MicroCapital Monitor
On Microfinance & Other Forms of Impact Investing

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FREE PREVIEW EDITION*

MICROCAPITAL BRIEFS | TOP STORIES

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Equator Buys Minority Stake in Kenya's Jamii Bora

Please see the subscriber edition for coverage of this "MicroCapital Deal of the Month."

Cambodian Microbank Sathapana Borrows $35m

Cambodia's Sathapana Bank recently borrowed USD 35 million from seven lenders through Taiwan's First Commercial Bank. Sathapana CEO Bun Mony said, "The Taiwanese have confidence in Sathapana Bank Plc, and this loan will support the bank to expand its commercial operations to more clients and also fulfill its mission as a [microfinance institution]. First Commercial Bank has previously issued smaller loans, around USD 5 million, but this is the first time for such a large syndicated loan size...". Sathapana reports total assets of USD 539 million, a gross loan portfolio of USD 470 million, deposits of USD 260 million, 113,000 active borrowers and 128,000 active depositors. June 21. 2016

Kenya's Sidian, Zohari to Finance Uber Drivers' Vehicles

Kenya's Sidian Bank and Zohari Leasing are rolling out products for drivers that acquire customers via Uber, a US-based car hailing service. While details of the leasing option are not available, Sidian will offer three-year loans with annual interest rates of 10.5 percent for 100 percent of the vehicles' values. To be eligible, drivers need to complete 500 trips for Uber with an average customer rating above 4.6 out of 5. Drivers not meeting this requirement can apply for Sidian's conventional finance program, which funds up to 90 percent of the vehicle price. Sidian reports total assets of USD 189 million. June 6. 2016

IDB Approves $120m Loan for Chile for Factoring, Co-ops, Leasing

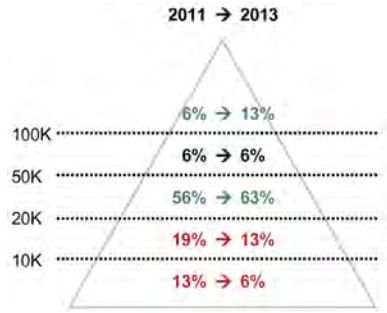
The Inter-American Development Bank, a US-based multilateral institution, recently approved a loan of USD 120 million to the Chilean government to finance micro-, small, and medium-sized enterprises (MSMEs). The loan is parceled as follows: (1) USD 50 million for factoring to "fund eligible entities that neither belong to nor are associated with banks"; (2) USD 50 million for on-lending to financial cooperatives; and (3) USD 20 million for "leasing companies that neither belong to nor are associated with a bank to help them finance MSMEs…" Factoring is an arrangement whereby a company sells future goods or services at a discount in return for immediate cash. May 31. 2016

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

INSIDE — Page

MicroCapital

SENEGAL
Percentage of MFIs in Market by Number of Borrowers



Market Indicators*

MICROCAPITAL BRIEFS

Orange Money Connects France, West Africa

Orange, a France-based telecommunications company, recently expanded "Orange Money," a mobile money service used by 18 million people in 14 African countries, to allow customers in France to transfer money electronically to Côté d'Ivoire, Mali and Senegal. The fees range from the equivalent of USD 3 to USD 9 for transactions as large as USD 450. Orange Money has 41 points of sale in France and 30,000 in Côté d'Ivoire, Mali and Senegal. Orange reports annual sales of USD 45 billion from a customer base of 252 million. June 20. 2016

Zambian Law Promotes Leveraging of SMEs' Movable Collateral

With support from the World Bank Group's International Finance Corporation, Zambia recently passed the "Personal Property Security Interest Act," with the intent of allowing small and medium-sized enterprises (SMEs) to use movable collateral such as equipment, machinery and inventory to access loans. By 2020, supporters of the law hope it will "generate USD 2 billion in financing to firms and benefit 6,500 SMEs, 1,200 microenterprises, and 1,200 women entrepreneurs." Elaine MacEachern, who serves as a Global Specialist in Secured Transactions and Collateral Registries for the World Bank Group, said, "To ensure this framework is complete, we must…build an online personal property security registry system." June 19. 2016

EBRD Syndicating $21m Loan for Belarusky Narodny of Belarus

The European Bank for Reconstruction and Development, a UK-based multilateral institution, recently announced its intent to arrange a "senior unsecured syndicated A/B loan" of USD 21 million to be on-lent to micro-, small and medium-sized enterprises via Belarus's Belarusky Narodny Bank. The senior tranche of USD 5 million would be funded by EBRD, and a junior tranche of USD 16 million is to be raised from third parties. Belarusky Narodny is controlled by the Bank of Georgia Group, which reports USD 406 million in assets. June 15. 2016

