.

One of my areas of interest is the idea of a hierarchy of financial services, where personal resource bases have to be controlled and organised for individuals through savings, and these savings, or accumulation of personal resources need to be protected from being reduced in value through a variety event and circumstances, which is where insurance comes in. Access to appropriate credit may then offer the opportunity for individuals to expand these resource bases and fundamentally improve the lives of themselves, their families and communities, which will be explored in future issues..

I shall be looking at the European MF scene from investment to research and advocacy to practice and any areas where people feel a European perspective may be useful.

Please feel free to contact me at garett@microfinancefocus.com. I look forward to engaging in dialog with MFF readers.

- **garret Wyse**

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P. +91.80.28436237| F. +91.80.28436577 | Mob: +91.9535186668
Email: vikash@microfinancefocus.com

How Does IT Defend its Value?

Bruce Meraviglia, Technology & Marketing Editor, Microfinance Focus

In the early 1990's, Robert Kaplan, a PhD-level professor of accounting at Harvard University, wrote a series of papers on how business should (could) consider the value of IT. His principal position was that traditional accounting standards had no valid methodology for quantifying the value of IT in terms of its benefits to the organization (beyond the level of saying that an administrative assistant could type more letters with a computer than a typewriter).

This limitation of not being able to quantify the value of IT, from a classical accounting perspective, coupled with the current diminished status of IT to the rank of "just another department" within the MFI, has the potential to short-change the MFI when it is creating its annual operating budget. IF you cannot determine the value of IT, how do you determine an appropriate level of funding for IT that will allow it to contribute to the operational capability of the MFI? IF you cannot determine the value of its contributions, how do you determine the worth of its accomplishments?

Unless the IT function is buying a specific piece of software, either operational or financial, to satisfy the requirements of the local government the MFI operates under, or to satisfy the requirements of a donor organization, few MFI managers adequately determine the worth of an IT investment. Since the average IT professional has not been trained in how to construct a financially-valid business case to support the implementation of new technology, or to provide a system of metrics that will allow others to determine the value of IT's contributions to the organization, the average manager in an MFI will usually just try to make an informed guess as to the worth of the IT department's annual budget request.

With the ever expanding role of IT in the MFI, and the creation of services that are not possible without the use of technology.

Rapid Growth of Micro Finance New Opportunities and Challenges

Dr. Sourendra Nath Ghosal , Head (Knowledge Management) , MF FOCUS

It is really interesting and heartening to observe the rapid growth of micro financing institutions in developing countries irrespective of the facts that it has neither impacted much on poverty alleviation nor on economic growth of the country. At best the beneficial effect that could be acknowledged so far is that it has helped poor to finance their trade and maintain their family. However from the development perspective these institutions are expected to give poor people a chance to come out of poverty and become productive agents to improve their own lives.

This objective could not be attained due to various reasons but some of them are so obvious that it is difficult to comprehend how these have escaped the notice of policy makers and even promoters as most of them while framing policies and strategizing business announced from the top of their roof that these institutions are conceived and funded to ameliorate poverty of disadvantaged people. The obvious question is therefore what went wrong and despite rapid growth of these institutions in developing countries including India; they failed to deliver the much publicized and well defined objective set before these institutions by policy makers and promoters.

However any one with some insight and experience could perceive some of the obvious reasons for this failure to fulfill the desired objective. These could be summed up as follows:

a. Availability of less risky and more rewarding space to fund hawkers and traders branded as poor in urban and semi-urban and even in villages;

b. Opportunity to become intermediaries of commercial banks who avoid such lending but are under compulsion of governments and regulators to lend some fixed percentage of their lending to farmers, traders and artisans of villages and semi-urban towns;

c. Facilities to securitize these loans with some discounts to banks especially foreign banks who are also burdened with statutory as well as corporate social responsibility to lend and uplift the poor;

d. Providing short term loans based on cash trading transactions suited well with the promoters and funding institutions as these transactions generally get paid and hence no default or least number of default arises;

Such short term transactions help creation of group lending and group guarantee both informally and formally without much persuasion.

It is therefore not very unusual to find that most of the MFIs have adopted easiest and safest model. But many pioneers have also proved that it is not necessary to pursue the safest course as "micro finance has been demonstrated to be a profitable business serving the poor, even in some difficult environments."(Vide Gil Crawford of Micro Vest. Grameen Bank of Bangladesh and Sewa of India are some of the illustrious examples that brings out how large number of poor could be empowered and trained to not only earn their livelihood but also to improve their standard of living and move to higher strata of society. However these institutions have largely concentrated on women members of the family and helped them to develop new crafts that would provide them subsidiary family income and that way enrich their families. It is true this is one very powerful way to release the family from the clutches of poverty; but certainly not helping total eradication of poverty. This could be possible only when SMIs start financing SMEs and farmers on a big scale. This would be feasible only when we reinvent and revisit the MFIs and develop a private public partnership model. This is more so as farming where highest number of poor people are engaged have not yet become viable due to dependence on monsoon and inability to create adequate irrigation facilities on their own and also modernizing farming due to lack of knowledge of shift in technology in cropping pattern and irrigation as well as soil maintenance and development. In fact there are hardly any efforts to communicate these rapid changes despite existence of extension officer at block level and agricultural specialist at district level. Most of them are not abreast with recent development in agronomy and irrigation technology.

There are visible signs that MFIs need total transformation both in strategy and business models and perhaps in constitution also to wriggle out from the present complacency and apathy towards real poor. It is unfortunate to observe that almost all MFIs are assessed on the basis of their coverage, profitability and high level of repayment index instead of measuring whether they are successful in achieving their primary goals--poverty alleviations and inclusive growth. It is true some enlightened MFIs have started providing medical supports and health checking and education facilities and some of them also have gone a little further to provide insurance facilities also These are strategies that would not ameliorate poverty. It is therefore imperative to look for some business strategy for MFIs that would provide poor not only succor and sustainability but also help them to attain higher standard of living. In this regard one has to first identify the customer group namely traders ,artisans and or farmers that they can serve best and thereafter the services and products that they are best equipped to provide and also develop adequate demand for these in the market. It is true that already some experiments are going on like developing partnership models with self help groups and banks but these are mostly aiming and aiding banks to fulfill their mandatory obligations to lend to farmers and artisans. .

But in all these experimentation one missing link that is not taken care of is the rapid development of technology and demand pattern of people either due to technology and or social and economic changes rapidly overthrowing the existing norms and patterns of living and business and entertainment demand patterns even in rural areas. Globalization has narrowed the spatial differentiation and widened the wealth differentiation. To day there is serious attempt to build infrastructures in villages to narrow down the present differences that one experiences there when compared with what are available in cities and towns.

The present emerging trend in social and economic sphere is also experiencing some radical change as poor people are gradually aspiring to become middle class, and middle class people are aspiring to join rich people. This dynamic transformation is not confined to one country only but spreading both in developing as well as developed countries but obviously less visible in the latter countries as most of their people have been enjoying better environment and infrastructure.

A closer look would reveal that there is emerging felt need to have financial institutions that would help poor to achieve their ambition to join the middle class and would assist the rich people to become more affluent by getting access to more wealth through innovative investments of their own funds and having access to market fund with ease and flexible terms and conditions through some innovative instruments like special purpose vehicle (SPV) and qualified institutional placement (QIP)etc. But this distinct change is not visible in the business strategy in most of the MFIs and banks all over the world with a few exceptions. It is true such transformation could only be gradual but what is most disturbing is that no awareness and any conscious efforts in these directions could be seen in policy strategy of governments and regulatory authorities

It is obvious therefore that there is need to revisit strategies now pursued by MFIs and look for such innovation that would not only be sustainable but also fulfill its role as intermediary to generate savings and investments with social performance mission. It has been rightly observed by VAN HORNA (2003) that intermediary role i.e., bridging the gap should not be distorted by any one including monetary authorities. It would therefore serve poor better if these institutions concentrate more to develop entrepreneurs in rural, semi-urban, urban and even in metropolitan tow

Financial inclusion is perhaps one way MFIs and banks can become socially responsible. For this MFIs and banks have to redefine their role as an intermediary to fund the Bottom of Pyramid. The role model that could be visualized could be summed up as follows:

1. to fund existing and emerging needs of rural and unbanked areas;
2. to search and develop information tools to communicate and spread the message of services and products available to all including disadvantaged people ;
3. to develop saving habits as gateway to financial inclusion;
4. to help developing projects for artisans on cluster basis and for farmers for identified compact lands;
5. to help developing educational institutions that could be commercially viable after due gestation period;
6. to help developing drinking and irrigation water facilities by creating societies of farmers and artisans to run these on commercial basis after some predetermined gestation period;
7. to assist in developing solar energy facilities as a commercially viable project;

To assist in developing health centers and that too as a commercially viable project.

O.P. BHATT, chairman of SBI has rightly said that ‘banks do not exist in vacuum. They make a large contribution to country’s GDP growth; meet the demand of growing middle class. Contribute to infrastructure, spending and reach out to semi-urban and rural areas.’ In that case there is no-hold bar for banks in partnership with MFIs to strategize on above lines. In this regard KARMAKAR M.D. NABARD has rightly pointed out that ‘the need for policy changes for priority sector, a need to redefine the role of rural moneylenders, a need to find out the emerging rural service sector, a need for an information campaign…' has become overdue.

In this regard it may be worthwhile to note some of the initiatives taken by the ICICI bank. It has enhanced its capacity to fulfill its social responsibility immensely through the establishment of ICICI FOUNDATION for giving boost to inclusive growth. It would obviously catalyze and accelerate activities to bridge the economic and social gaps that have clouded our latent potentiality of growth. It would enable large number of poor children to get access to good education as it would fund and develop schools in rural areas. It has also aimed to improve the earnings of poor people through training and marketing support. It also aims at developing sustainable environment friendly activities for the disadvantaged people of the society. It has also strategized facilitating universal access to finance and market to provide the needs of poor. It has also given due stress to health facility to the poor as human capital is key to economic growth. It has also created research facilities to deliver high quality sustainable environment friendly infrastructure and for this it has partnered with ENVIRONMENTALLY SUSTAINABLE PROJECT FINANCE. Similarly S.B.I., AXIS BANK, HSBC, BARCLAYS and DEUTCHE BANK all have initiated in some form or the other to fulfill their social responsibility but the need is total but gradual transformation of MFIs business strategy as has been highlighted over here. In fact, MFIs still have miles to go to fulfill the much desired objective of social responsibility. But happy sign is that it is gradually dawning in their minds of most of the enlightened management of MFIs.

It is obvious therefore that institutions undertaking micro-financing should view their social responsibility more importantly and take into account all social and environmental factors along with economic parameters to evolve a sustainable strategy to serve the poor. It is high time for these institutions not to be a copy cat of GRAMEEN BANK of BANGLADESH despite its highly advertised success stories as an in depth analysis would reveal that it has also failed to eliminate poverty of people of BANGLADESH. It is true it has largely empowered poor women to contribute in their family income but it has not been able to uplift poor to be classified as middle-class. It would be necessary for MFIs to revisit their business strategy as detailed below:

1. create policy environment that would help generate economic activities for the poor;
2. encourage saving habits among the poor;
3. integrate existing schemes and policies of government and social institutions including philanthropic societies schemes in their lending policies to the poor so that there would be one window for getting all supports for the upgrading of poor;
4. create public private partnership model to enhance risk taking capacity and managerial skill;
5. create prudential regulatory authority to oversight the performance of MFIs;

Make it easier for MFIs to source funds from various funding agencies of government and private.

It is true that such transformation would need paradigm change in the mindset of policy makers both in the government and management of MFIs but it is inevitable if poverty eradication is really the primary objective of MFIs. No doubt this is feasible proposition and one can certainly achieve it if endowed with passion and vision to translate it into a reality.

