MicroCapital Monitor
On Microfinance & Other Forms of Impact Investing

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MICROCAPITAL BRIEFS | TOP STORIES

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Advans Raises $27m in Third Round of Fundraising

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

Kenya OKs Equity Bank Mobile Money Over Safaricom Objections

The Communications Authority of Kenya and the Central Bank of Kenya recently gave their approval to Equity Bank, a microfinance bank that operates in Kenya, South Sudan and Uganda, to roll out a one-year pilot of its mobile money services using "Thin Sim technology," in which a thin film is laid over a standard SIM card, the chip inside a mobile phone that identifies the phone to the network. Safaricom, a Kenyan mobile service provider that operates the mobile money service M-Pesa, has objected to the technology, arguing that the Thin Sim could "steal data from the main SIM, including the secret personal identification numbers and pass them to a third party." Equity Bank reports USD 2.8 billion in total assets, 700,000 borrowers and 7.4 million depositors. M-Pesa serves 16 million clients in Kenya in addition to operating elsewhere in Africa, Asia and Europe. October 28. 2014

Hatton National Bank of Sri Lanka to Buy Controlling Stake in Prime Grameen

Hatton National Bank, a commercial bank in Sri Lanka, reportedly has agreed to acquire a 51-percent stake in Prime Grameen Micro Finance, a Sri Lankan microfinance institution. Hatton CEO Jonathan Alles was quoted as stating, "Micro finance will play a key role in the development of rural Sri Lanka and in distributing the dividend of economic growth more evenly among society." Hatton reports total assets equivalent to USD 3.9 billion, deposits of USD 2.9 billion, gross receivables of USD 2.8 billion and return on assets (ROA) of 1.5 percent. Prime Grameen, which is licensed to accept deposits, reported total assets of USD 25 million, ROA of 19 percent and return on equity of 42 percent as of July 2011, the most recent date for which financials are available. October 20. 2014

IFC Arranging $60m in Loans to BBVA Paraguay for SMEs

The World Bank Group's International Finance Corporation (IFC) recently announced that it will disburse two five-year loans totaling USD 60 million to Banco Bilbao Vizcaya Argentaria (BBVA) Paraguay, a subsidiary of Spanish financial servicer Grupo BBVA, under the IFC-managed Co-Lending Portfolio Program. Although this program generally engages in syndications, no information regarding funding committed by other investors is available. The funding is expected to support export-oriented small and medium-sized enterprises. Grupo BBVA reports total assets equivalent to USD 779 billion. October 13. 2014

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

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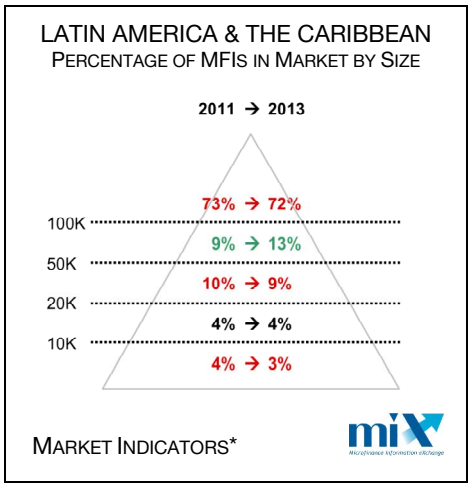

MICROCAPITAL BRIEFS

Spain's Gawa Launches Global Financial Inclusion Fund

Gawa Capital Partners, a Spain-based investment firm specializing in microfinance funds, recently announced the launch of its Global Financial Inclusion Fund, which is slated to invest in microfinance institutions. Its target size is the euro-equivalent of USD 62 million. Gawa co-CEO Agustin Vitorica stated, "In addition to the Spanish market, we are also actively fundraising in other European countries and in the US." Gawa Capital reports total assets of USD 25 million. November 6. 2014

Microfinance Enhancement Facility Raises $25m

Gemeinschaftsbank für Leihen und Schenken, a German bank that focuses on socially responsible investing, recently raised USD 25 million from unspecified private investors for the Microfinance Enhancement Facility (MEF), a Luxembourg-based fund that invests in microfinance institutions in developing countries. The funding is expected to support 7,000 loans to micro- and small enterprises. MEF, which has total assets of USD 503 million, was founded by the World Bank Group's International Finance Corporation and German development bank Kreditanstalt für Wiederaufbau Entwicklungsbank. November 6. 2014