IFC Lends Burgan Bank $60m for SMEs in Turkey

The International Finance Corporation (IFC), a member of the World Bank Group, recently announced it has loaned USD 60 million to the Turkish subsidiary of Kuwait's Burgan Bank Group to increase access to finance for small and medium-sized enterprises in Turkey. Manuel Reyes-Retana, the Regional Industry Head of IFC's Financial Institutions Group, stated that "Financial institutions like Burgan Bank can play a significant role in expanding resources to these businesses so they can innovate, create jobs and tap into global markets." Burgan Bank reports total assets equivalent to USD 3.6 billion, 1,000 employees and 56 branches. June 8. 2016

India's SKS Changes Name to Bharat

SKS Microfinance, a for-profit microlender headquartered in Hyderabad, India, recently announced it will change its name to Bharat Financial Inclusion. Observers have associated the move with continued efforts to shed the stigma of the downturn in the microfinance industry in the state of Andhra Pradesh that began in 2010. SKS recently reported a quarterly profit, excluding subsidiaries, equivalent to USD 12 million, twice the amount of the same period one year earlier. Its revenue and gross loan portfolio were also up by lesser percentages. SKS reports total assets of USD 1 billion and USD 771 million in loans outstanding. June 8. 2016

"Rwanda Interconnect Switch" to Facilitate Mobile Money

Ericsson, a Swedish communications technology firm, recently signed an agreement with the Rwandan Ministry of Finance and Economic Planning to launch a national interoperability switch. This is meant to allow banks, microfinance institutions and money transfer firms to perform real-time transactions, offering customers seven-day-per-week access to a greater range of digital payment options. June 7. 2016

(For more briefs, please refer to the subscriber edition.)

SPECIAL REPORT

This interview is part of a sponsored series on European Microfinance Week, which will be held from November 16 through November 18 by the European Microfinance Platform (e-MFP), a 125-member network located in Luxembourg. MicroCapital has been engaged to cover the event on-site.

Rural Outreach and Innovation Action Group

MicroCapital: Why is it important to serve rural markets?

Marina Kortenbusch: In most emerging economies, the rural sector employs a large share of the working population. Developing rural markets is an effective way to boost prosperity by increasing the incomes of individuals whilst also contributing to food security, reducing environmental impact and increasing exports.

MC: What are some key differences between rural and urban markets?

MK: The incomes of many rural residents fluctuate with the seasons and are more exposed to weather conditions and natural disasters than those of their urban counterparts. This elevates the importance of insurance products tailored to meet their needs. These can help stabilize incomes and encourage investment in business growth.

MC: What is new in product design for agricultural producers?

MK: Value chain finance has provided a fresh approach to supporting farmers. This is achieved by working in coordination with stakeholders such as processors, distributors and financial institutions to provide credit to farmers indirectly. For example, farmers may rent space to store their product until prices increase but pay the rental cost only after selling the product. Or financial institutions can provide credit to agricultural input suppliers to allow farmers to pay for seeds, fertilizer and pesticides over time. Non-financial services such as artificial insemination and agricultural technologies can also be incorporated.

MC: How will the Rural Outreach and Innovation (ROI) Action Group contribute to European Microfinance Week?

MK: During the pre-conference day, Action Group members will present their rural development initiatives and highlight both implementation challenges and successful adaptions to local circumstances. During the main conference, members will take a global perspective, showcasing recent innovations in the development of rural markets. This session will include an examination of combining financial and non-financial services as well as an exploration of the advantages and challenges of value chain finance.

MC: What do you foresee for the future of rural finance?

Josien Sluijs: We can only serve rural areas with technological innovation; otherwise it simply is too costly. Worldwide, we have about 2 billion people still to reach, and a large number of these people live in rural areas. All ten of e-MFP's Action Groups support actors in inclusive finance to work toward the UN's Sustainable Development Goals, of which several are related to serving rural areas.

Marina Kortenbusch, who serves as Head of e-MFP's ROI Action Group, is the Managing Partner of Switzerland's Business and Finance Consulting. Josien Sluijs is an e-MFP board member and Director of the Netherlands' Platform for Inclusive Finance, which is also a member of the ROI Action Group.

EAR TO THE GROUND

Payday Loans: Smaller Payments, Longer Terms Can Still Be Debt Traps

On June 2, the US Consumer Financial Protection Bureau (CFPB) proposed a rule targeting the payday loan industry that "*would require lenders to determine whether borrowers can afford to pay back their loans.*" While it seems sensible for a lender to make sure that a borrower can repay his or her loan, this idea is becoming quite old fashioned, not least because it is very hard to do with the tools available to many "low-touch" lenders such as fintech providers and retail outlets. In the US, both online and brick-and-mortar payday loan companies work from little more than a credit score and prior paycheck - although this is a lot compared to some online lenders who only use a credit score and a list of your friends or online purchases.