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About the Author:

Dr. Sourendra Nath Ghosal, a PhD in finance and Masters degrees in commerce and economics, had taught for 18 years in colleges and later in the University of Jodhpur, Rajasthan; He worked as principal, Cooperative Training College for about two years at Kalyani, West Bengal. He worked with the United Bank of India for 22 years and retired as general manager, credit. He has also authored several books and papers in several national and international journals and newspapers. You can reach him at souren@microfinancefocus.com

Horizon

Microfinance without the finance

The possibility of scrip-based development funding

Jonathan Warner | Quest University Canada

Microfinance is a wonderful idea. Making small loans to poor people who would not otherwise have access to funds, but who have the ability to use the money to build and fund businesses has proven to be a path to bring many millions of people worldwide out of poverty. But if it's such a good idea, why does it generally take an outside body for a scheme to commence? Is it possible for a community to create financial resources itself, and so obviate the need for any external funding?

Locally-issued community currencies have a long history. Examples are the various Notgeld issued in Germany and Austria after the end of the First World War, and the variety of substitutes for money that appeared in the United States during the Great Depression.

Today, a number of communities have experimented with the issue of local currencies. The stated reason for most of these is to stimulate local businesses, and to keep money within the community. For example, in British Columbia, Salt Spring Island issues its own notes in denominations from $1 to $100, as well as a $50 silver coin.

The current economic crisis has increased interest in the idea of local currencies, with several schemes starting over the last year. The Transitions Towns movement in Britain includes Lewes, East Sussex, which issued currency in September 2008.

Source: *Author's collection* Notgeld examples Germany (left) and Austria (right)

Community currencies are generally at par with and easily convertible into the legal tender of the country in which the community is located. To ensure that people have faith in the currency, and to solve any problems of "congestion" (too much of the scrip piling up with certain merchants), some mechanism generally exists to convert it into legal tender. Salt Spring Island currency is convertible back into Canadian dollars at par on demand. The issuing community therefore needs to keep a reserve of money with which to redeem the scrip.

The easiest way to do this is to sell the scrip in exchange for legal tender, but in that case there is no new money or credit in the community, except for the small amount of seigniorage that could be earned by placing the money obtained from scrip sales on deposit with a bank (or in some equally safe investment). If redemptions cannot be made until some future date, then the scrip can be sold at a discount, with the difference covered by the interest earned between the issue and redemption dates.[i] Alternatively, merchants might be prepared to pick up some of the bill, because of the increase in trade that the scrip generates. Thus each Christmas the Iowa town of Hawarden sells a form of scrip at a 15% discount –

From *WWW.**saltspring**dollars.com/*

Source: *Author's collection*; See *www.thelewespound.org/*

merchants presumably think this is worthwhile to capture sales that would otherwise be made in other nearby cities. Also, most issuers also find that nicely-designed notes or coins become collectors' items, and are never submitted for repayment.

The examples mentioned so far are all from the developed world. Instead of assisting the poor, community currencies primarily function as a plaything of the middle classes. Can community currencies work in less developed parts of the world?

There have been some uses of alternative currencies in middle-income countries. In Venezuela, there are at least ten local alternative currencies circulating with Presidential approval.[ii] In north-eastern Thailand, the village of Santi Suk has used a local currency as a circulating medium of exchange for the past decade, introduced following the Asian financial crisis of 1998. The use of the currency ebbs and flows depending on the availability of bahts within the community, thereby acting as a stabilizer in times of monetary shortage.

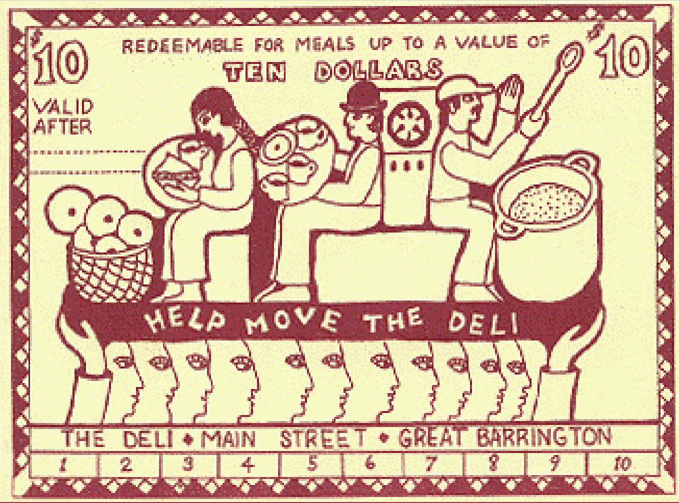
The abbot of the local Buddhist monastery, Phra Supajarawat, acts as the banker for the scheme. Other communities have since copied Santi Suk's idea.[iii]

But could the community credit feature implicit in scrip be used to finance new businesses in a way similar to the way in which microcredit does? One indicative example from the 1980's is the Great Barrington Deli Dollar. Faced with the demolition of his delicatessen and sandwich shop to make way for a new road, Frank Tortoriello wanted to relocate to larger premises. He was unable to obtain a bank loan; but, advised by the Schumacher Society he issued a form of scrip, known as "Deli Dollars" as a way of financing the move. Each certificate was redeemable for $10 in sandwiches after the Deli had been moved, and was sold for $8 during the last weeks that the old Deli remained open. The community obviously valued the Deli, as Mr Tortoriello was able to raise all the money he needed, and the Deli was successfully relocated.

What makes this story particularly interesting is that the Deli Dollars, instead of just remaining in the hands of their purchasers, began to circulate around town.[iv] In fact, the scheme was so successful that a couple of neighbouring farmers were also able to issue their own scrip, piggybacking on the Schumacher Society's ideas, but charging $9 for a $10 certificate. [v]

The community of Palmeiras, an impoverished part of Fortaleza, Ceara State, Brazil provides an example from the Global South. Here, the Bancos des Palmas, established by the community in 1998, uses a community currency called Palmas, valued at par with the Real. But as well as facilitating transactions between people within the community, the Bancos des Palmas

Source: *thaiphotoblogs.com*



Source: *ratical.org*

also makes loans, which can be used for business development.[vi]

Could this model be extended to work in low-income countries? For an issue of scrip to be effective, it must be seen as trustworthy. As the community that agrees to use the scrip is in effect providing a form of credit, members of the community must have good reasons to believe that the credit extended will be paid off. The simplest way to do this is a currency board approach: the issuer will redeem scrip with legal tender on demand. If the issuer is trusted, either because of his track record (as in the case of Mr Tortoriello) or because of his reputation within the community, as with Abbot Phra Supajarawat and the organizers of Bancos des Palmas, then automatic redemption might not be necessary. For example, if the scrip had to circulate for a time before it was eligible for redemption, it would be possible to invest the legal tender funds that backed it, and so earn a return that could be ploughed back into the scrip scheme.

Source: *somainkinderland.com*

A sufficient number of community members must be committed to accepting the scrip in their transactions for it to be able to work. Just as the original Grameen model fostered accountability through group-lending, a scrip version of micro lending must have some means to do the same. Jeff Powell and Menno Salverda, the development volunteers who suggested scrip to Santi Suk, suggest that access to scrip be through membership in an organization (rather like a Chamber of Commerce, but drawn more broadly), thus providing an element of collective responsibility.[vii] Members would be able to borrow interest-free, but their accounts with the scrip bank are public: any member can see both the total amount of scrip in circulation, and the amount of each member's credit and debit with the issuer (the bank).[viii]

Not all business ventures that currently attract microloans will be amenable to scrip-based financing. Any business that requires that most of inputs come from outside the community will need legal tender loans in order to be able to purchase those inputs. This might be an advantage for a scrip-based system: research in Liberia suggests that much current micro-lending ends up being used for arbitrage trading: buying goods in bulk or where they are cheap, and then selling them on the streets, or in another community at a profit. While these services have value, they tend to suck foreign goods (imports) into the country, and to allow value to flow towards the capital or major port cities. While this is not necessarily bad, it will fail to contribute to poverty alleviation or development if the result is simply more traders with miniscule margins. In addition, legal tender microfinance loans might be differentially used for trade, because of the stringent terms for payback that rapidly require a positive cash flow from the business.[ix]

The best candidate for scrip-based lending would be a business that is labour-intensive and reliant on local inputs. For example:
A poor village in a relatively-isolated area needs to rebuild after a tropical storm has destroyed the school/irrigation system. There are unemployed men in the village, with the ability to carry out the work, but no means to pay them. An obvious solution would be for the country's government to pay the unemployed workers to undertake the rebuilding. In the ab-

sence of finance from the government (perhaps because of budgetary constraints imposed externally or internally), could the village undertake the project itself? A scrip issue to create money to circulate within the village, initially paid to the builders to rebuild, would seem to be capable of doing the trick. Workers paid with scrip would spend it in the village: if there is little leakage to the rest of the country (i.e. most products consumed are local), the addition of the scrip money could regenerate the economy as it circulates.

A second example:

A villager, or NGO, has a business idea to add value to the local coconut crop by processing the various parts of the meat and pod. [x] In consultation with the people of the village, the chief (or Panchayat or village priest) agrees to administer the scheme, and produces an issue of scrip which is lent to the villager. As long as the inputs for the business can be obtained within the village, and the chief will accept the scrip back for taxes (or the priest accept it for tithes), the other villagers can accept the scrip as money without any great risk. As the business develops, the scrip loan can be paid back, and perhaps re-lent. If the borrower absconds, or the business fails, the community bears the cost, which should encourage wise decision-making initially.

Based on the experience of Palmeira and of other community currencies, the necessary preconditions for success of scrip-based microfinance would appear to be these:

- A community that is willing to accept the scrip for transactions
- A trustworthy issuer of scrip
- The businesses borrowing the scrip require few external inputs
- The scrip issuer must himself provide a way for the scrip to be used
- An exit strategy to allow the scheme to be wound up (redemption date for the scrip)

Whether these conditions are jointly sufficient for success in the poorest countries of the world can probably be determined only by experimenting with a pilot project. Scrip is not a panacea, as the experience of the 1930's demonstrates, but could potentially be a useful addition to the micro financing toolkit.

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i. California is, in effect, doing that at present. Having run out of money, the State is issuing warrants (IOU's) that will be repaid in October, with interest accrued at 3.75% per annum.

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viii. See "Designing a Community Coupon Exchange System" at http://www.appropriate-economics.org/asia/thailand/tccoupon.html (accessed March 4th, 2009).

ix. John Gorlorwulu and Jonathan Warner The Nature and Consequences of Weak Financial Markets in Post-conflict Countries: Report on a Case Study of Liberia, paper presented at the Conference on Bottom-Up Approaches to Global Poverty, Baylor University, Waco, Texas October 23-25th, 2008

x. Perla Manapol, who has successfully implemented similar projects in the Philippines, suggests that coconut-based processing industries might work well in Liberia, where coconuts are currently used only as a source of food. See Ms. Manapol's postings at http://coconutsgalore.blogspot.com/, and specifically http://coconutsgalore.blogspot.com/2008/04/aklan-model-to-be-replicated-in-liberia.html.

About the Author :
Jonathan Warner is Professor and Tutor in Economics at Quest University in British Columbia. Prior to moving to Canada, he taught at Dordt College in Northwest Iowa, U.S.A., where he became interested in the various kinds of scrip that appeared in the state during the Great Depression. His is also interested in issues in Development Economics, particularly the Capabilities Approach of Amartya Sen and Martha Nussbaum, and religious views of human flourishing. He holds a Ph.D. from the University of Wales, and a B.A. from Oxford University.
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Micro health insurance
Making sense for MFI

Rohit Raina | Micro Ensure

Bhuvan, a 47-year-old male, resides in chronically flood-hit territory of India. He looks very frail at his age due to the acute poverty and desperation that eat into his muscles from the limbs.

As if the perfidious weather gods weren't enough, to add to the woes, are a family of five to support, a leak in the roof to address, a loan of $ 50 to repay and above all, Anita his youngest daughter is sick with typhoid.

