



# Janalakshmi Financial Services MicroFinance Update

Janalakshmi Financial  
Services

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## Janalakshmi Financial raises \$10 million

Former Citigroup Inc. banker Ramesh Ramanathan-promoted Janalakshmi Financial Services (JFS), an urban poor focused microfinance institution (MFI), has raised \$10 million (Rs45.8 crore) in its second round of funding.

The round was led by Hong Kong and Singapore-based hedge fund Tree Line Asia Master Fund (Singapore) Pte Ltd and Bellwether Microfinance Fund, an existing investor in the firm. Former Morgan Stanley India Investment Fund Inc. head Narayan Ramachandran, who

has joined JFS's board, also invested in his personal capacity. Bangalore-based JFS, which focuses on financial inclusion of the urban poor, intends to utilize the corpus for launching its expansion plans. Currently active in six cities with around 100,000 clients, JFS has outstanding loans of Rs85 crore. Over the next year, it plans to extend operations into 35 cities, with outstanding loans of Rs300 crore.

"We are very happy to have closed our second round of funding in a very quick time. It's a

validation of our approach to addressing issues of financial inclusion in a unique social business model," said Ramanathan.

He was referring to JFS's unique two-tier structure, under which all promoter stakes are held in a not-for-profit holding company called Janalakshmi Social Services, while JFS is a for-profit urban MFI.

*From: Livemint.com, March 7, 2010*

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From: Microcapital.org,,  
March 22, 2010

## Microfinance Institutions Network (MFIN) Members to Create Credit Bureau in an Effort to Prevent Client Over-indebtedness and Maximize Repayment

India's Microfinance Institutions Network (MFIN), a self-regulatory organization of 31 of India's largest microfinance companies, recently said its members will provide borrowers' names, addresses and loan details to a credit bureau they have created, Alpha Micro Finance Consultants P Ltd (Alpha), in an effort to prevent client overindebtedness and maximize repayment. MFIN is investing INR 20 million (USD 400,000) towards this effort, and

Alpha will work with established credit bureaus, Credit Information Bureau (India) Ltd. (CIBIL) and High Mark Credit Information Services Pvt. Ltd to create the register of over 20 million borrowers that have loans through the members of MFIN. Vijay Mahajan, president of MFIN, said "the overlap between MFIs [microfinance institutions] is increasing. Since there is a general attempt by everybody to grow their portfolios, there could be a negative impact. There have been some pockets

where there was multiple lending which leads to over indebtedness." Through this effort MFIN members intend to be able to more comprehensively ascertain the overall indebtedness of clients and better assess their repayment capabilities.

*From: Microcapital.org and WSJ, March 11, 2010*

## Investors Backing Microfinance Despite Impact of Crisis

World markets have been volatile in the wake of the global financial crisis, but investors showed nearly unshakeable faith in the microfinance sector during 2009, driving equity valuations higher even as asset quality and profitability at microfinance institutions (MFIs) deteriorated. A new report by CGAP and investment bank JP Morgan shows that MFI equity valuations continued to rise across all regions last

year, with MFIs in the private equity market trading at a median of 2.1 times their book value – a 62% increase since 2007. "There's no doubt the crisis did have an impact on MFIs, and a significant one, so the strength in equity valuations is a surprise," says CGAP's Xavier Reille, a co-author of the report. Although most investors have focused on microfinance blue chips with strong management, good asset

quality, and diversified funding structure, Reille cautions that some valuations – particularly in the Indian market – might be outstripping fundamentals. Indian MFIs comprised 30% of all microfinance equity transactions in the 2009 CGAP dataset, and their equity valuations are trading at six times book value – three times the global median. Interest in the Indian

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## RBI to MFIs: Shape Up or Face Music

India's booming microfinance segment is under the scanner, with the Reserve Bank of India (RBI) issuing a veiled warning that it could be taken off the priority sector lending list of banks if the industry fails to improve its governance standards.

This was spelt out at a meeting in late January between senior RBI officials, representatives of Sa-Dhan—the association of Indian microfinance institutions (MFIs)—and some senior MFI managers from Karnataka, West Bengal and Andhra Pradesh.

The RBI officials reportedly told MFI executives that the central bank was aware of the extent of benami loans being given by MFIs, the practice of writing off bad loans and sloppy corporate governance in some of the entities, all of which could have their impact years down the line.

To meet the high growth targets, MFIs are increasing credit limits, opening more branches and adding new

customers — SKS Microfinance adds as many as 1.5 lakh borrowers every month. At the same time, to ensure they can access bank funds cheaply, MFIs have to show rock-solid repayment patterns. This can result in a combination of indiscriminate lending and pressure on borrowers to pay on time — an explosive mix that blows up from time to time.

