MicroCapital Monitor
On Microfinance & Other Forms of Impact Investing

FREE PREVIEW EDITION*

DECEMBER 2014 | VOLUME.9 ISSUE.12

MICROCAPITAL BRIEFS | TOP STORIES

***Want More? Subscribe Today**

This month our subscriber edition includes 11 pages brimming with the best impact-investing news available, including many more briefs, event listings and summaries of current research. We invite you to request a free sample via info@microcapital.org.

Triodos Sells 15% Equity Stake in K-rep Bank of Kenya

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

IFC to Invest $18m in Peruvian Insurer La Positiva Seguros

The International Finance Corporation, a member of the World Bank Group, recently announced that it will provide a convertible, subordinated loan of USD 18 million to La Positiva Seguros Generales, a Peruvian insurance company. La Positiva CEO Gustavo Cerdeña said that the investment "demonstrates both institutions' focus on expanding insurance services to reach the most disadvantaged population groups, and in particular those located in the provincial cities." La Positiva, which provides insurance in sectors such as agriculture and automobiles, reports 3.5 million parties insured and assets equivalent to USD 1 billion. December 10. 2014

UAE's Khalifa Fund Loans $200m to Egypt for Microfinance

The Khalifa Fund for Enterprise Development, which is backed by the government of UAE's Abu Dhabi, has announced that it will loan USD 200 million to the government of Egypt with the aim of creating "100,000 projects" and "120,000 job opportunities" via micro-finance by 2020. Khalifa Chairman Hussain al Nowais said that "the loan will be directed towards microfinance development in remote and disadvantaged areas and pockets of poverty throughout Egypt…. [I]t would also help Egyptian women in rural areas find work." Khalifa was established with capital equivalent to USD 545 million in 2007. During 2013, the fund reports having created 2,900 jobs through roughly 220 projects. December 6. 2014

Thailand May Allow 36% Interest Rate on Loans Under $3.6k

The Bank of Thailand (BOT), the country's central bank, is proposing a new product tier for "nano-loans," which would range from the equivalent of USD 3,040 to USD 3,650 and carry annual interest rates of 30 to 36 percent. The highest interest rate that regulated institutions can charge now is 28 percent, which applies to loans of up to USD 6,090. BOT spokesperson Chirathep Senivongs na Ayudhya reportedly stated, "Commercial banks have tried to extend to smaller branches but they have failed to reach customers with smaller financial needs. This has resulted in borrowers getting loans from outside the financial system where interest…is unregulated and there is no protection of the law." November 18. 2014

MFI Assets Frozen by Azerbaijani Government

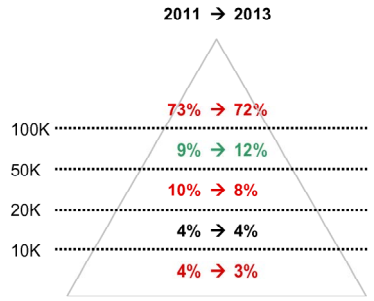
An anonymous source has informed MicroCapital that several microfinance institutions (MFIs) in Azerbaijan have had their bank assets frozen by the government in recent months. This reportedly followed statements by an unspecified NGO that the government deemed overly critical. The NGO is said to have regained access its assets after paying a "large" fine. Other MFIs, however, remain limited to operating on a cash basis. Further details have been withheld by this newspaper to avoid retaliation against the organizations. November 17. 2014

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

INSIDE | Page

MicroCapital

LATIN AMERICA & THE CARIBBEAN
PERCENTAGE OF MFIS IN MARKET BY SIZE



MARKET INDICATORS*

MICROCAPITAL BRIEFS

Credit Suisse to Fund Opportunity's Loans for Schools, Students

Credit Suisse, a Swiss firm offering financial services in 50 countries, has agreed to donate an undisclosed sum to Opportunity International, a US-based nonprofit providing microfinance in 22 countries, to launch a three-year program intended to help educate 530,000 children in 10 countries through new initiatives in Colombia and Tanzania as well as existing ones in the Dominican Republic, Ghana, India, Kenya, Malawi, the Philippines, Rwanda and Uganda. This is to include 2,200 loans to owners of private schools to improve education access and quality as well as 52,000 loans to parents for school fees. The effort will also include programs to teach young people workplace skills, offer saving accounts and financial education for youth, and test the feasibility of EduSave, a free insurance program covering the schooling costs of children whose parents become disabled or die. December 11. 2014