Things weren't this dismal for him few years ago. With a loan of $ 250 from an MFI operating in his area, he and his wife started a vegetable vending business and went around selling vegetables in the neighborhood. Things were shaping up well and his loan repayment was on schedule. He was planning to repair the roof with the savings well in time for the monsoon that was creeping in.

What crashed Bhuvan was getting knocked down by malaria for a fortnight. Besides setting his already poor health back by yards, it threw the loan schedule off track setting him a deadbeat. The savings went into his treatment expenses or getting food for the family while Bhuvan lay on the bed recuperating.

In India, we have 3% population that plunges into poverty (Below Poverty Line) each year because of high health costs, unavailability of insurance and huge loan burden for borrowing money for health care. All this is an outcome of lack of any social security infrastructure to support the contingencies to meet these dreaded risks.

Bigger question to ask as an MFI is why should I concern myself with the health care needs (health insurance) of my borrowers. Answering this, it is indeed an MFI's concern to be interested in the welfare of its business aka borrowers even if from the social perspective. But actually it makes astute business sense to cover the health related risks of Bhuvan and likewise other borrowers as would have been demonstrated by the story above.

Not only it will prevent your borrower fall back into the poverty trap, it also keeps him on course with the loan helping the MFI with superb repayments and low dropout rates. Putting it the simpler way, I wish an MFI would say: “I have been intelligent enough to have secured the portfolio by insuring all the borrowers with the credit life policy, but what is it that attributes more to the dropout and default-death or health care expenditure?”

The typical impediments to the health insurance program being operationalized by an MFI for the welfare of its wards are: unavailability of proper health infrastructure, very low client literacy and lack of deliberation and research over which mechanism to go forward with.

Now when I say lack of health infrastructure, it surely indicates asking availability of hospitals and nursing homes in the territory. It then also asks about the affordability of care in these establishments since a high rung private hospital will probably exhaust the limit of coverage of policy with the bedding charges itself.

Explaining in detail, since the premium payment capacity of this class stands very low at around $ 2-4, this typically means a policy with coverage somewhere $ 200-$ 400. Since there is a high variation in the charges levied for standard procedures, by different categories of hospitals, it is imperative to assess the health infrastructure from this pedestal.

Then what needs to be addressed is the choice of mechanism for percolating the benefit to the policy holders. Benefit in a health insurance policy will mean claim - in cash or in kind. Globally research has shown preference for the latter.

The in-kind claim system requires some third party arrangement to administer claims and a network of hospitals to service the claims. Based on volumes and other elements, this model can take different shapes to the one which we imagine by default.

Standard Model: Insurer ropes in a TPA for claims servicing and TPA provides the health card to the policy holders. In a typical claims instance the claimant gets admitted to the one of the enrolled hospitals and gets treated without paying anything provided the expenses are well within the sum insured limits and approved by TPA. It is the same model you or I go in with when we buy our policy. So why can't this be the case for micro-insurance? What could be balks to this model are availability of network hospitals where they are required. In some cases, this model may prove costly given the involvement of TPA.

Alternate model: Federation, an MFI takes up the role of intermediary for its members,talks to local hospitals for standard pricing for covered procedures. Acts as a TPA by handing the claims function. This model requires the MFI/ federation to be provided a cash buffer by the insurer for facilitating claims. This works if the area of operation is limited and there are enough health care providers to negotiate the rate.

Government model: Over the years, failure of public health care system (which happens to be the biggest insurance system in itself for the poor as it is free) has been tried to be offset by the government through a variety of schemes. RSBY happens to be the latest in these efforts. The central theme is leveraging private health care providers capacity by subsidizing it for the public. Quoting the details of the Kanpur voucher scheme, it is a PPP model where vouchers are issued to the public based on a certain criteria which can be redeemed at number of private hospitals in the area, which government has a volume contract.

Considering the first and the second, there is a provision in most of them that under a certain set of circumstances, reimbursements will be provided.

A recent survey of claims models conducted by Micro-insurance innovation facility has indicated that 57% of the health micro-insurance schemes (58%) have a TPA model (cashless claim model) for assuaging the financial barriers for insured for better access to health care services. Almost 23% are directly reimbursing the insured patients. The remaining 19% have adopted a mixed claim model.

Another aspect which requires immense attention is financial literacy. The clients of an MFI amy not understand how insurance works. If they don't get a claim they think they have lost the money amid such rising misconceptions. This domain requires a lot of work from all the constituents interested in a successful micro-insurance program. The key is reaching them in a way which strikes a chord with them. One adept example I came across was a short film in the local language which had a certain story as a plot emphasizing the need for insurance. It was entertaining and got the message across.

Wrapping up, understanding the unique circumstances colligated to an MFI's and factoring them while making choices not only ensures a sustained and successful program but is also rewarding for the members and institutions involved.

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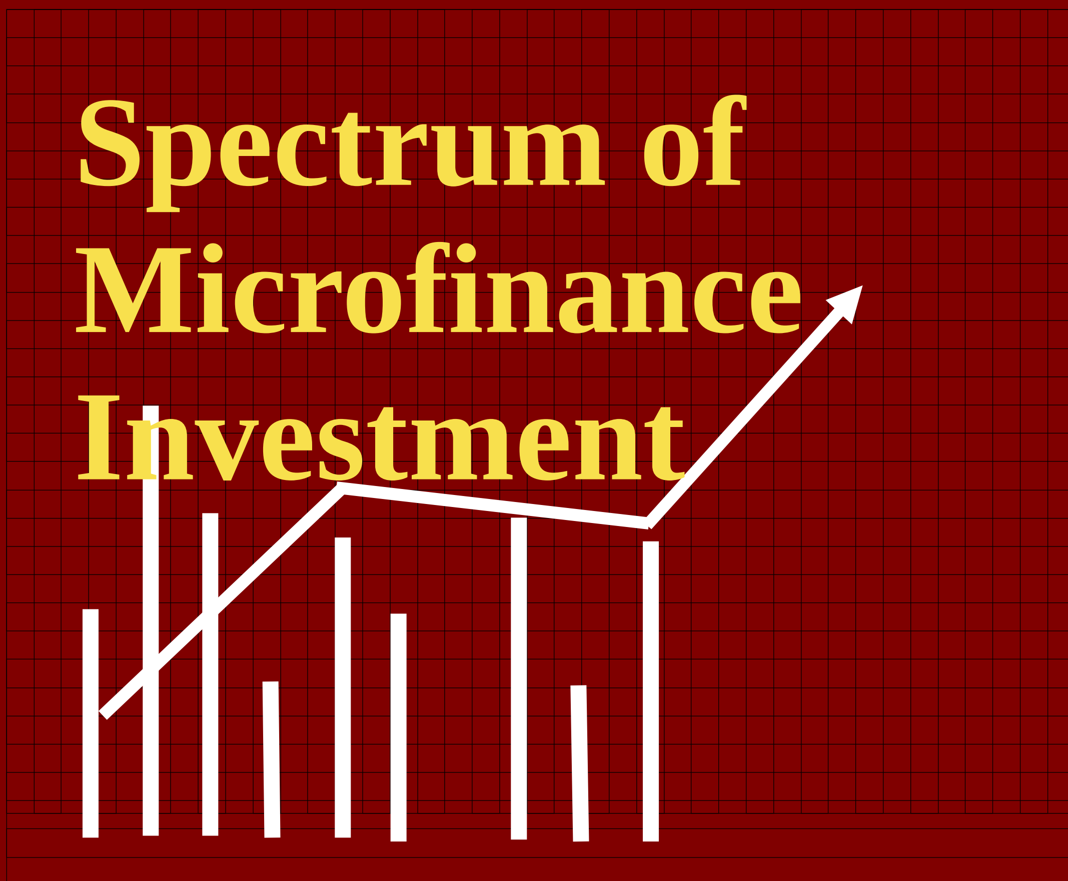
Views expressed in the article by the author are his own and may not necessarily represent those of Micro Ensure.

Spectrum of Microfinance Investment



- Financing Microfinance , Why it is likely to go wrong
- Microfinance funding sources in the EU
- The answer isn’t in the spreadsheet: BlueOrchard`s Risk Director
- Microfinance Investment Vehicles & Financial Crisis

Financing MicroFinance ... Why it is likely to go wrong!

Peter Burgess, Bureau Chief-New York [Microfinance Focus]

The Banking and Financial Services sector has been shown to be greedy ... and dare I say it ... stupid. But this should not be a surprise ... the boom and bust of bubble economics has been around since the days of the South Sea and tulip bubbles some centuries before I was born. What is surprising, is that so few people seem to appreciate that human nature changes really slowly. Greed remains central to human motivation ... so the question for today becomes, how to make use of this for the benefit of society.

In my youth I learned some Judo ... or Jujitsu. My recollection was that the way one defeated the opponent was to use his strength and energy to throw him ... not your own. I also learned some engineering, and I recall learning how the kinetic energy of a huge ship was used so that one man with no power assistance could move the rudder and steer the ship where it needed to go ... I think this the trim-tabs principle.

So the question is how to use the power and energy of greed to help get the financing of microfinance so that it does something of value, and not turn into just another bubble ... maybe bigger and more disastrous than the recent sub-prime housing finance bubble in mainstream banking.

I like to think that my views are based on sound economic principles and common sense ... but in reality, and at risk to my reputation, I have to say that it is the principles of engineering thermodynamics and a gut reaction to nonsense that are the determining factors.

What has this got to do with financing microfinance?

The performance of the microfinance sector over the past two decades has been very impressive, but it must be put in context. In most of international relief and development maybe 1% of what needs to be done gets done ... so when microfinance does something like 10% of what needs to be done, it looks like a huge success. Dambisa Moyo, a very articulate Zambian women has written a book called “Dead Aid” about relief and development performance in Africa ... 60 years and a trillion dollars and not much to show for it ... suggesting that something very different is needed. So, compared to the obscene failure of so much in relief and development, microfinance has done very well.

The growth of the microfinance industry was funded in a variety of ways including grants or loans from the philanthropic community and grants or loans from aid agencies. It is only relatively recently that loans and equity from the mainstream capital markets has played much of a role. Savings have a role ... but the laws constrain this source of financing to regulated organizations.

NGOs and development projects of various sorts embraced microfinance as a component of their work as much as twenty years ago. Some of them did well and have continued and are the backbone of the modern industry ... but many disappeared leaving rather little behind. These efforts did start to build a cadre of people, human capital, that knew something about how the industry worked and what it took to have success. Many of these initiatives predated computer systems for back office work, and the high transaction costs made success especially difficult.

Without the international development finance institutions like the World Bank, IFC (International Finance Corporation), KfW (The German Development Finance Organization) and others, the microfinance industry that now exists would not have emerged. They had an important role in building the industry. The philanthropic community has also been an important source of funding for the microfinance industry in the years up to now.

As the industry has evolved, many different operational formulas have emerged. Some have a focus on the social mission almost to the exclusion of profit performance and sustainability ... while others have been able to grow and thrive and report good financial performance. The three giants of Bangladesh ... Grameen Bank, BRAC and ASA ... are well known. Grameen and BRAC have a substantial social component in their work, while ASA reports high financial performance based on a very efficient low cost service. Around the world some MFIs have strong social goals and others more focus on the financial performance metrics.

Sadly, the ability to measure the performance of these institutions by reference to objective independent metrics of social impact does not exist … even though it is vital.

And things get worse. A dangerous simplification is emerging … MFIs are getting categorized into Tier 1, Tier 2 and worse, based on their reported financial performance. An organizations needs to be in Tier 1 in order to attract financing … and to get to be Tier 1, growth and profit performance are what matters most. This has the makings of a future fiasco … and the industry has to be alert to the this.

