MicroCapital Monitor
On Microfinance & Other Forms of Impact Investing

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MICROCAPITAL BRIEFS | TOP STORIES

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EBRD Loans $60m for MSMEs in Kazakhstan via ForteBank

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

Nepal Sets 18% Microloan Interest Rate Maximum

The Nepal Rastra Bank reportedly has capped microloan rates at 18 percent per year following complaints of microfinance institutions (MFIs) "distributing high dividends by charging...poor people in rural areas, exorbitant rates…as high as 30 percent." This follows the declaration of a maximum spread of 7 percent between loan rates and MFIs' cost of funds. That cost has since been defined to include administrative expenses of up to 4 percentage points. January 25. 2017

FMO, IFC Invest $16m in Equity in Mobisol for Solar in East Africa

Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden (FMO), a Dutch development bank, recently announced that it is placing equity investments totaling the equivalent of USD 9.9 million in Mobisol, a Germany-based firm that has sold 67,000 solar home systems in East Africa. FMO is disbursing the money from two funds it manages, the Access to Energy Fund and MASSIF. The World Bank Group's International Finance Corporation also recently invested USD 5.8 million in equity in Mobisol, which is seeking to increase its reach in Rwanda and Tanzania and expand into Kenya. Users purchase the systems via mobile money on three-year installment plans. Other investors in Mobisol include Deutsche Investitions-und Entwicklungsgesellschaft (DEG), a German development bank, and the African Private Equity Fund of Investec Asset Management, a South Africa-based firm with offices on five continents. January 23. 2017

Sanad Lends $1.5m for Women's MSMEs via Palestine's Asala

The Sanad Fund for MSME (Micro Small and Medium Enterprise), a provider of loans and equity to financial institutions in the Middle East and North Africa, recently announced that it will lend USD 1.5 million to the Asala for Credit and Development Company, a micro-finance institution in Palestine, for on-lending to female entrepreneurs. The microlender operates nine offices in the West Bank and Gaza, focusing on micro- and small enterprises owned by women in rural areas. Asala was launched in 2014 as the for-profit successor to the Palestinian Businesswomen's Association with support from the Sharakat Investment Fund. Sharakat, which invests in MSMEs, is managed by the Palestinian government's Palestine Investment Fund. Asala reports total assets of USD 6.8 million, a gross loan portfolio of USD 6.7 million, 3,100 active borrowers, return on assets of 3.8 percent and return on equity of 4.8 percent. January 18. 2017

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

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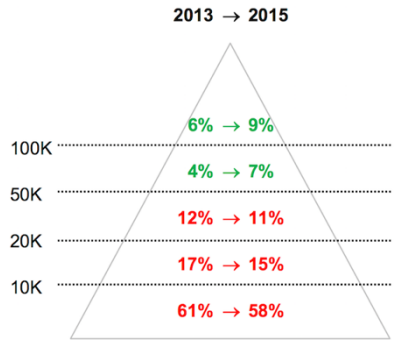
MicroCapital

EUROPE & CENTRAL ASIA
Percentage of MFIs in Market by Number of Borrowers
2013 → 2015



Market Indicators* miX

MICROCAPITAL BRIEFS

IFC to Advise FINCA DRC on Credit, Mobile Banking

The World Bank Group's International Finance Corporation (IFC) recently agreed to provide two years of advisory services to FINCA DRC, a unit of US-based FINCA Microfinance Holding Company that provides savings and credit services to 256,000 customers in the Democratic Republic of Congo. The goal of the effort, which is valued at USD 1 million, is to improve FINCA DRC's "ability to offer access to credit…and to expand its mobile banking operations" to serve 200,000 additional microentrepreneurs and others with low incomes. The project is part of the Partnership for Financial Inclusion, through which IFC and The MasterCard Foundation, which is based in Canada, have raised USD 37 million to support mass-market financial services in Sub-Saharan Africa. FINCA DRC has 20 branches, 900 agents, total assets of USD 86 million, a gross loan portfolio of USD 71 million and deposits of USD 32 million. FINCA International, also known as the Foundation for International Community Assistance, is the majority shareholder in FINCA Microfinance Holding, which serves 1.6 million clients in 21 countries and holds assets valued at USD 1.1 billion. January 19. 2017

Partner of BiH Borrows $5m from FMO for Rural Lending

Partner Mikrokreditna Fondacija, a microfinance institution (MFI) in Bosnia and Herzegovina, recently borrowed the euro-equivalent of USD 5.3 million from Dutch development bank Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden (FMO). Partner, which focuses on promoting economic independence in the agricultural sector, reports total assets of USD 72 million, a gross loan portfolio of USD 63 million and 44,000 borrowers. US-based nonprofit Mercy Corps founded Partner in 1997 and retains control of two of the five seats on the microlender's Board of Directors. January 11. 2017

Invest in Visions Lends $2m to Ghana's Beige Capital S&L

Germany's Invest in Visions Mikrofinanzfonds, a fund advised by Belgium's Incofin, recently agreed to loan up to USD 5 million to Beige Capital Savings and Loans, the primary unit of Ghana's Beige Group, which offers banking, pension, insurance and investment services. So far, Invest in Visions has issued a two-year loan of USD 2 million to Beige Capital, which emphasizes serving small and medium-sized enterprises. Beige Capital reports total assets equivalent to USD 205 million. January 6. 2017

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

SPECIAL REPORT

This sponsored content was written by Ed Higenbottam, the Managing Director of Verdant Capital, a corporate finance firm based in Johannesburg, Mauritius and Accra that specializes in advisory and capital raising for mid-market financial institutions across Africa.