EFSE Loans $6.2m to Alter Modus for MSEs in Montenegro

The European Fund for Southeast Europe (EFSE), a Luxembourg-based microfinance investment vehicle, recently issued a senior loan equivalent to USD 6.2 million to Alter Modus, a microlender in Montenegro, for on-lending to micro- and small enterprises. While Alter Modus has made loans of up to USD 12,300 in the past, the new funding is intended to enable loans of up to USD 37,000 with unspecified "longer" maturities. EFSE Board Chair Monika Beck said that over the past 15 years, "Alter Modus has consistently proved able to cope with challenging circumstances as well as adapt to a changing environment, and thus become a close and trusted partner to the EFSE." Alter Modus reports assets totaling USD 21 million, a gross loan portfolio of USD 19 million and 11,000 active clients. December 9. 2014

Tigo Tanzania Customers Receive $1.8m in Profits

Millicom International Cellular, a Luxembourg-based telecommunications company with 53 million customers in Africa and Latin America, recently announced that its Tanzanian unit will distribute third quarter profits equivalent to USD 1.8 million to agents of its mobile money service Tigo Pesa and the 3.6 million customers of that service. This is Tigo Pesa's second round of profit distribution, following last quarter's payout of USD 8.6 million, an amount earned over 3.5 years. The organization plans to continue issuing similar distributions each quarter. December 9. 2014

Gates Foundation to Invest $16m in Digital Finance in Pakistan

The US-based Bill and Melinda Gates Foundation recently agreed to donate USD 16 million over three years to create a digital financial services unit within Karandaaz Pakistan, a special purpose vehicle created by the UK government's Department for International Development in an effort to bolster entrepreneurship, microfinance and small business development in Pakistan. The new unit is intended to create "sustainable" digital finance institutions to bring active digital accounts to 60 percent of those in Pakistan earning less than USD 2 per day by 2024. December 8. 2014

Absolute's Vision Funds Invest $11m in Asia, Latin America

Absolute Portfolio Management, an arm of Austria-based asset management group C-Quadrat, recently informed MicroCapital that it disbursed credits totaling USD 11 million from its two funds, the Dual Return Fund-Vision Microfinance and the Dual Return Fund-Vision Microfinance Local Currency, to unspecified microfinance institutions (MFIs) in Cambodia, Costa Rica, Ecuador, India, Kyrgyzstan and Mexico. Of the total, USD 1 million was disbursed to an MFI that was founded in 2005 in Oaxaca, Mexico, and now provides group loans, mainly to women, in eight Mexican states. Absolute reports total assets under management of USD 323 million. December 8. 2014

IFC to Invest $67m in Equity in Bank Alfalah of Pakistan

The World Bank Group's International Finance Corporation (IFC) has announced that it will invest USD 67 million in equity in Pakistan's Bank Alfalah in conjunction with a recent "comprehensive advisory package" supporting Bank Alfalah in developing an "SME banking program." In addition to using the funding to expand its lending to small and medium-sized enterprises (SMEs), the bank expects to boost its financing of the agriculture and sustainable energy sectors. The size of the equity stake to be held by IFC has not been released. Bank Alfalah, which is owned by the UAE-based Abu Dhabi Group, operates 570 branches in five countries and reports total assets equivalent to USD 6 billion. December 7. 2014

Desjardins Fund Acquires Stake in Humo & Partners of Tajikistan

The Desjardins Fund for Inclusive Finance, a unit of Canada's Desjardins Group, recently acquired shares in Humo and Partners, a microfinance institution in Tajikistan, to support its expansion in rural areas. Neither the price nor the size of the stake has been made public. Humo reports a gross loan portfolio of USD 25 million and 29,400 borrowers. The institution also accepts deposits, but data on that service are not available. December 5. 2014