New money is essential

The potential growth of the microfinance industry huge. There is a need for the industry to have a much bigger footprint so that the industry serves not just 100 million clients … according to the MicroSummit organization exceeded for the first time in 2007 … but 1 billion clients. This is a ten times increase in scale … and a market that is big enough to be of great interest to the mainstream capital market.

Neither the international development finance institutions nor the philanthropic capital community are big enough to fund microfinance industry growth of this magnitude … though they can have an important role in facilitating the funding. This they have already done by being part of the funding of the new Microfinance Investment Vehicles (MIVs) that have emerged.

The MIV is a way for investors to participate in the microfinance sector without being a specialist in the sector … and it is a very good development. The potential for MIVs to be a feature of the next era of microfinance financing and growth is intriguing. The idea that the financial markets may soon have a new asset class should be very good news for the industry … but it is also a cause for concern and very worrying.

Capital markets like big profits and fast growth. This simple formula has unfortunate consequences which are manifested in capital market bubbles and busts … both of which are totally predictable … and worse, and especially in microfinance, a potential to do real damage to the economy and the society at large.

The social versus profit dialog

The dialog that is going on around social goal versus the profit goal is not very helpful … in fact there is very little dialog, rather multiple monologs each describing one little piece of what is a big, complex and important situation. There are a lot of opinions … however, surprisingly little analytical data to guide the discussion. It is like a prize fight!

In one corner there are the proponents of the pro-poor, pro-women, pro-society microfinance model and in another corner the proponents of the pro-profit microfinance model. I am conflicted. Both arguments, it seems to me have merit, but I would really like to have data that would help to clarify what every organization is doing (1) in terms of their own operational efficiency and sustainability and (2) in terms of what their services are doing to add value for their clients and for society.

The needs of poor people … and the needs of poor societies need to be far better understood. I like what Dr. Muhammad Yunus has to say on this. He often talks about poor people working hard for long hours and remaining poor … this is not because the poor are not working hard, it is because the system is dysfunctional and unproductive … the system does not work. When poverty is recognized to be a systemic problem, the solutions need to respond to the systemic constraints to achieve sustainable systemic improvement.

We do know that some MFIs are very attractive to capital market investors … from a financial point of view the Compartamos story from Mexico is very positive. The financial metrics showed stellar

performance as a fast growing profitable MFI … and when it organized an initial public offering (IPO) in Mexico, the stocks were oversubscribed and the price of the stocks bounded upwards from the offering price. As the stock markets have gone through their own turmoil, some of that has fed back into the price of the Compartamos stock .. and now the company must satisfy the expectations of stock traders as well as the needs of the clients of the underlying business. This is not a particularly big issue where the business is brewing beer, or mining iron ore ... but where the business is financial service to a vulnerable segment of society, this becomes a cause to worry.

Performance metrics ... trimtab ... greed and good

Somehow the microfinance industry has to figure out how to go from 100 million to 1 billion people served. If money is the only resource being considered, then the social agenda of microfinance will disappear and the global society will not be served very much by the incremental money. But, I would argue there is another resource that needs to be in the equation ... the human resource ... human capital.

A satisfactory set of financial performance metrics can be achieved with a focus merely on financial parameters ... returns that will satisfy the capital markets using the prevailing norms. But the impact of microfinance with a social goal and a generational perspective is an order of magnitude more impressive. How much is it worth for a family to go from illiteracy in one generation to a daughter with education and qualifications as an MD? How much is it worth for a family to have improved nutrition because they grow some vegetables? The value adding by getting micro money capital and human capital together is not going to be measured by returns that are in the range of 5% to 25% but more like 500% and up! But it is the social value here that is the most important ... not the money profit alone.

The bad news ... there will not be focus on the critical social value impact unless there are metrics that bring them into account metrics that are as ubiquitous as Generally Accepted Accounting Principles (GAAP).

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Cover Story

Microfinance funding sources in the EU

Who is leading and who is following

Garrett Wyse , Managing Editor—EU (Microfinance Focus)

The broad spectrum of investors in MF from the EU covers the public, civil society and private sectors. Within each of these there are a number of variations on the broad theme of investment, financial, non-financial, in-kind, matched, granted, commercial, quasi-commercial and so on.

In very recent times from the mid 1990's there has been the development of dedicated investment funds. The idea of investing in MF in the commercial sense has taken hold of late and many entities are becoming actively involved. Microfinance is itself becoming an 'investment class', a grouping of similar investments whose values tend to move together.

This in itself is something of an achievement in that the notion, fanciful just a few years ago, that investing in 'poor' people is a smart thing is gaining traction in the money capitals of the west. With modern conventional wisdom dictating that investments must fulfil certain criteria, the notion of investing in such far flung places as Latin America, Asia and Africa is relatively new.

However investing in poor people has many western precedents, indeed the riskier the investment, the greater the possible return. Where many are afraid to tread, others have beaten a track.

European investment in places and things outside Europe has a long history. The Kings and Queens of old Europe invested in 'risky' ventures, from the Spanish in voyages to the Far East and bumping into America to the Portuguese in Africa and the British in India. All very risky investments at the time, but how would you describe the return?

Many of these investments were funded by the bankers of Europe, as indeed were many of the wars.

Colonialism and investing in it became an asset class in its own right you may say. And there are those that may take that same perspective to microfinance investments today. Both the colonialism and investment perspective and the combination of these have critics and advocates today, but more about that particular opinion another time

The Raiffeissen Banks in Germany and the Irish Loan funds in the the nineteenth century were thriving investment funds and they invested in the poor of their respective countries. Prof. Hans Dieter Siebel (Small Enterprise Development – An International Journal of Microfinance and Business Development, vol. 14, no. 2 (June 2003): 10-12) has noted that while the Raiffeisen Bank went from strength to strength and continues to the present day, the Irish Loan funds were crushed as they were really taking hold, and this was done through vested interests lobbying for changes to the law which effectively destroyed them. Would this ring any bells today I wonder?

The broad spectrum of investors in microfinance includes MFI's themselves with their clients' deposits, local banks, international commercial banks with representation in developing nations, pension funds in developed countries, High Net Worth Individuals (HNWI's), development banks, aid and development organisations, all the way over to individuals in developed nations, with the likes of www.kiva.org .

So the spectrum, populated with people on the street in developing nations (deposit capturing), through banks, pension funds, et al to the person on the street in developed nations all have a presence in the MF investment arena. While many of these sources of MF funding are expanding, the merits and pitfalls of each are debated. Each source of funds has to contend with doing their own due diligence, paying heed to their particular mission, satisfying the needs of their clients and ensuring appropriate returns.

There are emerging groupings of MF investors such as the Accion-sponsored Council of Microfinance Equity Funds (www.cmef.com) and the LuxFlag (LuxFlad.org) group, age group of investors who have voluntarily agreed to common investment criteria. There are also groupings of a different nature, with Kiva's individuals and groups of people getting together, MF investment clubs if you like. Kiva (kiva.org) has in fact started to facilitate investment in entities in the US and there is great debate about this. Whatever about the pros and cons of this, the more people become aware of the necessity of investing in the poor, whether they be the relatively poor in the US or the absolutely poor in developing nations (another time and place for this particular debate, absolute versus relative poverty, measures of poverty etc.), then the overall investment cake is getting bigger and this in itself is a good thing.

This development by Kiva may be seen as crowding out investment in developing nations, where absolute poverty is endemic, but the concept of taking a chance and investing in the poor, whatever your perception of them may be, and where they are, is very likely to need promotion for the foreseeable future.

Pension funds can have very large amounts of money at their disposal and many have an interest in diversifying into perceived riskier investments. Their members may be interested in trying to do some good, but not taking a big risk with the entire fund. They are in the position that even a very small percentage of their funds can be quite a large amount of money. So overall, the risk to the pension fund itself is small with the return usually good for investments in microfinance investments, and better than recent blue chips. These can be good early modern innovators in investment, and can be seen as leading the way for others. This would appear to open up the possibility that smaller funds may take an interest in MF, and that interested individual pension holders may become more knowledgeable and involved in MF, with such options as investing themselves, through the likes of Kiva.. Pension funds are coming more into the arena of paying attention to what they are investing in and MF could greatly benefit from this.

High Net Worth Individuals are another group that have flexibility in their investment choices. A wealthy individual may invest a large amount of cash in MF, again without taking too much of a risk to their overall financial position. There are many billionaires (and indeed there was talk of the fanciful if daft notion in some quarters until recently about zillionaires) who have more than enough in ‘pocket change’ to effect real change for many people. These however may lead the way for others to follow. How many HNWI’s have lost fortunes recently from apparently safe investments? And how much have these individuals lost in investing in established Mf funds, in a purely financial sense compared to their blue chip stocks, of late?
The answer to this may also be an indicator for people of the value of investing in MF, and not just the immeasurable non-financial impact for MF clients.
Many HNWI’s thought that they were essentially donating money by investng in MF in the initial stages, but when they were handed back their money, and with a competitive financial return on top, many were stunned, as would be anyone who invests in an unknown entity, primarily for altruistic reasons.

Development banks have been investing in MF for many years, from agricultural projects to post-conflict areas and they have learned to become more sophisticated investors in MF in recent decades. They are generally backed by governments, either individually or in groups, i.e. they are using tax funds from their citizens and therefore answerable to them. These development banks vary in their interest and engagement, but what is becoming abundantly clear is that such innovating investors are leading where others are following, and will continue to follow.

Aid and development organisations have a fundamental dilemma to deal with, many get their funding from the public in developed countries and they are loathe to make known that they have invested in potentially commercially profitable entities. This presents a problem, which may be an opportunity, how to explain to their donors that they have not only used the money they have collected for purely charitable purposes but have been able to make a profit by investing it in successful MF institutions. The initially charitable investments, when executed in a proper manner, have actually turned out to be capital set–up investments in inherently sustainable and profitable MFI’s.
It is a major challenge of the MF industry and especially the aid and development sector to articulate and communicate to a wider audience that investing in MFI’s in the start-up phase is not an abrogation of their mission, but rather a potentially enormously positive action, more than likely broadly in line with their mission. They have not yet managed, in the whole, to break out of the narrow popular perception that ‘making money from the poor is a bad thing per se’, i.e. setting up sustainable MFI’s. They may be making money from the poor, but they are primarily setting up sustainable MFI’s.

The levels of return can be a major problem, witness the raging debate over the Compartamos Initial Public Offering (IPO). Concepts like normal profit may be useful in such circumstance, where an initial investor, such as an aid and development group, may recoup their investment, and their MF activities may themselves become sustainable, without making extra-normal or super-normal profits. Suffice to say that there is a bit more work to be done in this area.

Governments of course are also directly involved in MF investment, whether it be the government of a developed or developing country, through development banks, aid and development organisations, and "green" tax incentives and so on. They are each free to follow their own policies, procedures and practices, and with their inherent autonomy are likely to reflect the domestic political agenda. This opens up the possibility of articulation and debate about the merits of such activity.

So where will investment in Mf come from in the future?, local commercial banks, international banks going into new markets, aid and development organisations, pension funds, HNWI's, people on the street all over the world?

Perhaps is may be combinations of these. Some entities are in a position to leverage investment, such as developed nation's governments, and indeed this is the stated goal of some. Innovators in any industry lead the way, who will they be and who will follow them?

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Cover Story

David MacDougal, Director of Risk Management, BlueOrchard

The answer isn’t in the spreadsheet...

