MicroCapital Monitor
On Microfinance & Other Forms of Impact Investing

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MICROCAPITAL BRIEFS | TOP STORIES

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AFD, IFC Launch SME Risk-sharing Facility with $5m Deal for Lebanon's BLC

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

Goodwell Disburses Convertible Loan to Innovative to Expand in Rural Ghana

Through its Goodwell Microfinance Development Company III, Netherlands-based Goodwell Investments recently issued a convertible loan of undisclosed size to Ghana's Innovative Microfinance Limited, which provides credit, savings, training and environmental advisory services to low-income individuals and microenterprises. Innovative plans to use the funding to open five outlets in rural northern Ghana, expanding its branch network to eight. The microbank serves 7,000 borrowers and 10,000 depositors, mostly "market women" and other small-business owners. Its founding shareholders are Sheila Azuntaba and Ghana-based African Tiger Holdings. Goodwell Investments is in the process of raising the equivalent of USD 22 million to complete an additional close of the Goodwell III fund. Half of this amount is targeted for financial inclusion in Sub-Saharan Africa, with the other half to be invested in small and medium-sized enterprises providing "basic goods and services." October 26. 2016

Bond Repayment Contingent on Client Outcomes in Colombia

The Multilateral Investment Fund (MIF), a member of the US-based Inter-American Development Bank Group, is partnering with the Swiss State Secretariat of Economic Affairs and the Colombian government's Department for Social Prosperity to launch a "social impact" bond fund aimed at increasing urban employment in Colombia. Through this "pay-for-success model," investors will provide capital for organizations that provide services to "vulnerable" populations with repayment dependent upon project outcomes, as measured by third-party impact evaluators. According to an MIF statement, "If outcomes fail to improve, investors do not recover their full investment, thereby transferring the performance risk of the program away from governments and taxpayers." The target size of the fund has not been disclosed. October 15. 2016

Indian Banks Cheat to Reduce Number of Zero-balance Accounts

Banks in India reportedly have been acting dishonestly under the country's Pradhan Mantri Jan Dhan Yojana (PMJDY) financial inclusion program. As the proportion of zero-balance bank accounts opened under the program fell from 76 percent to 24 percent in less than two years, employees of 18 public-sector banks were making tiny deposits into them. Out of 150 million accounts opened under PMJDY, over 100 million have balances equivalent to USD 0.015. The 12 banks that opened the most PMJDY accounts are holding balances of more than USD 0.15 in only 64 percent of them. Bank employees, who reportedly were making the deposits from their personal as well as the banks' funds, said they acted under pressure from supervisors. October 5. 2016

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

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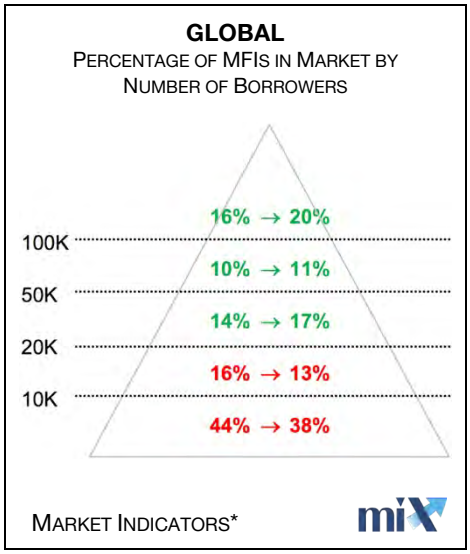
MicroCapital



MICROCAPITAL BRIEFS

Microcred Opens Doors in Burkina Faso

Microcred Group, a for-profit microfinance company operating under the umbrella of French NGO Positive Planet, recently launched its subsidiary in Burkina Faso. Microcred Burkina Faso, which now offers deposit and loan services, plans to expand into electronic banking, insurance and money transfers. As of 2015, Microcred Group reports total assets equivalent to USD 411 million, outstanding loans of USD 339 million and deposits of USD 116 million. As of 2016, it has 520,000 clients in eight African countries and China. October 28. 2016

India's Arman Cuts Interest Rates on Vehicle, Microfinance Loans

India's Arman Financial Services recently announced that it is reducing its loan rates by 1.1 to 1.5 percentage points due to positive financial performance as well as acquiring lower-cost and longer-term wholesale funding. The interest rates that it charges have not been made public. Arman manages assets equivalent to USD 11 million in its microfinance business and USD 7 million in its vehicle business. October 27. 2016