EFSE Loans $5m to Muganbank of Azerbaijan for Rural MSMEs

The European Fund for Southeast Europe, a Luxembourg-based microfinance investment vehicle, recently announced that it will issue a senior loan of USD 5 million to Azerbaijan's Muganbank Open Joint Stock Company for on-lending to micro-, small and medium-sized enterprises in rural Azerbaijan. Muganbank reports total assets equivalent to USD 425 million, loans to customers of USD 278 million and liabilities to customers of USD 194 million. December 5. 2014

Egyptian Microfinance Law Intended to Support Microenterprises

The government of Egypt reportedly has issued its first microfinance law, which allows non-bank entities - both for-profit and nonprofit - to issue loans up to the equivalent of USD 14,000. A new unit will be established within the Egyptian Financial Supervisory Association to oversee and implement the law. The 16 Egyptian institutions reporting data to the US-based nonprofit Microfinance Information Exchange (MIX) between 2005 and 2012 served 1 million active borrowers with an aggregate microcredit portfolio of USD 266 million. None of these institutions accept deposits. December 3. 2014

Applications Available for $62k Good Practices Award

Until February 1, 2015, Fondazione Giordano Dell'Amore, an Italian foundation that supports microfinance, and the 99-member European Microfinance Network are accepting applications for the seventh annual edition of the Microfinance Good Practices Europe Award, which is themed "Microfinance and Banks: Are we the right partners?". The winner will receive the euro-equivalent of USD 62,000 at the 10th European Microfinance Network Annual Conference in Ireland in June 2015. December 1. 2014

OPEC, IFAD Support Rural Finance in Armenia

The Austria-based OPEC (Organization of the Petroleum Exporting Countries) Fund for International Development has agreed to lend USD 25 million to the government of Armenia in support of its "Infrastructure and Rural Finance Support Programme," which is intended to focus on "women-headed households" to create employment opportunities and boost incomes for 66,000 people in rural areas in "the business, financial and agricultural sectors." The effort has a total budget of USD 53 million, including USD 11 million to be lent by the UN's International Fund for Agricultural Development. November 27. 2014

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

SPECIAL REPORT: European Microfinance Week

The selections below are from our coverage of November's European Microfinance Week at http://www.microcapital.org/category/european-microfinance-week/, which is sponsored by the European Microfinance Platform (e-MFP), a 130-member network located in Luxembourg.

Youth Borrowers Are Less of a Risk?

Countering the perception that youth are riskier borrowers than older clients, Maria Perdomo, the manager of the UN Capital Development Fund's YouthStart program, presented data from seven African microfinance institutions (MFIs) showing that all but one have lower rates of portfolio at risk within the youth segments of their portfolios than organization-wide. Nonetheless, she noted, youth often make up a disproportionately small share of an MFI's customer base because loan officers *believe* youth are less likely than others to repay, which would threaten the client-repayment bonus that many loan officers can earn.

Jules Théoneste Ndahayo, the CEO of Rwanda's Union des Coopecs Umutanguha (UCU), described how his staff observed that lack of collateral kept youth from borrowing, so UCU responded by developing leasing products for young people. The idea came from training centers at which youth learned jobs such as welding or carpentry and then needed a way to purchase tools upon graduation to begin to generate income.

Regarding financial education, UCU had trouble with attempts to partner with an external NGO, so the organization tried other tactics and eventually found success with peer-to-peer learning sessions.

Marital Strife in Rural Lending

At the meeting of e-MFP's Rural Outreach & Innovation Action Group, Joost de la Rive Box, the Secretary of the Board of Directors of the Netherlands' Nedworc Foundation, explained one way that spousal relations can complicate lending. He cited a trend of men taking out loans for agricultural efforts but leaving their wives to repay the loans from their trading work. As a result, some lenders began asking both spouses to sign loan documents, but the women often refused because they didn't want the burden of repaying loans whose proceeds their husbands had spent.