How to assess the real strengths of a microfinance

Photo : BlueOrchard

The financial crisis has made investors and asset managers increasingly sensitive to risk in all areas of finance, including the highly specialized world of microfinance. Lenders and investors worry about whether microfinance institutions (MFIs) - small institutions in developing countries that provide financial services to poor and low-income clients, mostly without collateral - can survive, while U.S. and European financial institutions are failing. So they attempt to weigh the risks by applying sophisticated analysis to the MFIs' financial performances and asset qualities. A spreadsheet with numerous ratios and graphs serves as the standard tool. Unfortunately, such efforts can lead to erroneous conclusions because their focus isn't wide enough. The fundamental strengths of MFIs lie in the nature of their business itself. International enthusiasm for microfinance was inspired by the fact that MFIs offer an essential service where main-stream banks will not provide it: they grant credits, the possibility to save money and other financial services to those previously excluded. While MFIs face a host of challenges, their socio-economic mission endows them with special advantages. We should expect MFIs to succeed where they continue to operate in underserved markets. Analysts should therefore ask:

- Does a MFI's mission and programs focus on traditional microfinance? That is, on extending small short-term loans to support income-generating activities among under-privileged and isolated populations, and in offering them some basic financial services, such as saving deposits.

When we think of microfinance, we all recall the story of a poor woman who runs a little business to provide for her family. Unfortunately, the reality is that under the pressure of fierce competition or of an excessively profit-minded management, some MFIs expand into products and services that are far afield from the original microfinance mission. Many MFIs have gone deeply into consumer and SME lending. One can argue the merits of such products, but they do not have the same risk characteristics as genuine microfinance products. Conspicuously, there have been startling losses in MFIs that have wandered too far from their mission.

• Are other institutions providing the same service? Is there significant competition in the market?
Servicing traditional microfinance clients is expensive because loan sizes are small and the MFI must interact frequently with its clients. A highly competitive market means that the MFI may not have the ability to charge rates sufficient to pay for the relatively costly delivery of microloans. In such markets lenders often loosen their operating standards to compete. Frequently, this just leads to higher loses.

I'll admit that I have may own spreadsheet full of ratios; however, I principally use them to gauge trends. Often the levels they indicate have limited meaning, and analysts must understand when they do and when they don't. A key consideration is whether the institution is mission-driven, rather than profit-driven. Many MFIs are nonprofits or at least not profit-maximizers. They often charge just enough to cover their expenses and build the portfolio. They will not necessarily set rates at the highest level that the market will bear. A good example of this is ASA of Bangladesh, one of the finest managed MFI. Operational self-sustainability dropped from 240% in 2006 to 185% in 2007. Far from being an indicator of weakness, this reduction was the result of the management's decision that it was making more than enough to meet its growth needs. So it lowered lending rates. The controversy about high profits at some MFIs reflects how uncomfortable we are with institutions that are profit maximizers. In addition, the financial statements do not take into account the many forms of support available to MFIs. A broad array of aid agencies and philanthropic investors are ready to help institutions that can make a difference in under-privileged communities. Such institutions often find access to technical assistance and below-market rate funding. An example of this was a recent case of a MFI that failed to fully hedge its foreign exchange risk.

The financial crisis turned this error into an emergency for the MFI. With a large portion of its equity gone, lenders could have accelerated the loans and forced the MFI into bankruptcy. In this case, lenders and networks were eager to find ways to get them through the rough patch because the MFI provides excellent services to a large number of very poor women.

Finally, the MFI's key strength - its management - will surely not be found in a spreadsheet. Managing a MFI requires leaders with a rare combination of skills. Amongst other things, they must have a thorough understanding of their immediate environment while keeping sight of the wider financial context, and they must be quick to adapt to any changes. They have to train staff to the peculiar business of microfinance and reaching out to clients who may have only the most limited understanding of managing their finances. At the same time such leaders must also be able to communicate transparently with aid agencies and philanthropic or commercial funders. In brief, those looking to gauge the viability of MFIs must set aside their sophisticated models and focus instead on understanding the activities, context and management of a MFI. They must acknowledge that strengths in these areas can see a MFI successfully through troubled times and lead it to flourish.

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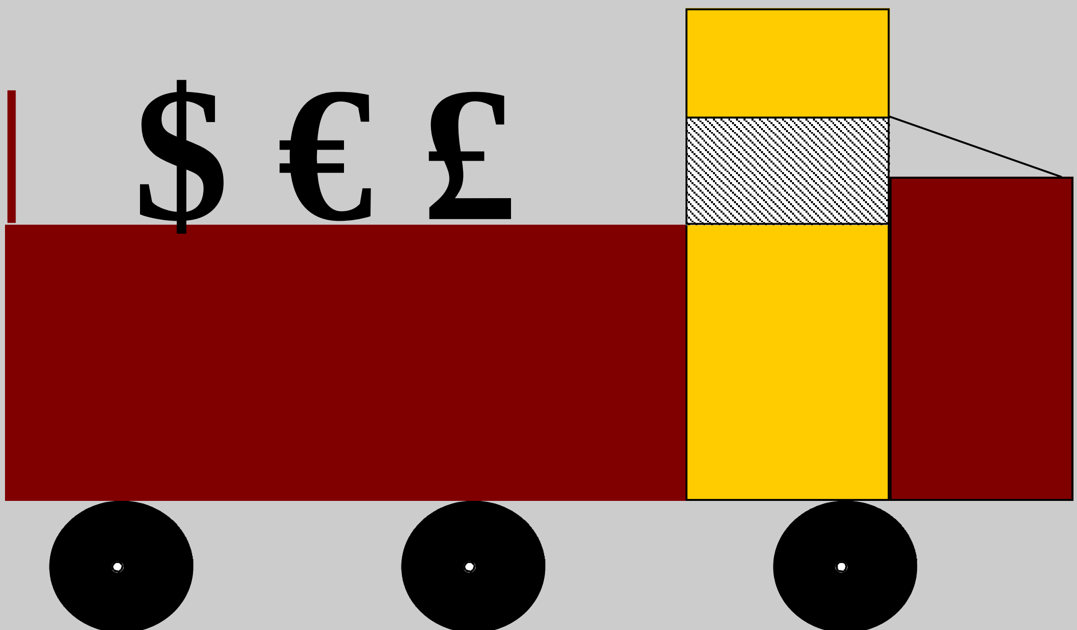
Disclaimer

The opinions expressed in this article are based on the author's extensive professional experience in the field of microfinance and of risk management in general. They do not necessarily reflect BlueOrchard's views.

David MacDougall, a highly qualified risk management professional, recently joined BlueOrchard as Director of Risk Management. David MacDougall joins BlueOrchard with over 26 years of finance experience. Immediately prior to joining BlueOrchard he was a consultant at Deutsche Bank working on microfinance and other innovative socially responsible investments. Prior to that, he was the founding Executive Director of the ASA Foundation, a non-profit foundation whose mission is to increase the availability of low cost microfinance by providing technical assistance using the ASA methodology. Send your feedback at :-
antonella.notari@blueorchard.com

Cover Story

Staying on course?

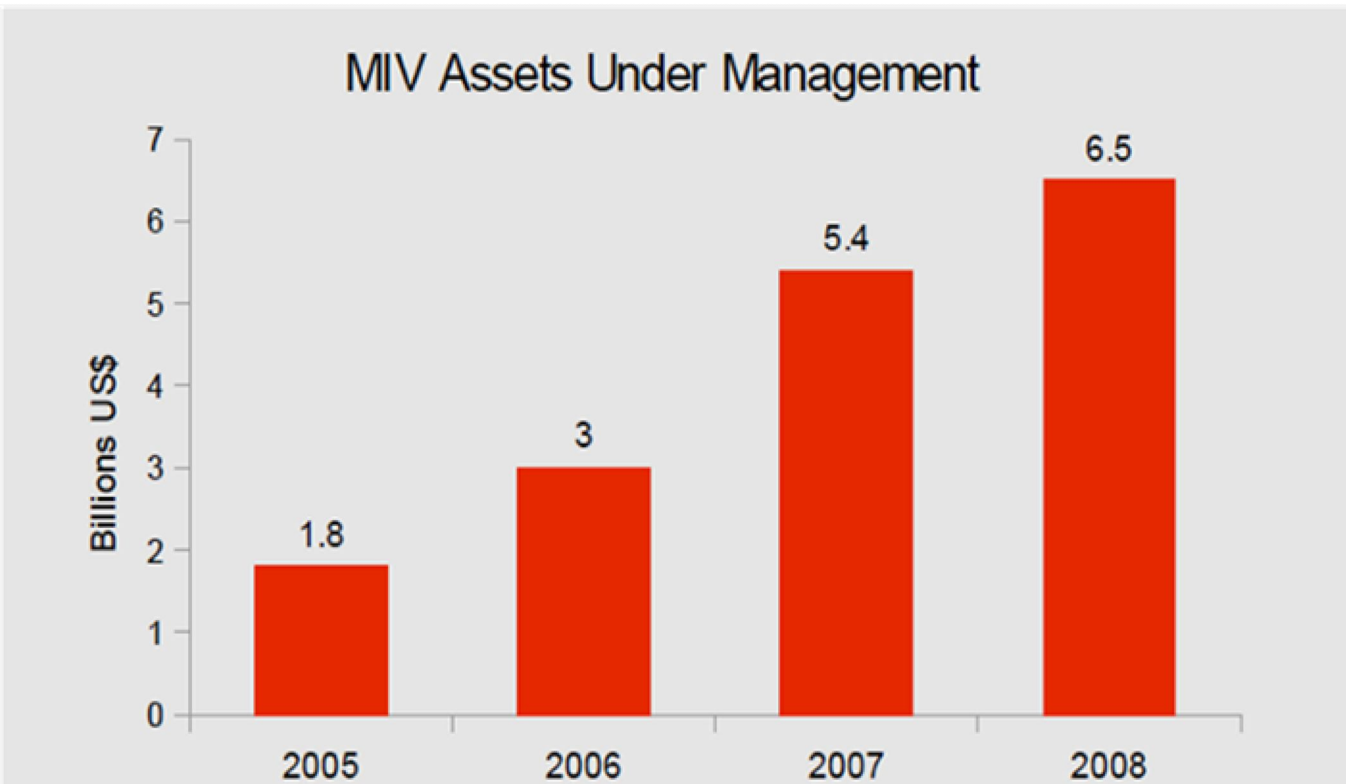


Microfinance Investment Vehicles (MIVS) and the Global Financial Crisis

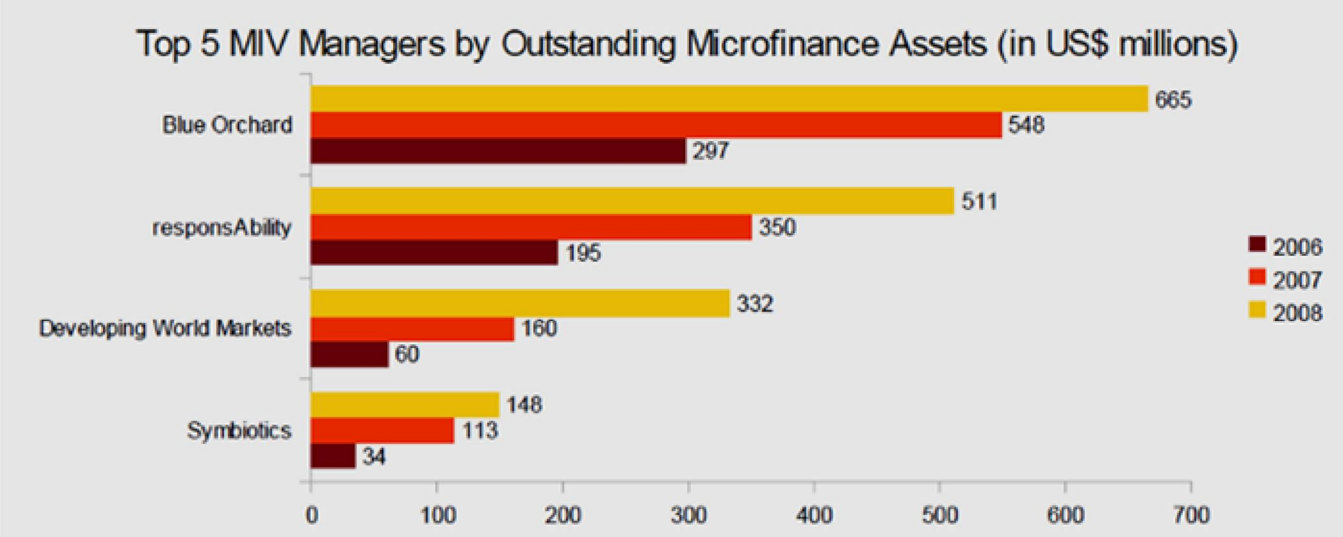
Matthew Fuchs

The phenomenal growth of microfinance over the last decade represents one of the fastest growing investment categories today, which is quite an achievement for a socially-motivated investment. Growing from US$ 4 billion in 2001 to an estimated US$ 36 billion at the end of 2007 according to data from Mix-Market, this has been largely the result of integration into the mainstream financial sector as microfinance institutions (MFIs) transformed themselves from NGOs into financial institutions to tap commercial markets for funds. In the last five years the financial industry has in turn moved closer to MFIs, as for-profit microfinance investment vehicles (MIVs) were established offering investors the chance to generate a "financial and social" return. The growth of MIVs themselves has been prolific, comprising only US$ 1.8 billion in assets in 2005 to over US$ 6.5 billion in 2008 according to CGAP. Although representing less than 18% of total microfinance assets, the contribution of institutional investors (such as pension funds, university endowments and asset managers) to MIVs has increased from 14% in 2005 to 41% in 2008, representing US$ 2.7 billion. So while they are a relatively small source of funding for MFIs, institutional investors represent a rapidly growing alternative source of funds. The big question then is, what effect has the global economic crisis had on institutional investment in microfinance? What effect will this have on the industry as a whole and its ability to expand its services to the poor? As the principal facilitators of institutional investment in MFIs it is necessary to take a closer look at MIVs and how they have been impacted by the financial crisis.