But, what's perhaps worrying the regulator and some of the stakeholders is that MFIs are still being run like small, family-owned firms. Microfinance industry executives told ET on condition of anonymity about dubious practices like board minutes being fudged, senior management trying to enrich themselves, local level staff advancing fresh loans to hide bad debt and staffers running small rackets on the side. Under the circumstances, RBI's warning is a powerful one. The cost of funds for the industry could rise by as much as 200-250 basis points, said Padmaja Reddy, managing director of Spandana Sphoorty Financial. And this would change the equa-

tions within the rural credit landscape. At one level, the MFIs will become proportionately (in relation to a hike in interest rates) unattractive sources of credit in a marketplace where loans are also available through the SHG-Bank linkage, traditional sources of credit, richer farmers, government schemes, etc.

It's also pertinent to mention that, last week, the RBI allowed banks to charge 'commercially viable rates' (higher than the PLR) for Priority Sector loans below Rs 2 lakh to improve their lending to rural borrowers. In all, says Vijay Mahajan, founder, Basix India, MFIs would face a credit squeeze.

Such a move would also change equations within the microfinance landscape. Among the MFIs, this might tilt the playing field in favour of larger players which operate on scale, focus mainly on credit delivery, and consequently have lower operating costs.

*From: Economic Times, Feb 16, 2010*

### Other News

The Microfinance Association has launched the Investors Matching service that aims to promote and facilitate the creation of strategic partnerships through matching the interests of microcredit organizations with those of local and international investors. The Microfinance Association is a UK-based non profit professional membership organization for practitioners in the microfinance industry. Several types of partnerships are possible including equity investment, joint-venture and technical cooperation.

From: Microcapital.org,  
March 25, 2010

## Global Industry Analysts Inc Predicts Mobile Banking Customer Base will Reach 1.1 Billion by 2015

A new report released by Global Industry Analysts Inc (GIA) entitled "Mobile Banking: A Global Strategic Business Report" estimates that the global customer base for mobile banking will reach 1.1 billion by 2015. The report provides annual forecasts for each region of the world from

2006 through 2015. It includes profiles on 84 key and niche players worldwide such as Bank of America, Barclays Bank, Citibank, JPMorgan Chase and Wells Fargo. According to a press release on PRWeb, "convenience of mobile banking operations and need to lower transactional costs are major driving factors for the

technology's adoption. Growing demand for microfinance, mobile remittances and micropayments services from un-banked population in developing countries is also expected to boost uptake of mobile banking services."

*From: Microcapital.org, Feb 19, 2010*

## Nokia and Yes Bank Launch Pilot Mobile Money Services

Nokia has teamed up with YES BANK to introduce a live commercial pilot scheme of Nokia Money in India. The service will see its test debut in Pune, India, and will be called Mobile Money Services by YES BANK. The pilot scheme will let people transfer money to another person simply by using the person's mobile phone number. They'll

also be able to pay utility bills and top up SIM cards. Looking ahead, there will also be the facility to pay for goods and services.

*From:  
Indiamicrofinance.com,  
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This internal newsletter provides a monthly update to senior management on news and announcements within the Indian microfinance space, and its related industries.

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## Microfinance's Midlife Crisis: Companies that provide banking services in developing countries are attracting private investment. But is the industry losing sight of its mission to alleviate poverty?

From humble beginnings, microfinance—a system of providing tiny loans and savings accounts to the poor—has grown into a global industry attracting the interest of large multinational banks. But the commercialization of the industry has sparked a fierce debate. Profit advocates highlight improved access to foreign capital and expertise; traditionalists say microfinance companies are in danger of becoming little better than predatory moneylenders.

There is little doubt that microfinance is now big money. In 2008 it attracted \$14.8 billion in foreign capital, up 24% from the previous year. For the first time, the majority of the money came from private investors—including pension schemes and private-equity funds—rather than governments, according to the World Bank.

This deluge of private capital has freed many microfinance institutions from their reliance on donor funding. As a result some have switched from a not-for-profit strategy to a money-making business model. But there are concerns that such institutions are becoming distracted by the need to reward investors. Some microfinance banks have generated returns on equity of 50%; others have flooded the market with poorly structured debt.

Maya Prabhu, head of philanthropy at U.K. private bank Coutts & Co., who advises wealthy clients on investments in microfinance, says: "There's a definite risk of new shareholders switching microfinance institutions' mission from alleviating poverty to chasing volumes and profits."

Marilou van Golstein Brouwers, the head of microfinance investments at Triodos Bank, says the influx of so much private capital into microfinance is a mixed blessing.

On the one hand, private capital helps finance the growth of the sector and expand its reach. "At the same time, if the mission of

microfinance institutions is only to maximize profit, then the social goal of helping people out of poverty is not reached," Ms. van Golstein Brouwers says. "The problem is that a lot of the new private investors in the sector see it mainly as a way of making a lot of money."