Kompanion of Kyrgyzstan Wins $125k European Microfinance Award for Pasture Management Training

Her Royal Highness The Grand Duchess of Luxembourg presented the Fifth European Microfinance Award to Olesya Paukova, who was representing Kompanion Financial Group, a microfinance institution in Kyrgyzstan. The award, which includes a cash prize equivalent to USD 125,000, was themed "Microfinance and the Environment" for 2015. Kompanion was recognized for its Pasture Land Management Training Initiative, which involves the disbursement of "Credit for Conservation" loans to livestock herders. The herders also receive training on land management to minimize the over-grazing that has damaged the ability of nearby land to sustain grasses. According to e-MFP, "more than 24,000 farmers have participated in the trainings, increasing their incomes by 30 percent and decreasing their costs by around 15 percent."

Distinguishing Multiple Lending from Over-indebtedness

"Multiple borrowing was endemic," in Bangladesh as of 2008, according to Shameran Abed, the director of microfinance at Bangladesh-based BRAC International, "but we didn't know if this was bad." In the past, he explained, members of borrowing groups were good at letting BRAC staff know who was a good credit risk. As the market was getting saturated, "Groups became less cohesive, so we couldn't totally rely on them to tell us if individuals were becoming over-indebted."

Daniel Rozas, the senior microfinance expert at e-MFP, cited recent research from Mexico showing that, in one sample, most microcredit borrowing was by clients holding four or more loans at the same time. Fernando Fernandez, the general manger of the Mexican arm of nonprofit Pro Mujer, stated that, "There are hardly any clients that work with only one lender…so our goal is to be their primary lender, not the only one." Proposing a distinction from over-indebtedness within consumer lending, he added, "We are certain there is over-indebtedness, but we are not certain of the scope of this; it is not clear if it has contaminated productive microcredit."

Mr Abed said, "We weren't naïve enough to think that multi-lending necessarily was over-indebtedness." When his team asked its clients why they had multiple loans and whether larger loan sizes would reduce this need, their answer was no, because they need money at different times throughout the year. At that time, BRAC and its competitors were highly focused on one-year loan terms. Clients also said they liked borrowing from multiple sources, so they wouldn't risk getting shut out by their only lender if they missed a few payments. As a result, BRAC began making its loans more flexible, allowing refinancing as well as the option to take out a second loan before the first is repaid fully.

Regarding today's market in Mexico, Mr Fernandez added, "We haven't come to agree that we can destroy the market if we don't care for clients. [But] the leaders in the market have a high appetite for risk; this is making the authorities think."

Supporting Microbusiness in Conflict Zones

Adeeb Sharaf, the internal audit manager of the First Microfinance Institution Syria, reported that the conflict in that country has reduced both client income and lending in some regions. However, all branches of the institution, which is affiliated with Switzerland's Aga Khan Development Network, remain open.

Michael Knaute, the CEO of the Oxus Development Network, which is controlled by French NGO ACTED, argued that deciding which regions to serve within a conflict zone is critical. He stated that only five of more than 20 microfinance institutions (MFIs) that existed in Afghanistan five years ago are still operating. Rather than success depending on institutional characteristics such as nonprofit versus commercial status, all of the surviving MFIs are in Kabul and the northern provinces, which are more stable than other regions.

Asked whether borrowers in conflict zones are more likely to relocate and thus default, Mr Knaute replied that city-dwellers are less likely to move than those in rural areas and that many microfinance borrowers are simply too poor to move. In contrast, the owners of small and medium-sized enterprises are more likely to have the connections and money to leave the country and thus default on their obligations.

Bart de Bruyne, a consultant based in Germany, cited the example of an MFI in Mali that served rural areas of that country leading up to the time of the 2012 coup. When many of its clients relocated to the city of Bamako, the MFI survived by opening its first branch there, from which it was able to continue serving the same customers.

FIELD NOTES

"One-stop Shopping" Boosts the Value of Microfinance

I am just back from Jamaica, where I was challenged with two issues: (1) the differentiation of "microfinance" from payday loans or consumer credit; and (2) how Jamaica's nascent microfinance industry might leapfrog some of the "phases" that other markets have weathered to create a more dynamic and competitive industry. This brought to mind a conversation I had in Mexico recently with a talented young professional, Jana Smith, the Director of Health Services at Pro Mujer. During Jana's nine years with Pro Mujer, a women's development NGO with offices in New York and five countries in Latin America, the institution has been struggling with similar questions regarding its own role in providing value for low-income financial service consumers. I asked Jana to share some thoughts on how Pro Mujer has been working to meet these challenges. I hope that her comments can inspire all of us to improve the microfinance value proposition through innovation, hard work and long-term thinking. ***-Barbara***