MIVs resemble traditional funds, being independent legal entities which take the form of mutual funds, limited partnerships, listed vehicles or structured products (such as Collateralize Debt Obligations, or CDOs). These are open to institutional investors and in the case of mutual funds individuals as well. Usually these investments consist of debt, pro vided to the MFIs in the form of loans or debt purchased from MFIs which they obtained elsewhere. They can also consist of guarantees issued to MFIs to enable them to obtain debt from commercial banks, or through taking equity shares. While the latter only represents around 12.5% of total MIV investment in microfinance, the recent rise of MIV private equity and venture capital funds (like Aavishkaar Goodwell in India) to



Source: CGAP MIV Survey 2008 and CGAP MIV Benchmarking Report 2007.



Source: MicroRate 2009 MIV Survey[1]

Note 1 : ProCredit is not included here, not qualifying as an MIV under MicroRate's definition as it is a holding company for its various banking subsidiaries worldwide. Others however, using different criteria (e.g. CGAP) do. However, with over US$ 800 million in AUM it should be noted that it is one of the largest commercial players in microfinance and socially-orientated banking.

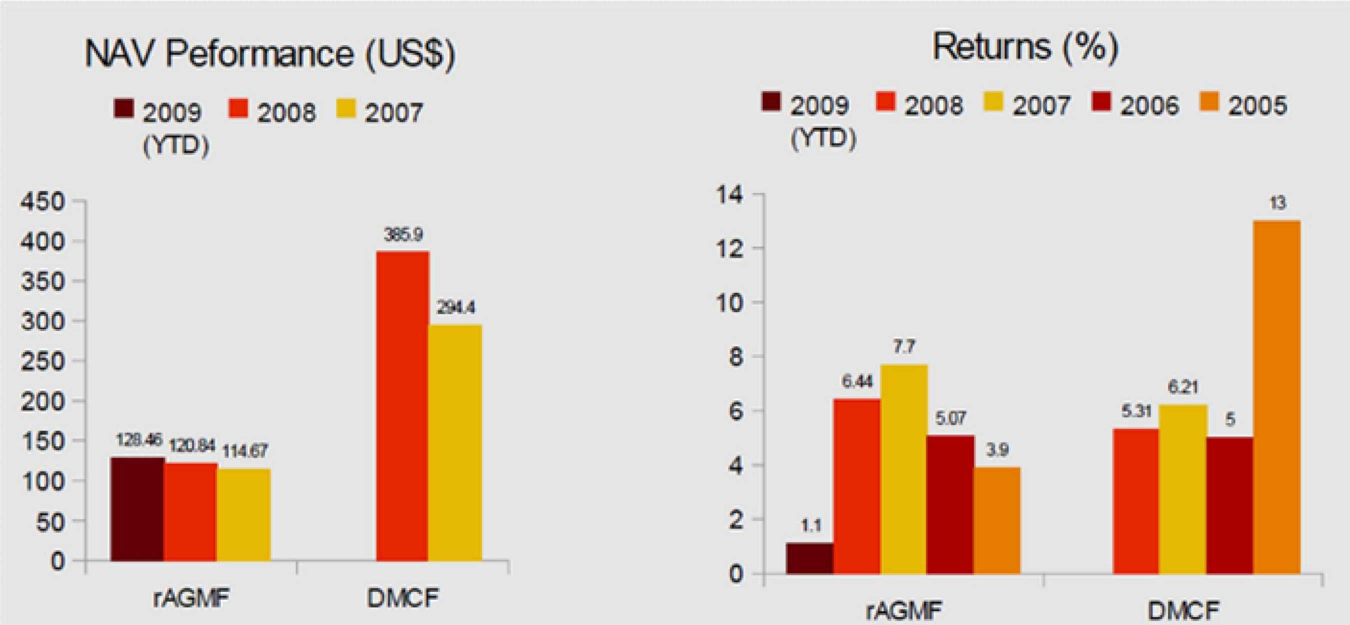
invest in the equity of MFIs demonstrates the growing sophistication of MIVs.

Investment - growth or stagnation?

According to Micro-Rate, MIV managers expect to slow their rate of investment but still plan to invest between US$ 0.7 billion and US$ 1 billion in 2009. Compared to the rapid growth of the last three years (see above figure), this indicates that a more cautious approach is being taking by MIVs as they scrutinize investments more closely, reduce loan sizes and shorten tenors. Additionally, they are maintaining higher liquidity reserves then in previous years to maintain cash flow. Importantly, this is also being driven by slowing demand from MFIs, who are also exercising further caution in client selection in an attempt to safeguard the integrity of their loan books. Secondly, spikes in fuel and food costs coupled with high inflation have driven up the cost of doing business. As "door-to-door" services, this has increased the cost of doing business substantially, particularly for rural MFIs. This has cut into margins already strained by the higher cost of obtaining and servicing debt, the chief source of funds for MFI's to expand their loan books in recent years, and constraining their ability to grow further. The result, according to MicroRate, is that "demand for funding from MFIs continues to be slow. Instead of facing a liquidity crunch, MIVs are complaining about excess liquidity." As MFIs slow down, so must MIVs in return. As Fitch ratings points out, this could be a "blessing in disguise". Prior to the slowdown there were signs that lending levels, both by MFIs and MIVs, were becoming unsustainable. One benefit of the slowdown is the chance it offers the sector to "catch its breath" and focus on consolidating portfolios and improving operational efficiencies resulting from a highly fragmented market -- a characteristic of any young, fast growing sector. While this is also a part of the heritage and ongoing value of MFI's as "local" organizations close to the community, there is nevertheless ample opportunity to realize greater efficiencies through mergers and acquisitions (M&A) without compromising social performance. MIVs could play an important part in this process by making equity investments, which will become more important if MFI demand for debt remains sluggish. Another role MIVs can take is through providing advisory services. For example, Blue Orchard in mid-2008 established an "Financial Advisory Service" to assist MFIs with M&As and other issues such as structuring, valuations and asset/liability management. Combined with its private equity fund established in 2007, Blue Orchard is a good example of how MIV managers can take advantage of opportunities presented by the downturn through diversifying their products and services.

47% stating they were concerned about future problems.

Interestingly, there have been no major rises in defaults reported by the leading MIV managers so far. Okiocredit even reported that their portfolio at risk (PAR) ratio actually shrank considerably, from 8% at end of 2007 to 4.3% in 2008. However, this may be the result of a



Source: rAGMF Monthly Report (July), rAGMF Annual Report 2008 and Blue Orchard Annual Review 2008. YTD refers to data available as of July 31.

time lag for price increases to trickle down to the local level. As this information is irregularly reported, it may be that higher rates of default and PAR will not be visible until MIVs publish their annual reports for 2009 next year. However, any increases are likely to be limited by MIV preference for investing in established MFIs with proven track records, and in countries with relatively low political and economic risk in order to maintain their attractiveness to investors. And while MIVs tend to concentrate their investments in preferred regions such as Latin America, Eastern Europe and Central Asia, most portfolios are well diversified geographically. This diversification often extends also across industries and between urban and rural/semi-rural areas. As a result, even a sharp increase in default rates would be unlikely to threaten the viability of any MIV

Performance - has portfolio quality deteriorated?

Increases in food and fuel prices have been placing high pressures on the ability of MFI's clients to repay their loans, particularly in more inflation-prone countries, such as Nicaragua and Pakistan. There are widespread anecdotal claims of spikes in client default rates, including a doubling in defaults rates among BRAC clients in Mexico where there are high levels of consumer in indebtedness. indebtedness according to a report prepared for USAID by EA Consultants.[2] This report included the results of a global survey of 19 MFI managers, 37% of which reported that they were having problems with portfolio deterioration, with another

2 "Will the Bottom of the Pyramid Hit Bottom? The Effects of Global Credit Crisis on the Microfinance Sector". microReport # 150, March 2009. Prepared by B. Magnoni and J. Powers.

with an adequately balanced spread of investments. That said, it is likely however that fund performance will still be negatively affected.

The above figures illustrate "vital signs" for two leading MIVs: the Responsibility Global Microfinance Fund (rAGMF) and Blue Orchard's Dexia Microcredit Fund (DMCF). For both funds the NAV (Net Asset Value) continued to grow, indicating that the value of portfolio assets remains firm. However, returns are down considerably so far in 2009 for rAGMF at 1.1% as of July 31, suggesting a considerably smaller return for 2009. If the fund continued to grow at its average monthly rate, this would come to a total return of 2.45% for the year (unfortunately no data is available yet for the performance of Dexia). Considering that rAGMF is one of the best performing MIV's in the mutual funds category, this would suggest MIVs can expect relatively low returns compared to previous years. This suggests that the financial crisis is beginning to adversely affect the performance of MIVs but will remain respectable, tracking or exceeding slightly the money market. Regardless, it will require a general survey of the field when results become available, such as the CGAP 2009 MIV Benchmark Survey expected in September, to fully assess the impact the recession has had on microfinance investments.

Fund-raising - are investors staying on course as well?

As the finance crisis struck there was widespread concern that commercial investors would abandon microfinance, undoing the work of recent years to build the sector's reputation as an alternative asset class in its own right. Certainly to some extent these concerns were justified, with MIV's reporting a significant fall in new commitments. Some of this can be attributed to new investors putting off plans to invest in the sector, but it is also reported by some MIV managers that most established investors such as pension funds are staying the course and that even some new entrants are making commitments. According to Maria Zappia of Blue Orchard Finance, as quoted in the EA Consultants report to USAID, "not only pension funds are still actively investing in microfinance, but also some asset management companies have started seeking investment opportunities in microfinance given the stable returns of some of the most established microfinance funds." Reportedly there is a noticeable difference between the response of European and American investors, however. European investors, who generally have more experience investing in microfinance then do their colleagues across the Atlantic, have maintained more enthusiasm for the sector. Yet it is too early to celebrate the resilience of microfinance. A crisis in a country with a substantial microfinance presence, such as that which occurred in Bolivia in the early 2000s, could harm the reputation of microfinance as a "safe" investment, even if this experience demonstrated that MFIs recovered quicker than the mainstream financial sector. Therefore, the next 12 to 24 months will be a critical proving time for microfinance, and how it handles the crisis from both a social and financial perspective will determine its strength in the post-crisis investment world.