Intellegrow, Symbiotics Securitize $5m in Bonds for Indian SMEs

Intellegrow, a subsidiary of India's Intellecap Group that specializes in venture debt, and Symbiotics, a Switzerland-based firm investing in smaller companies, recently launched a small and medium-sized enterprise debt pool program to benefit Indian entrepreneurs from "impact" sectors including, but not limited to, food and agriculture, healthcare, and waste management. The program's first structured finance transaction securitized bonds worth the equivalent of USD 5.3 million for seven SMEs drawn from Intellegrow's existing portfolio. October 25. 2016

RBL Acquires 10% Stake in India's Utkarsh

India's RBL Bank, formerly known as Ratnakar Bank Limited, recently announced it has obtained regulatory approval to pay an undisclosed price for a 9.99-percent stake in Utkarsh Micro Finance, which is based in the Indian state of Uttar Pradesh. The deal, under which RBL will offer its deposit services to Utkarsh clients, has been described as a "strategic move [for RBL] to reach out to the unbanked...." Utkarsh reports total assets equivalent to USD 230 million, return on equity of 16 percent and return on assets of 3.3 percent. October 24. 2016

MFIs Invest in Nepal Finsoft to Develop MIS Software

A group of Nepalese microfinance organizations is investing in Nepal Finsoft to develop a banking management information system that the 34 institutions hope will provide them with "increased efficiency and capacity to serve clients [and] lower overall costs...." India's PureSoftware will help create the system, which is scheduled to launch in April 2017. The project is supported with technical and financial assistance from the Nepal Microfinance Banks Association and the Sakchyam Access to Finance for the Poor Programme, which is funded by the UK's Department for International Development. October 23. 2016

Brazil Aims $9b Credit Line at Micro-, Small Enterprises

The Brazilian government recently announced a credit line equivalent to USD 9.4 billion for banks to fund the working capital, equipment and advisory needs of micro- and small enterprises in the country. Two thirds of the total will be routed through public banks Banco do Brasil and Caixa Econômica Federal, with the remainder facilitated by private-sector banks Bradesco, Itaú Unibanco and Santander. October 20. 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 124-member network located in Luxembourg. MicroCapital has been engaged to cover the event on-site.

Managing Social Performance Outcomes

MicroCapital: What is the value of social performance management (SPM)?

Lucia Spaggiari & Amelia Greenberg: Financial service providers (FSPs) do not achieve their social goals without deliberately managing their social performance. Providing access to financial products and services can have a neutral or even harmful effect when it is not done responsibly. Even the best-intentioned FSPs have been shocked upon seeing their first data about client outreach, satisfaction and exit. Simply put, they were not reaching their target clients; their products were not well adapted to clients' needs; and they were not achieving their missions.

MC: What social performance outcomes are you measuring?

LS & AG: We are looking to answer questions such as: What actually happens to clients? Do their situations get better? Do they deteriorate? For whom specifically? Why? What measures improve outcomes?

MC: How do investors fit in?

LS & AG: Investors want to know if and how they can consolidate outcomes measurement across their portfolios. They wrestle with when - and whether - to give input into FSPs' decisions about outcomes indicators. Another issue is how asset managers can help asset owners redefine financial and social returns.

MC: What are some common misconceptions about SPM?

LS & AG: That it is too difficult or too expensive. Some changes are small and almost cost-free, like changing an internal policy that is unintentionally excluding some clients. FSPs that have been working on SPM for a while tell us that it is not something new or complicated. It is common-sense business practice to make sure you are accountable to your own stated goals - that you care about client outcomes as well as the financial sustainability of your institution.

MC: Is there a financial return on this extra work?

LS & AG: Going from little or no SPM to strong SPM requires investment, but it pays off with reduced staff turnover and portfolio-at-risk ratios as well as improved reputation and client retention rates. And now we are seeing signs that quality SPM can attract more investor funding.

MC: What do investors gain from their involvement in e-MFP's Social Performance Outcomes Action Group?

LS & AG: Both peer and complementary organizations can offer successful approaches, mistakes to avoid and questions to keep in mind. Sharing these ideas can advance the industry debate around client outcomes and accelerate the evolution of strategies for managing them.

MC: What will you cover during your session at European Microfinance Week?

LS & AG: We will offer case studies of social investors engaging with FSPs to support client outcomes management. We will also have released the "Guidelines on Outcomes Management for Investors," which leads its readers on a journey toward tailored and cost-effective systems for the collection, analysis and use of outcomes data. The guidelines help investors digest a range of complex questions, many of which revolve around the issue of how the good looking, but mature, "financial inclusion" sector can use her experience to face the young and sexy "impact finance."

Lucia Spaggiari of Microfinanza Rating & Amelia Greenberg of the Social Performance Task Force serve on e-MFP's Social Performance Outcomes Action Group. On November 17, they will participate in a double European Microfinance Week session titled "New Frontiers on SPM: Measuring Client Outcomes."