Nowhere is investors' appetite for high, quick returns more apparent than in India. Between 2003 and 2008 the Indian microfinance market grew at a compound annual rate of 90%. It attracted around \$200 million through 27 private-equity investments in 2009 alone, according to consultancy Venture Intelligence. This included money from blue-chip names such as Silicon Valley Bank and Sequoia Capital.

In January this year, U.S. private-equity fund Sequoia Capital paid just under \$10 million for a 10% stake in Equitas, a leading Indian microfinance institution. Kalpathi, a local private-equity firm, bought the same stake only two years earlier for \$750,000.

Some microfinance banks, typically backed by venture capital, are considering stock-market entry. SKS, the largest microfinance company in India and the fifth-largest in the world, is expected to be the first Indian microfinance institution to launch an initial public offering.

Paolo Brichetti is chief executive of MicroVentures, a fund that invests in the equity of microfinance institutions around the world, including five in India: Equitas, Sahayata, Grameen Koota, MV Microfin and BSS. "We're helping to prepare some of them for initial public offerings in the next few years," he says. "They are all growing on average by 50% to 70% a year, and some of them are doubling their clients every year. They could each raise \$100 million through initial public offering."

Investors are attracted by the fact that returns on microfinance investments are reasonably uncorrelated to other asset classes.

They have also produced positive returns even in volatile times.

According to the World Bank, funds have enjoyed average annual returns of 6.3% for investing in the debt of microfinance institutions and 12.5% for investing in their equity. (However, most private-equity funds have a short track record in this area and have made very few exits.)

On average, funds even managed to produce positive returns during the height of the credit crisis in 2008 when emerging-market bond funds fell in value by 12%. Globally, microfinance also has an average non-performing loan rate of just 1%.

The rapid growth in India is also fueling fears that the market could overheat. Both the profits and loan volumes of the biggest firms are growing rapidly. The loan book of SKS, for example, grew from \$21 million in March 2006 to \$790 million in September 2009, while return on equity went from 3% to 15%.

Ms. van Golstein Brouwers of Triodos Bank, which has around \$200 million invested in microfinance institutions, says: "Over the past year, particularly in India, there's been a real focus on strong growth, so loans have been extended very easily. There's a risk of making too many loans and getting people over-indebted."

Some parts of India are in danger of becoming over-saturated with microloans. Balali Iyer, vice-president of microfinance at HSBC, says: "Indian microfinance institutions are aware that overheating could become a problem, but they are working together to ensure it doesn't."

Prashant Thakker, global business head of microfinance at Standard Chartered which has lent over \$500 million to microfinance institutions in Asia and Africa in the last three years, acknowledges that some of the larger players in India are growing very fast.

But he also notes that microfinance has still only penetrated 10% of the Indian market. He believes there is a long way to go before demands for financial access are met.

"A lot of the growth is into new regions," says Mr. Thakker. "And having access to private debt or equity capital helps make microfinance institutions more sustainable, rather than relying only on donor finance, which is unpredictable."

Nonetheless, some experts fear that microfinance institutions lose track of their purpose when they become beholden to institutional investors.

One area of contention is interest-rate charges. Compartamos, the largest microfinance institution in Mexico, raised \$400 million from an initial public offering in 2007. It charges interest rates of around 85%, while making a return on equity of around 40%. The average interest rate charged by microfinance institutions globally is 26%.

Compartamos' co-founder and executive vice-president, Carlos Danel, accepts that rates are higher in Mexico than in other countries but says this is because the loans are typically much smaller.

"We could push people to borrow bigger loans, but we don't believe in doing that," he says. "In the four years since we've gone public our rates have gone down 10%, and we offer by far the lowest rates in the Mexican market. Taking the company public raises the bar in terms of performance, transparency and accountability."

*From: WSJ, March 1, 2010*



## Microfinance Focuses on Lending. Now the Industry is Turning to Deposits

IT IS hard for people in the rich world to imagine what it is like to live on \$2 a day. But for those who do, the problem is often not just a low income, but an unpredictable one. Living on \$2 a day frequently means living for ten days on \$20 earned on a single day. The task of smoothing consumption is made more complicated if there is nowhere to store money safely. In an emergency, richer people might choose between dipping into their savings and borrowing. The choice for the great mass of the unbanked in the developing world is limited to whom to borrow from, often at great cost. That they can borrow at all is partly due to the rapid growth of microfinance, which specialises in lending small amounts to poor people. Several big microfinance institutions (MFIs) also offer savings accounts: Grameen Bank in Bangladesh is a prominent example. But the industry remains dominated by credit, and the ability to save through an