The motivation for this proposal is powerful. According to CFPB, almost 70 percent of payday borrowers take out a second loan within a month, and 20 percent take out 10 or more loans. For similarly structured auto-title loans, 11 percent of borrowers end up losing their vehicles. CFPB's move highlights the seriousness of this issue, how damaging it is to many Americans. These short-term loans become debt traps.

The details of the proposal, however, feel downright antiquated. A key recommendation is that any loan refinancing would have to offer lower payment installments (and thus longer terms). The CFPB report consistently calls smaller payments over longer terms "less risky." Yet in my experience, they can be *very* risky for both borrowers and lenders, particularly if interest rates stay the same. In Latin America, I have seen clients' microfinance loan balances creep up, with clients asking for more time to pay to keep installments manageable. But this leads to a new kind of debt trap related to a mismatch between sources and uses. The term of the refinanced loan becomes so disconnected from the usage of the loan that it no longer feels relevant. If people forget why the loan mattered, they are more likely to decide that paying it back is not too important, which is bad for lenders. And they are more likely to encounter new expenses to fund, which leads them to multiple borrowing, a bad move for borrowers and lenders alike.

Over the past few months, we have been interviewing homeowners facing mortgage crises here in the US. One cost of pushing loan terms out is that some maturities extend into clients' retirement. Once borrowers hit a fixed income, it becomes almost impossible for them to cover the installments negotiated when they were of working age, and default looms.

According to the Pew Center, 76 percent of Americans say today's payday loans are not fair, but believe they could be if loan installments were capped at 5 percent of net income (after expenses). The only way to do that is to slash interest rates. That might require a lender to learn quite a bit more about its customers to perform a proper credit analysis that considers household income, debt and other expenses. Could CFPB be setting the stage for old-fashioned banks to take some market share back from payday and online lenders?

About the Author: Ms Barbara Magnoni is President of EA Consultants, a development-consulting firm based in New York. She has over 20 years of international finance and development experience and has worked with organizations including Goldman Sachs, Chase and BBVA and has advised institutions such as the International Finance Corporation, the US Agency for International Development and the International Labour Organization. She may be reached at +1 212 734 6461 or bmagnoni[at]eac-global.com, or you may follow her on Twitter at BarbaraatEA.

PAPER WRAP-UPS

Cost-Benefit Analysis of Traditional Versus Flexible Microfinance in Bangladesh

By S. Bairagi and W. Bin Shadat, published by the Copenhagen Consensus Center, May 2016, 32 pages, available at: http://www.copenhagenconsensus.com/sites/default/files/bin_shadat_microfinance.pdf

This paper estimates the differences in "social benefits" between the traditional microfinance method and a more flexible repayment system by using net present value (NPV) and benefit-to-cost ratio (BCR) methods. Under the flexible system, a borrower is allowed a repayment-free "grace" period of one or more months beginning at the time of loan disbursal. Social benefits are measured through a mathematical model wherein microfinance institutions act as a profit maximizer.

The difference in NPVs of the future benefits for both methods is minimal. However, the BCR ranges between 1.9 and 2.6 for the flexible method and 1.3 and 2.1 for traditional microfinance. Based on these figures, the authors conclude that the welfare gains for flexible microcredit are higher and that... *(Continued in the subscriber edition)*

Enabling Merchant Payments Acceptance in the Digital Financial Ecosystems

By A. Weinberg, D. Salazar, C. Niehaus, A. Sathnur, C. Coye Benson and J. Lasko; published by the International Telecommunication Union; May 2016; 42 pages; available at: http://www.itu.int/en/ITU-T/focusgroups/dfs/Pages/default.aspx

The authors of this paper argue that increased merchant acceptance of digital payments will enable consumers to increase their usage of digital wallets, thus lowering cash-out costs. Among the challenges the authors identify are merchant underwriting, risk management, dispute management and... *(Continued in the subscriber edition)*

Global Standard-Setting Bodies and Financial Inclusion: The Evolving Landscape

By T. Lyman et al, published by the Global Partnership for Financial Inclusion, March 2016, 126 pages, available at: http://www.gpfi.org/publications/global-standard-setting-bodies-and-financial-inclusion-evolving-landscape

This paper addresses how standard-setting bodies are addressing "peer-to-peer" lending, digital currencies and... *(Continued in the subscriber edition)*

For more wrap-ups, please refer to the subscriber edition.