The future of MIVs - stronger or weaker post-crisis ?

Despite the challenges proposed by the economic crisis, MIVs are well positioned to maintain their role as bridges for private and commercial institutional investment into microfinance. While the likely falls in performance may prompt investors to question MIV claims that microfinance represents a genuinely counter-cyclical investment, even modest performance over the next one or two years would do little to dent its solid track record. At any rate this time will test MIVs, whose growth has benefited up until 2008 from a boom in emerging economies, which will be likely to create greater differentiation between top-performers and the pack. Much will come down to how the sector in general, including MFIs on the ground, responds to the crisis and any sudden shocks. In addition, more work needs to be done to improve transparency and the flow of information to investors and general public regarding social and financial performance. This is critical to maintaining the confidence the sector has built among socially-motivated and mainstream investors alike. If this can be done, MIVs will be in stronger position then before the crisis to attract investors and continue its significant

Institution Spotlight

Photo Source : Bandhan

From Togetherness to Sustainability - Bandhan Microfinance

Bandhan – meaning "togetherness" – offers microfinance services to poor women in West Bengal, India...

Bandhan – meaning "togetherness" – offers micro-finance services to poor women in the state of West Bengal, India. Founded by Mr. Chandra Shekhar Ghosh in November 2000, Bandhan started operations in 2002 and is registered with the Reserve Bank of India (RBI) as a non-banking finance company (NBFC).

In less than eight years, it has emerged as one of the the largest microfinance institution in India and was ranked second in the world by Forbes magazine in its first ever listing of the world's top 50 microfinance institutions (MFIs).

As of July 2009, it has 1.8 million members and 850 branches spread over 11 states in India, with a loan outstanding amount of Rs. 797 crore and a cumulative loan disbursed amount at Rs. 2,810 crore. It has set a target of disbursing Rs 2,500 crore in 2009-10 and is planning to expand its footprint in Afghanistan, Brazil and South Africa.

Bandhan Financial Services Pvt Ltd (NBFC), through which the microfinance activities are carried out, enjoys a capital adequacy ratio of nearly 17%, which is 5% more than the stipulated level of 12%. Its financial products include micro-loan products, the micro enterprise program (or MEP to provide larger loans to women who are in income-generating projects, which they want to expand), and health loans to address emergency health requirements of poor families.

Realizing that there is lot of other support that the poor need for their holistic development and that microfinance is not the last word for their development, Bandhan has set up a separate wing for development programs and made
inroads into other areas like education, health and imparting training skills.

It has also started lending to the poorest of the poor under 'Targeting the Hardcore Poor '(CUF-THP) program, that is designed to initially track the targeted people and developing their skills appropriate to manage a local enterprise. After that follows the process of asset transfer, whereby the poor are given grant support in the form of assets.

In 2008 Bandhan launched free schools in villages for underprivileged children up to the age of 14 years, who couldn't ever go to school or had to drop out because their parents couldn't afford to educate them. In less than two years, Bandhan has set up 60 such schools in six districts of West Bengal—Jalpaiguri, Darjeeling, Cooch Behar, Nadia, North 24 Parganas and South 24 Parganas.

Bandhan Statistics, As on July 2009

No. of Regions Covered	127
No. of Branches	850
No. of Staff	5217
No. of Groups	71113
No. of Member	1767131
No. Of Borrower	1621981
Cumulative Loan Disbursement (Rs. In Crore)	2810.18
Loan Outstanding (Rs. in Crore)	797.54
On Time Repayment Rate	99.94 %

Each district has 10 schools, and each school has around 33 students. In all 2,000 students study in these schools and 60% of them are girls.

Almost all these schools are located in areas where there is no government school. The classes are held in rented spaces, which cost around Rs 300 a month, and the teachers are local educated young. The cost per student is around Rs 1,000 a year, and Bandhan spends around Rs 35,000 a year on each school. The positive side of it is two-fold --

it helped Bandhan expand its microfinance business and also overcome resistance from local moneylenders. At least 1,000 students who study in these schools are borrowers' children. The curriculum for classes I-IV is taught not in four but in three years without any summer or winter break. Students attend school round the year for 3 hours a day from 8.30 to 11.30am. The plan is once they complete three years at Bandhan schools, they should be enrolled in government schools in class V. Bandhan is currently conducting a survey to open 100 more schools by next year.

Another program for the unemployed youth called "Employing the Unemployed" was launched on June 19, 2009 to provide financial support and helping them learn skills for future employment. Those who cannot afford professional courses like computer education and other skill-oriented education are eligible to avail this loan. The program has so far reached 35 beneficiaries in 18 villages in 2 districts of West Bengal.

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I-Focus

Building Educational Resources for the Poor

The people living in the bottom of the pyramid too dream big. They always wish that their children should not be like them and be better educated and employed. But they lack financial strength. And Nirantara wants to address this issue.

Nirantara Community Services & Nirantara Foundation

Nirantara Community Services (Nirantara, in short, www.nirantara.org) initiated Nirantara Foundation, a trust by legal status, to promote quality education to children living in the bottom of the pyramid. Nirantara, an emerging microfinance services provider focussed in 10 backward districts of Karnataka & Maharashtra, has already reached over 7,500 socio-economically backward families.

Now, in its third successful year of microfinance operations, Nirantara started developing products and services around microfinance. First and foremost providing education to the children of its clients as its area of operations is one of the most backward in all Human Development Indices, including quality education in all the levels with many BoP families who can't afford quality education. Hence Nirantara promoted a separate entity, Nirantara Foundation (Foundation) for the purpose. Formal activities of the Foundation started from May 29, 2009.

Taking a cue from a visit to BRAC in Bangladesh, the idea started getting a shape (www.brac.net and Niranjan's travel blog on BRAC and its education program). The foundation's team visited many schools later and finally tied up with Akshara Foundation.

Preschool Education Entrepreneurship Program:

As a first step, the foundation has launched Pre-school resources in urban and semi-urban areas (initially in Bidar, Gulbarga and Bijapur in Karnataka). The foundation started Playgroup, Nursery, LKG and UKG classes for children in the age group of 2 to 6 years. This resource is basically for clients of Nirantara's microfinance program and later it will be opened for general public. The foundation will manage schools for first 3 years and later the management of preschools will be transferred to edupreneurs (education entrepreneurs) who could be working-teachers in these preschools or committed and quality-conscious institutions. From fourth year, the preschool program will be managed like a professional franchisor-franchisee model with a considerable brand-equity.
The 2-6 year old age group is considered by researchers to be the most crucial period in a person's life as 50% of the brain development takes place by the time the child leaves preschool. Key features of this program are:

- Unique – Education Entrepreneurship Program - Designed especially for socially and economically underprivileged communities
- Quality and time-ested teaching methodology
- Emphasis on building fundamentals – language, mathematics and social skills
- For clients of Nirantara initially (supported by a suitably designed Education Loan), clients of other MFIs and general public in future
- Technical Assistance from leading education experts & education services providers (such as Akshara Foundation & Pratham)
- Collaboration with other likeminded MFIs and NGOs

'Nirantara Kids' preschool

Nirantara provides Education Loans to existing clients and motivate them to send their children to 'Nirantara Kids', the preschool brand of the foundation. Nirantara Kids preschool provides an atmosphere of joyful learning for 2 to 6 year old children. It will serve as a preparatory foundation and stepping stone to a formal school for slum dwelling children. Nirantara Kids will have a blissful edutainment atmosphere as children will not miss their home and at the same time they will get ready for future challenges. The preschool will have very simple and effective teaching and learning materials in Kannada, Marathi, English, Hindi and Urdu, which impart the fundamentals of language. At Nirantara Kids, children also go through a socialization process in a positive, productive and life building environment.

Some of the key features of Nirantara Kids are:

- School in the neighbourhood of client's residence - located within 1 km radius.

- Each class will be of 30 children maximum for appropriate personal care
- Quality and time-tested Teaching & Learning Material (toys, charts, cards, illustrations, etc.) which provides quality & comprehensive edutainment methodology
- Young, enthusiastic, qualified and trained women teachers / edupreneurs
- Carefully structured curriculum tailor made for any child to adapt the learning in a playful manner
- Emphasis on all round development of the child
- Close interaction with parents through regular parents' meet and house visits
- Five key development skills – physical, language, cognitive, social and emotional development skills for very young children.

Women teachers / edupreneurs will be selected from the community based on their education level, language-maths-child development and management skills. They will get a week-long Preschool Skills Training from Akshara Foundation and Pratham before they resume their academic duties. They also interact with Nirantara's microfinance clients at centre meetings and their houses and during family/children surveys. They do organize Parents' Meets and visit child's house periodically to report progress of the child. Such 30-40 teachers will be monitored by a Program Supervisor who also monitors progress of children and ensure smooth functioning of preschools. Foundation is planning to conduct regular teachers' meets and provide need based capacity building support to them.

Technical Assistance:
Nirantara is currently supported by Akshara Foundation, a state-level educational institution which is a pioneer in education sector in Karnataka. It is also talking to Pratham, a national level educational initiative for curriculum development. Pratham also pioneered education for the poor and they advise the Indian government and many state governments on this segment.

Funding & Sustainability aspects
This is a replicable and sustainable model. Nirantara provides education loan to its clients if they can't afford to pay for education of their children. Nirantara has developed an Education Loan for this program. The fee collected would be used for management of schools and surplus generated or grants received would be used for scaling up.

Current Status of the Program:
Nirantara Foundation is in the process of setting up of 15 'Nirantara Kids' preschools during this academic year (June 2009 to March 2010). Six schools started functioning on June 15. It will open other preschools in their operational area and the outreach expected is about 500 children. This will be a pilot phase and future roadmap will be decided prior to end of the academic year.

An Exclusive Interview with Sam Daley-Harris Director , Microcredit Summit

An Introduction

Sam Daley-Harris is director of the Microcredit Summit Campaign. He is the founder of RESULTS, a grassroots lobbying organization that seeks to create the political will to end hunger and the worst aspects of poverty. He is also the founder of RESULTS Educational Fund, a 501(c)(3) organization dedicated to mass educational strategies to generate the public will to end world hunger and the worst aspects of poverty.

Sam is currently leading phase II of the campaign to help boost the UN's Millennium Development Goals for 2015 and includes two of its own new goals: 1) reaching 175 million of the world's poorest and 2) ensuring that 100 million families rise out of $1 a day poverty, lifting half a billion people out of extreme poverty.

Mr. Daley-Harris is the esteemed recipient of the first Susan M. Davis Lifetime Achievement Award and is the author of the book Reclaiming Our Democracy: Healing the Break Between People and Government, about which President Jimmy Carter said, "[Daley-Harris] provides a road map for global involvement in planning a better future." Mr. Daley-Harris has also edited two cutting-edge publications on microfinance: Pathways Out of Poverty: Innovations in Microfinance for the Poorest Families and More Pathways Out of Poverty.

Mr. Sam Daley Harris gave an exclusive interview to Mr. Jerome Peloquin , Microfinance Focus`s Managing Editor-US, Here are the excerpts from the interview:

Mr. Peloquin: The Africa-Middle East Regional Microcredit Summit will be held April 7-10, 2010 in Nairobi, Kenya. That will be the 14th regional or global summit the Microcredit Summit Campaign has organized. Tell us a little about how the Campaign started 15 years ago.

Sam Daley Harris: In 1985 I graduated with a degree in Music from Miami. I was a percussionist but my heart was turning in another direction. In 1986 I went to Washington, DC and founded RESULTS to end poverty, a nonprofit corporation. I had John Hatch from FINCA and Dr. Yunus on my board. We tried to get the UN to adopt our 100 Million out of poverty goal, but were told they would take no new goals. So, we decided to set our own goals and run our own conference. In February of 1997 our conference drew 2900 attendees included Chief's of State, Corporate Executives, and Social Activists from 137 countries. In 2007 we passed that goal.