EAR TO THE GROUND

Democratizing Entrepreneurship in Jamaica

I had the opportunity this week to attend the Inter-American Development Bank's (IDB's) Foromic in Montego Bay, Jamaica. The first day of discussion, focusing on Jamaica, revolved around empowering micro-, small and medium-sized enterprises (MSMEs) to address sluggish growth and low employment. I agree that supporting MSMEs makes sense. But which entrepreneurs to help, and how to do it?

I got in a few arguments with people from the highest levels of Jamaican business, government and finance about whether Jamaicans are "entrepreneurial" or just good at "hustling," as the locals say. It brought me back to the academic argument about the differences between subsistence and opportunistic businesses. Academics and professionals will often claim that policy interventions should focus less on subsistence businesses and more on higher growth businesses, which they think will create more jobs. I disagree. While *making* winners is our common responsibility - and that of publicly funded organizations - *picking* winners should be the work of the private sector.

In Jamaica, government agencies, private incubators and universities are *making* some impressive winners. I spoke to Michael, an award-winning sheep farmer who initially wanted to be a bee farmer. He did not seem like a winner before he received technical assistance from the Ministry of Agriculture. "I knew nothing about sheep, but the Jamaican Ministry of Agriculture told me there would be better opportunities there than in bees," he said. They were right; business has been good for Michael, his partner and a handful of employees. However, scale is a challenge in part due to financing bottlenecks. Banks don't usually lend to sheep farmers, so it took Michael four years to finally get a loan.

Carol Lue, who gave a presentation at Foromic, is a clear "winner." She founded a social enterprise called CaribShare Biogas that produces biogas from organic waste. Banks may not fully understand her business model of collecting garbage from hotels and turning it into energy to sell back to them. However, CaribShare won one of eight energy-innovation grants awarded by IDB and Jamaica's Scientific Research Council.

The traditional way to interpret these two stories is that Carol's was the high-potential business, and Michael's was more like subsistence. Should her model have been the only one to receive outside support? I would argue not. Michael is no longer unemployed, and he has self-confidence, new skills and employees. He is contributing to Jamaica's progress. Yet he is an entrepreneur who was made not born.

The theme of this year's Foromic was "Generating Opportunities Through Financial Inclusion," yet the lessons I gathered are that opportunities should be created not just through loans but via multiple touch points, interventions and partnerships. When businesses of all kinds get support like Michael received, this will grow the pool of viable businesses so much that banks will find it irresistible!

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

Where Good Intentions Meet Good Business Practice

By Meraj Husain and Micol Pistelli, published by the Microfinance Information Exchange, August 2016, 16 pages, available at: https://www.themix.org/sites/default/files/publications/where_good_intentions_meet_good_business_practice_mix_august_2016_final.pdf

Drawing upon the Microfinance Information Exchange (MIX) database of financial service provider (FSP) performance indicators, the authors examine the relationship between the social and financial performance of 780 FSPs in 98 countries. Their regression analysis results in statistically significant correlations indicating that: (1) FSPs whose boards of directors track social performance and who target female clients tend to perform better in terms of portfolio quality, efficiency and productivity; (2) more "progressive" human resources policies are associated with more productive staff and higher quality portfolios; (3) targeting solely poorer clients is associated with higher operating expense as a percentage of gross loan portfolio, but lower operating costs per borrower; and (4) FSPs with higher borrower retention rates tend to be more productive, retain staff longer and have lower costs per borrower. As a result, the authors argue that… *(Continued in the subscriber edition)*

Banking for a Better World

By Nanno Kleiterp, published by the University of Amsterdam Press, September 2016, 152 pages, available for purchase at http://en.aup.nl/books/9789462983519-banking-for-a-better-world.html

This book is structured as a conversation between Nanno Kleiterp, the former CEO of Dutch development bank Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden (FMO), and Marijn Wiersma, a senior financial inclusion officer at FMO, who argue that commercial banks "can and must" orient their policies toward tackling global challenges such as poverty, inequality, population migration and climate change if the UN member countries are to achieve their Sustainable Development Goals by 2030. To support this evolution, development banks can… *(Continued in the subscriber edition)*

Beyond Dialogue: Building Sustainable and Inclusive Business Models in Partnership with Social Entrepreneurs

Published by Acumen and the Skoll Centre for Social Entrepreneurship, September 2016, 44 pages, available at http://acumen.org/wp-content/uploads/2016/09/Acumen_BeyondDialogueReport.pdf

The authors of this paper argue that both social enterprises and large corporations can benefit from partnering through models such as: (1) channel partnerships, which create links between the target markets of social enterprises and the supply and distribution networks of large corporations; (2) venture partnerships, through which corporations make… *(Continued in the subscriber edition)*

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