Raising Funds for Non-bank Financial Institutions in Africa

The non-bank financial institution (NBFI) sector, often referred to as the alternative finance sector or the shadow banking sector, around the world is largely dependent on the institutional market for funding. By regulation, NBFIs in most markets are prohibited from gathering deposits or restricted from transactional banking services, which are critical to attract deposits. In most markets, banks themselves are reluctant to lend to NBFIs, given the potential long-term competitive threat. For example, Capitec of South Africa and Equity Bank of Kenya, which are now very much fully-fledged banks, have roots as NBFIs.

In South Africa, the deepest and broadest market in Africa, NBFIs have been largely focused on borrowing from the domestic market. This is not without risks given, for example, the significant reversal in domestic investor sentiment following the collapse of African Bank in August 2014. African Bank's largest peer, Capitec, was less affected because of its successful deposit mobilising strategy. While no NBFI went under as a result of a drying up of funding following African Bank's collapse, anecdotally, many CFOs and treasurers in the sector reported a scrambling for alternative funding, higher costs and an involuntary slow-down in asset growth. Foreign NBFIs with JSE-listed bonds, such as Trustco and Letshego, were also impacted.

In 2015 and 2016, Namibian financial services group Trustco turned its funding activities to the global institutional market and completed several successful transactions, culminating in November 2016 with a ZAR 450 million financing package arranged by Verdant Capital. Trustco also acquired Fides Bank, now Trustco Bank, bringing a deposit-taking entity into the group. This is another example of an NBFI transitioning over time to become a bank. The Namibian dollar has been pegged one-to-one to the South African rand since Namibia's independence in 1990; and as such, Namibia's financial market is often seen as an adjunct to its much larger neighbour.

Trustco, following a route trodden by many similar institutions in Africa, was successful in tapping an audience of specialist financial inclusion funds. These funds, mainly located in North America and Western Europe, target investments in emerging- and developing-market financial institutions, especially those with an explicit financial inclusion agenda. These may include NBFIs or banks with a broader focus than most commercial banks, such lending to SMEs or the bottom of the pyramid. The financial inclusion investor community grew out of the microfinance world over the last 10 years. While lending to microenterprises is still an important focus, these investors now support a much broader range of entities, for example those involved in SME lending, leasing, invoice discounting, education lending, mortgage lending and fintech.

New focus segments arise all the time. For example, one segment that came into *vogue* last year is financing small businesses and homeowners to purchase distributed renewable energy. Examples of institutions in South Africa specializing in end-market funding in this space include GreenFin and New Southern Energy.

Depending on the precise classification used, Verdant Capital estimates the assets under management of the financial inclusion investor base to be around USD 15 billion, of which about 20 percent is earmarked for Africa. In addition, this sector continues to be strongly supported by development finance institutions - the development arms of rich-world governments.

One of the factors that has helped develop this market is the growth in foreign exchange hedging. Traditionally in Africa, hedging was available only for the South African rand, but now three- to five-year hedges are available for the currencies of most of the large and medium-size economies in Africa. The hedging market is a critical risk mitigant for NBFIs lending mainly in local currency but borrowing from international funds.

Fintech has enabled NBFIs to originate new types of loans to unbanked customers, typically at much smaller unit sizes, but at a manageable operating cost. Examples of this include mobile lending products brought to market by the likes of Jumo World or Getbucks. However, asset growth is only one side of the coin, and these entities need to originate funding in order to fulfil customer demand for loans.

Profitability in the South African NBFI sector is impacted by rate caps as well as the high level of consumer indebtedness. However, many NBFIs in South Africa have carved out profitable niches in enterprise lending that are unaffected by consumer indebtedness and fall outside the scope of rate caps. One example is Retail Capital, which brought the *merchant credit advance* business model to South Africa.

> "The hedging market is a critical risk mitigant for NBFIs lending mainly in local currency but borrowing from international funds."
>
> *- Ed Higenbottam*
> *Verdant Capital*

South African NBFIs can and do tap the financial inclusion investor base. Including this investor base in an overall funding strategy can help mitigate risks related to being dependent on domestic funds, such as materialised following the collapse of African Bank.

What does 2017 hold for this sector? One factor is certainly the US dollar rate curve, which has risen markedly following the election of Donald Trump and the consequent expectations for macro-economic policy changes in that market. In the evermore connected global financial system, this will have a knock-on impact on funding costs across the board, as well as on exchange rates. Another factor is the possible spread of rate caps to other African markets, as a result of political pressure, such as were controversially re-introduced in Kenya in September last year. However, this trend may not be a one-way bet; many market watchers expect Kenya to remove its rate caps following its presidential elections in August this year.