Mr. Peloquin: You often talk about the importance of rule-breaking in microfinance and the field looses sight of the importance of rule-breakers. Tell us more about that.

Sam Daley Harris: … The rule breaking idea came from talking with Dr. Yunus 20 years ago. If you hear his regular lecture on Microfinance you will hear parts of that conversation today. The Grameen model of Microfinance was based upon breaking the rules… by violating traditional banking practice. If traditional banks lent to the affluent he would lend to the poor. I banks lent principally to men, he would lend mainly to women. If banks asked for collateral before making a loan, he would ask for none. If banks required people to come into a bank to get a loan, he would go to them to give out loans.

Now as microfinance is becoming a main stream banking system, we need to start thinking about breaking the rules of Microfinance. When we were setting the conference sessions at the Latin America-Caribbean Regional Microcredit Summit (June of 2009) we submitted 50 titles for selection. The title that got the largest vote was, “Breaking the Rules of Microfinance to End Poverty.”

Mr. Peloquin - At the Latin America-Caribbean Regional Microcredit Summit in June of 2009 in Cartagena, Colombia, you spoke in your opening ceremony remarks about using microfinance for redemption. That doesn’t sound like standard microfinance fare. What was it you were getting at?

Sam Daley Harris – It’s part of what I meant by breaking the rules. Ingrid Munro of Jami Bora was funded to repair a market that had been destroyed during civil unrest. Instead of looking for a construction company, she looked for the gang who destroyed the market in the first place. Ms. Munro and her staff located the gang leader and through reason and empathy the gang leader and his entire gang were convinced to play a major role in reconstruction, a decision that changed the lives of the gang, bringing self respect and dignity. That was an inspired rule-breaking move. It resulted in a new market and a new start for the gang leader and his gang. Is that not redemption? In breaking the traditional rules, Ms Munro is using Microfinance as an instrument of both social and economic justice.

Mr. Peloquin - In August you'll be in Bangladesh and India focused on one of the Campaign's major goals, ensuring 100 million families rise about the US$1 a day threshold. Tell us about the purpose of the trip and how it fits in to the goal.

Sam Daley Harris – We are convening an expert panel and launch a major demographic study. We will have key senior managers from The Grameen Bank, BRAC, and ASHA convened. Our intention is to determine how many families have been raised above the $1.00 per day poverty line in Bangladesh while clients of the Grameen Bank. There is no intention of finding causality. We know that would be an unrealistic goal. We will simply determine how many made that critical step while clients of the Bank.

Mr. Peloquin - From your perspective, what's the next big thing the Microcredit Summit Campaign can contribute to the field?

Same Daley Harris - We believe that Urban Slums are a real opportunity for Microfinance’s social outreach. We’re going to select representatives of the top social mission MFI’s from Africa, Asia, and Latin America and bring 54 of them to participate in a ten day immersion course at Jami Bora so that they can bring social and economic justice, and redemption to the urban slims of these cities.

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Global News Centre For Microfinance

USAID launches resource to address water-credit needs

Microfinance focus, Aug. 21, 2009: The U.S. Agency for International Development (USAID) has launched a new Water Finance website at World Water Week, the international annual conference that brings together more than 2,000 experts, practitioners, decision makers and leaders from around the globe to exchange ideas, foster new thinking and develop solutions. USAID's new publicly available [...] Read More

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Microfinance institutions weighing deposit mobilizing: MIX

Microfinance Focus, Aug. 21, 2009: More MFIs than ever before are using deposits such as savings accounts and time deposits to fund their operations and expansion, according to a new study by the Microfinance Information Exchange, Inc. (MIX). The report focused on the question whether microfinance institutions (MFIs) that mobilize deposits are serving the [...] Read more:
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MIGA explores potential in Uzbekistan, Georgia

Microfinance Focus, Aug. 20, 2009: The Multilateral Investment Guarantee Agency (MIGA), the political risk insurance arm of the World Bank Group, is sending its executive vice president Izumi Kobayashi to Uzbekistan, Kazakhstan and Georgia at the end of August on a fact-finding mission.
During her 12-day visit from Aug. 25, Ms. Kobayashi will meet with government [...] read more

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Cambodian Microfinance Forum begins

Microfinance Focus, Aug. 19, 2009: A two-day forum co-organized by the National Bank of Cambodia, IFC, the European Union, and the Cambodia Microfinance Association, senior microfinanciers, bankers, regulators, and local authorities began discussions on how microfinance institutions could boost the country's economy, promote financial inclusion, and enhance customer protection.
"The microfinance sector in Cambodia has grown [...] Read more

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IFC investments in Africa touch $1.8 billion in one year

Microfinance Focus, August 19, 2009: The International Finance Corporation (IFC), the World Bank's private sector arm, announced on Wednesday that it committed $1.8 billion worth of new investments across 30 countries in Africa in the fiscal year ended June, as it rapidly increased activities to help microfinance and other financial advisory services or [...] Read more

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Airtel to expand rural footprint in Karnataka

Microfinance Focus, Aug. 19, 2009: India's mobile phone giant Bharti Airtel announced on Wednesday that it is expanding its rural footprint in Karnataka launching Airtel Service Centers (ASCs) which will serve as one-stop shop for all mobile requirements of customers in small and remote towns and villages.
ASCs are Multi Brand Outlets (MBOs), located in accessible [...] Read more
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[Nokia unveils microfinance route to reach rural consumers]

Microfinance Focus, Aug. 19, 2009: Nokia India has announced plans to roll out a unique micro-financing offer in 12 states to make mobility more accessible to rural markets and notably, to the female population in rural India. The company has recently concluded a successful pilot in partnership with a leading microfinance institution in the rural areas [...] read more
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Microfinance NBFCs can be Business Correspondents: RBI Working Group

By Naagesh, N.
Microfinance Focus, Aug. 19, 2009: A Reserve Bank of India Working Group has recommended appointing non-deposit taking NBFCs, whose microfinance portfolio is not less than 80 per cent of their loan outstanding in the financially excluded districts, as Business Correspondents (BCs) for banks in rural and semi-urban areas, among others. Others recommended for the [...] read more
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GK venturing into Water Credit, gets Rs. 1.34 crore from WaterPartners

Microfinance Focus, Aug. 19, 2009: Kansas-based WaterPartners has agreed to provide Rs 1.34 crore to Grameen Koota, a Bangalore-based microfinance institution with presence in Karnataka and Maharashtra.
The project, to be implemented in Tumkur district of Karnataka, aims to provide individual water connection and sanitary facility provision and create awareness about the hygiene in [...] read more
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Let the poor have a say to get water, sanitation: World Bank report

Microfinance Focus, Aug. 19, 2009: Giving poor people a say in the water and sanitation services they receive, and allowing alternative documentation to prove their residence status — are some of the simple solutions that can bring sustainable water and sanitation services to the hundreds of millions currently living without, according to a new report [...]
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IFC invests $1.2 million in Paraguay's Financiera El Comercio

Microfinance Focus, Aug. 18, 2009: IFC has announced an investment of $1.2 million in Paraguay's Financiera El Comercio as part of its goal to support micro-enterprises withstand global financial crisis, said a press release on Tuesday.
El Comercio, the largest finance company in Paraguay, provides financial services predominantly to microfinance institutions or small enterprises, particularly in the [...] Read More
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Aavishkaar picks up 21% stake in Pune-based Saraplast

Microfinance Focus, Aug 18, 2009: Aavishkaar India Micro Venture Capital Fund has invested an undisclosed amount in a Pune-based portable toilet operator Saraplast Pvt. Ltd. which operates under the brand name 'Shramik' or '3S'. The funds will be used by Saraplast to expand its stock of portable toilets and waste management services. Saraplast, founded in 1999 by [...]
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Swadhaar begins microfinance operations in Vadodara

Microfinance Focus, Aug. 18, 2009: Swadhaar FinServe Pvt Ltd (SFPL), a Mumbai-based microfinance institution (MFI), will begin its operations providing microfinance loans to the urban poor in Vadodara, Gujarat on Tuesday.
To begin with, the MFI will target the poor living in slums of Fatehgunj and extend its operations to other semi-urban areas like Dakor, Umreth, [...]
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Compartamos issues Ps. 1,000 million debt with 3-year tenor

Microfinance Focus, Aug. 18, 2009: Mexico's largest microfinance bank, Banco Compartamos, S.A., has issued 1,000 million pesos in the local debt capital markets, said a company

release on Monday.
The bank has informed the regulator that the issue was a result of the reopening of the Local Bank Bond issuance, COMPART 09, which will be added [...]
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Mangolia's Xacbank launches mobile banking for microfinance

Microfinance Focus, July 31, 2009: Mangolia's leading microfinance bank XacBank and Horus Nomadic Solutions have announced the launch of AMAR, a new mobile banking service for microfinance, on Thursday.
It will help XacBank's clients to conduct cash transactions using mobile phones through a network of agents and merchants. AMAR services can be used with [...]

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MYC4's microfinance lending touches 9.3m euros

Microfinance Focus, July 31, 2009: MYC4, a peer-to-peer lending facility with 15,643 registered investors from 94 countries, has reported investments in online microfinance amounting to 9.3 million euros in 4,865 businesses in seven African countries so far. And the trend is catching up with other players in microfinance sphere.
Micro Place, an e-Bay company, has provided [...]
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Recalling Dr Yunus's pioneering role in microfinance

Microfinance Focus, July 31, 2009: Professor Muhammad Yunus, founder and managing director of Grameen Bank, has been a great inspiration to the entire microfinance community. Microfinance Focus congratulates Dr Yunus and takes the opportunity to republish an exclusive interview that Dr. Yunus had given to it on March 30 on the sidelines of [...]
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US to honour Microfinance pioneer Dr Muhammad Yunus with Freedom medal

By Naagesh, N.
Microfinance Focus, July 31, 2009: Microfinance pioneer Professor Muhammad Yunus, founder and managing director of Grameen Bank, has been awarded the US Presidential Medal of Freedom for 2009. Dr. Yunus will receive the medal from President Barack Obama at a special White House ceremony on August 12. Each (recipient) saw an imperfect world [...]
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Rising urban poverty in Jammu and Kashmir calls for focus on microfinance

By Bilal Hussain in Srinagar
Microfinance Focus, July 30, 2009: Over the past two decades, unrest in Jammu and Kashmir has affected the valley people, especially the urban poor, either by displacing them from their livelihoods or leaving them without any. Their poverty levels are aggravating and seek an urgent but long-term solution. Although some [...]
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IFC provides $300,000 to Guyana's SBDF microfinance institution

Microfinance Focus, July 28, 2009: IFC, a member of the World Bank Group, will provide a microfinance package of $300,000 to Guyana's Small Business Development Finance Trust Inc to help the company grow its client base of micro, small, and medium enterprises, said a press release on Monday.
IFC's convertible financing of 60 million Guyana dollars [...]
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MMT 09 Global Summit

2nd Annual MMT Global Summit

26-27 October 2009, Dubai

Register for the conference : http://www.mobile-money-transfer.com/global-summit/register/step1

Microfinance India Summit 2009

"Doing Good and Doing Well: The need for balance"

October 26-28, 2009
Taj Palace Hotel, New Delhi (India)

Register for the conference : **www.microfinanceindia.org**

Mobiles & Money India 2009

23 - 24 November 2009
Trident, Mumbai

Register for the conference http://www.bizevents.asia/index.php/contact-us

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Microfinance Focus (India)

Avlahalli, Anjanapura Post | Bangalore –560062

P. +91.80.28436237| F. +91.80.28436577

Email: info@microfinancefocus.com

Microfinance Focus (US)

717 Lawrence St. NE | Washington, DC 20017 USA

Phone: +1.202.652.0185| Mobile: +1.410.227.0498

Email: managingeditor_us@microfinancefocus.com |Skype: agidigm