Jana Smith: As an industry, we talk a lot about our close relationships with clients, but in Latin America we are confronted by rapid penetration of "fast and convenient" loans, sometimes offered by text message and often three times the size of a person's current loan from a traditional microfinance institution (MFI). As long as increased risk and write-offs can be offset by high interest rates, the easy money model can be viable and profitable, in the short term. While challenging, these new players provide traditional MFIs with opportunities to innovate and create more value for our clients. The business case becomes more complex and challenges us to work harder, but we believe that it exists.

At Pro Mujer, since the 1990s, we have been running a "one-stop shop model" in which your family physician and neighborhood bank share one space and work together as a powerful - if unusual - team to give you tools to get ahead. Our clients are our essence. They often describe Pro Mujer as their second home. As credit becomes a commodity, we have been looking to glean insights from alternative, successful business models that can allow us to continue to create value for clients while staying true to our mission. As "superstores" pop up across low- and middle-income countries to serve the base of the pyramid, it is clear that convenience is a critical part of a successful value proposition. To respond to client demands while promoting behavior change, which is so critical to our ability to positively impact health, we have started to pilot an approach akin to a warm and welcoming "mini-mall for women."

Visit us in Moquegua, Peru, and you will find that our branch not only offers meeting rooms for loan repayment, a teller's window, and medical offices but also an exercise area with aerobics videos, a kiosk from which a Pro Mujer client offers healthy snacks, and a children's corner with *Sesame Street's* educational materials on tablets. In this space, women can ask a physician or credit officer about their blood pressure or loans, respectively, without worrying about their young children, who are busy learning about the benefits of tooth brushing and eating vegetables.

I am especially excited about the potential of this idea for transforming behavior. When we began, sales from the food kiosk floundered because clients came looking for candy and soda, not healthy alternatives. After we offered our client guidance on marketing healthy products, not only have sales increased, but she recently invested in a refrigerator to expand into prepared foods. This "mini-mall" is a small pilot, but it offers a clue as to how our value proposition can evolve to stand out in an increasingly commoditized financial services market.

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

Female Leadership, Performance, and Governance in Microfinance Institutions

By Reidar Øystein Strom, Bert D'Espallier and Roy Mersland; published by Elsevier; 2014; 16 pages; available for purchase at http://sciencedirect.com/science/article/pii/S0378426614000284

This report examines the relationship between the performance of microfinance institutions (MFIs) and whether women occupy high management positions, including CEO, chair or director, in those MFIs. Based on data from rating agencies on 329 MFIs in 73 countries collected from 1998 to 2008, the authors draw three main conclusions:

1. Women are more likely to be leading MFIs that seek to provide financial services predominantly to women and less likely to be heading MFIs affiliated with organizations based in high-income countries.

2. Female leadership is correlated with weaker corporate governance, which is reflected in areas such as having less frequent board meetings and internal audits.

3. Female-led MFIs are more likely to experience better financial performance.

Estimating the Impact of Microcredit on Those Who Take It Up: Evidence from a Randomized Experiment in Morocco

By Bruno Crépon, Florencia Devoto, Esther Duflo and William Pariente; published by the Massachusetts Institute of Technology; May 2014; 53 pages; available at http://economics.mit.edu/files/6659

The chief conclusion of this research is that among households that were identified prior to being offered a loan as being more likely to accept one, microcredit led to increased profit through higher investment in "self-employment activities," mainly agriculture. However, relatively few people seek loans to increase self-employment because it is more stressful than other types of employment and micro-enterprise investments are relatively risky.

The Universal Standards for Social Performance Management Implementation Guide

By Leah Wardle, published by Social Performance Task Force, 212 pages, available at http://www.sptf.info/images/usspm%20implementation%20guide_english_revised.pdf

This guide outlines six "universal standards" for social performance management and offers mechanisms for implementing them, including resources to assist institutions with educating employees about social performance. The standards include the definition and measurement of social goals, the responsible treatment of clients and employees, balancing social and financial performance, and designing products that meet client needs.