EAR TO THE GROUND

Taking the Offensive Against Wealth Inequality in 2017

At the start of 2016, I pinned some phrases above my desk in hopes of inspiring myself and perhaps others. The first was "no more gimmicks." Boy, was I ever wrong! In fact, 2016 could be deemed the Year of the Gimmick, the Buzzword, the Media-inspired Illusion. We in the financial inclusion space were among those learning how easy it is to get lost in a trendy term. It can begin as a benign - even helpful - way to establish a common language. Let he who hasn't used the term "big data" incorrectly throw the first stone. But the result can be damaging if we lose focus on what our target clients actually want and need. Let 2017 be about substance! And to ring in the New Year, I'd like to focus on an issue of true substance: wealth inequality.

Wealth inequality is closely linked to financial inclusion because the products and services that we offer have the potential to help bridge the wealth gap. But only if we do so deliberately. And lately, we've been focusing too much on protecting against the downside rather than boosting the upside. Investment versus savings is the difference between playing offense or defense, and it's time to get back on the front lines.

I recently moderated a panel with Carolina Trivelli, a former Social Development Minister of Peru, who talked about a program aimed at incentivizing rural women to save formally. When they were able to amass some money, the women bought goats rather than leave their money in their bank account. Clearly, people want to play offense. Goats have a higher return. They make milk, grow into larger goats and can usually be sold for a hefty profit. Today, savings accounts are just about the least productive way for any of us to store value, let alone invest. Yet we insist on trying to convince low-income households to park their cash instead of investing it.

When I began working in microcredit in Chile 25 years ago, our aim was for clients to invest money in productive activities. Then about a decade ago, microcredit suddenly went defensive. Studies showed that many clients were using loans to smooth cash flow. To defend the work, we agreed that this was good enough, protecting and cushioning clients from volatility. But this watered down the message.

Those studies showed insufficient evidence that microcredit led to asset or income growth. This was because of their parameters - showing us only average results, generally over a single year. The averaging hid the winners and the losers, the nuance of where the successful offensive plays were to be found. And one year is too short to measure the impact of most investments. Even a goat takes two years to reach full size!

Investing in working capital, fixed assets and new business activities can be profitable. But those investments make sense only under specific circumstances. A smart Honduran vegetable vendor once pointed out to me that buying more perishable inventory doesn't make sense if you don't have more customers: the veggies just spoil. So as loans become larger, most "micro" businesses borrow for one of two things: household consumption or big-ticket (and risky) items such as land, livestock and housing. We have reacted to these strategies with some fear and even contempt, clamping down on irresponsible lending practices (yet another defensive move), rather than coming up with better ways for people to invest productively. We use the term "human-centered design" a lot in our field, but lately I see a lot of (dare I say gimmicky) *design* and not too much *human* in the results. We say we want to reduce inequalities, so let's get to supporting *investing* by low-income households in 2017!

About the Author: Ms Barbara Magnoni is President of EA Consultants, a development-consulting firm based in New York. She has 25 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

Digital Financial Services and Risk Management Handbook

Published by the World Bank Group's International Finance Corporation and The MasterCard Foundation, September 2016, 116 pages, available at: http://www.ifc.org/ wps/wcm/connect/ 06c7896a-47e1-40af-8213-af7f2672e68b/ Digital+Financial+Services+and+Risk+ Management+ Handbook.pdf ?MOD= AJPERES

The aim of this document is to promote the uptake of digital financial products and agent banking, which involves banks contracting with individuals, retailers or other organizations to provide services outside of their branch networks.

The authors point out that digital financial services present new types of risks that must be tackled for financial inclusion strategies to be successful. The first part of the handbook presents a risk management framework for digital financial services. The second chapter includes descriptions and examples of new risk types. The third section offers suggestions for the implementation of risk management and risk monitoring strategies. The closing offers insights into practical experiences and... *(Continued in the subscriber edition)*

2016 Financial Access Survey, A Key Tool to Foster Financial Inclusion

Published by the International Monetary Fund, October 2016, available at: http://data.imf.org/?sk=E5DC AB7E-A5CA-4892-A6EA-598B5463A34C/

The seventh Financial Access Survey is based on data from "traditional financial service providers;" other deposit-taking institutions; microlenders; and digital financial service providers from 189 countries from 2004 through 2015.

The data indicate that digital financial services have expanded generally, but take-up rates are lower in countries that adopted digital financial products relatively late. In these countries, usage has been growing about 2 percent per... *(Continued in the subscriber edition)*

How to Succeed in Your Digital Journey: a Series of Toolkits for Financial Service Providers

By Lesley Denyes and Susie Lonie, published by the UN Capital Development Fund's MicroLead Program, October 2016, available upon request via: https://uncdf.wufoo.com/ forms/q4pnwh31pqtp7r/

This first portion of a six-part digital toolkit, which is available in English and French, is designed to benefit financial services providers that aim to offer digital financial services to unbanked populations in remote locations. In addition to guidance materials and case studies, it "includes an action plan, a budget template, a list of key performance indicators to track, a risk mapping exercise..." *(Continued in the subscriber edition)*