MFI is often linked to customers' willingness to borrow from it. Of 166 MFIs surveyed in 2009 by the Microfinance Information Exchange, a think-tank, all offered credit but only 27% offered savings products. Advocates of a greater variety of financial services for the poor argue for more balance. This may be on the horizon. More MFIs are becoming interested in the potential of savings, thanks partly to the global financial crisis. A majority of more than 400 MFI managers surveyed last March by the Consultative Group to Assist the Poor (CGAP), a microfinance group based at the World Bank, said that they had faced liquidity problems during the crisis. This, together with rising financing costs and exchange-rate fluctuations for those MFIs that rely on external finance, has prompted many "credit-only" MFIs to warm to the idea of funding at least part of their lending activity using local savings. The Bill & Melinda Gates

Foundation has thrown its weight behind microsavings. In January it announced grants worth \$38m to 18 MFIs in South Asia, Latin America and Africa to encourage them to expand their savings offerings. This is a big deal in an industry which still takes many of its cues from donors. Bob Christen, the foundation's director of financial services for the poor, says that it sees the grants as a major step to "help broaden the microfinance business model to include savings". It will take more than good intentions and a recognition that the poor want places to deposit the money they squirrel away to make microsavings work. Part of the problem with trying to mobilise deposits from poor people is simple economics. It is hard to make a profit from customers who make lots of tiny deposits without massively trimming transaction costs. For all this to happen, banking regulations in many countries need to become more flexible about who can accept deposits. Timothy Lyman of CGAP says that regulators are getting more

comfortable with the idea of banking agents. India, which initially allowed only very few kinds of agents, last year broadened the categories of those eligible. MFIs are also interested in becoming bank agents, especially in places where they are not legally permitted to take deposits. Cash-poor, an Indian MFI working with the Grameen Foundation, intends to use some of the Gates Foundation's money to partner with a savings bank, taking the bank's products to the customers it already has. If better technology and more flexible regulation are necessary for microsavings to work, they are still not sufficient. The final step is designing products that work for poor people. Several MFIs that are getting Gates Foundation money are experimenting with savings accounts that feature commitments to make regular deposits, something many people find attractive. Providers looking to base some lending on deposits also like commitment products, since the money is locked in for some time. Marcia Brown of ACCION International, one of the

Gates grantees, says that accounts designated as being for a particular purpose, such as children's school fees, are likely to be part of the product mix. Sendhil Mullainathan, a Harvard economist, points out that there is often a big gap between what people say they'd like to save and what they end up saving. Saving, he argues, is often "what didn't happen"-the accumulation of decisions not to consume. Consumption, by contrast, is an active decision to buy something. One product he is testing in India involves collaborating with banking agents to sell "savings cards" in shops, so that saving becomes an active purchase and can compete with other impulse buys. With luck these kinds of innovations can help the poor use their own savings to make life just a little more predictable.

*From: The Economist, March 11, 2010*

## Investors Backing Microfinance Despite Impact of Crisis

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microfinance equity market – and the broader MFI market – will likely intensify further in 2010 with the impending initial public offering by the country's largest microfinance institution, SKS. The relative youth of the microfinance equity market means there are few established performance benchmarks, making assessments difficult. However, the CGAP/JP Morgan report is bridging this gap by drawing on the analysis of 200 private equity transactions between 2005 and 2009 and trading information on eight publicly-listed low-income financial institutions to assess the strong performance of the

microfinance equity market. Judging by the performance of publicly-traded low-income financial institutions, the most comparable listed vehicles to MFIs, investors are bullish on emerging market financial institutions serving low-income populations. These stocks have strongly outperformed emerging market banks (as measured by the MSCI Emerging Markets Bank Index) and by the end of 2009, had rebounded to pre-crisis levels or new historical peaks. Despite the strength in equity valuations, the microfinance sector is undoubtedly feeling the impact of the crisis more severely than at any time since the depths of the Asian financial crisis in the mid-nineties.

The CGAP/JP Morgan report shows that portfolio quality began to deteriorate rapidly after January 2009, with past due loans over 30 days jumping to a median of 4.7% from 2.2% over the first five months of 2009, although it has moderated since then and so far remained stable. The effects of the downturn were far from uniform however, with MFIs in South Asia and South America showing few signs of impact, while others in Central America, Eastern Europe, and Central Asia were more affected. However, most MFIs have been well-positioned to sustain the downturn and their equity base remains strong at nearly 20% of total assets. "The

crisis will likely encourage MFIs to refocus on business fundamentals: asset quality, funding structure, and management," Reille says. "MFIs are generally well positioned for 2010 and are likely to resume growth though with greater awareness of risk and more prudent business strategies."

*From: CGAP, March 16, 2010*