DID Loans $1m to Arnur of Kazakhstan

Through the Desjardins Fund for Inclusive Finance, Développement international Desjardins (DID), a Canadian nonprofit that provides technical support and investment to community financial institutions, recently loaned USD 1 million to Arnur Credit, a microlender that serves agribusinesses and individuals in rural Kazakhstan. Arnur has a loan portfolio of USD 37 million. DID is a member of the Desjardins Group, which has total assets of USD 186 billion. November 4. 2014

IBEX Seeks to Mitigate Effects of Ebola on Businesses in Liberia

The Liberia Investing for Business Expansion (IBEX) program, a project of the US Agency for International Development that seeks to improve access to financial services for small and medium-sized enterprises, provided clients in the agriculture, construction and trade sectors with access to loans totaling USD 860,000 from July to September. The credit, which was provided via local banks, and advice and mentoring provided directly by IBEX, were intended to assist businesses affected by the spread of the Ebola virus. IBEX is also seeking partners in the construction and sanitary sectors that can help establish Ebola treatment centers. Financial data on IBEX are not available. November 4. 2014

WWF Establishes Credit Unions for Fishing Industry in Senegal

The World Wide Fund for Nature, a US-based NGO formerly known as the World Wildlife Fund, recently established two credit unions targeting the fishing industry in the Senegalese villages of Cayar and Popenguine. The credit unions are intended to provide small loans for fishing, fish processing, wholesale fish trade, gardening and agriculture. The effort is part of the Go-WAMER (West African Marine Eco-Region) project, which addresses poverty reduction, governance, food security and policies for managing coastal resources. November 3. 2014

CFI, HelpAge Researching Elder Inclusion in Colombia

The Center for Financial Inclusion, an affiliate of US-based nonprofit Accion, and the US-based arm of British NGO HelpAge International have launched a research initiative on the financial inclusion of older adults in developing countries. The initiative will research expenses, income streams and financial services for older adults, with a focus on Colombia. October 9. 2014

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

SPECIAL REPORT

This sneak preview of European Microfinance Week is sponsored by the European Microfinance Platform (e-MFP), a 130-member network located in Luxembourg.

A Risk Management "Graduation Model" for Microfinance

MicroCapital: How does the state of risk management within microfinance fit in to the broader context of the industry?

Kevin Fryatt: In the last several years, we have seen a lot of focus on new technology and serving clients better through new product development, savings mobilization and agent networks, amongst other avenues. Similarly, institutions' balance sheets are getting increasingly diverse in the types of funding they are sourcing. But within this, the conversation of risk management isn't happening. There's a sense of cynicism within the leadership of microfinance institutions (MFIs) toward risk management. It is often misunderstood and confused with the roles of internal audit or compliance. It is often very difficult to quantify the value of risk management.

If we look at the incentives for good risk management, what we generally see are institutions engaging in more formal risk management, number one, because it's a requirement of the regulator to get a deposit-taking license, as opposed to thinking, "We are going to be taking deposits, and there are new and challenging risks from a funding and reputational perspective that go along with raising deposits." The other piece is from funders, who may tell an institution, "Okay, we would like to see ABC in place, and we are actually willing to give you some financial resources to make that happen." In order to get the financing, an institution will then engage in the technical build-out of a risk management function, yet there might not be the political will within the institution to really engage in this in a sustainable and effective way. Having an institution pay entirely out of its own resources to improve this function is quite rare.

MC: What do you consider the key elements of risk management for an MFI?

KF: The fundamentals that we consider first and foremost are institutional culture, risk management governance, internal control structures and having a management information system (MIS) in place that can collect data in a way that helps an institution quantify these risks. We see a lot of underperforming MISs that aren't producing timely data or data that are of high enough quality for analysis. Without that, conducting formal risk management is very difficult.

MC: How do these fundamentals relate to the Graduation Model that the Risk management Initiative in Microfinance (RIM) is developing?

KF: There are relatively sophisticated approaches that are being proposed, and then there is the reality of where MFIs currently are. The idea behind the Graduation Model is that we need to develop formalized and appropriate risk management standards for institutions in different levels of development. Within the Graduation Model, we are developing a diagnostic process that can identify what "tier" the MFI is in, and then its staff will be able to score the institution's adherence to the standards for its tier. This will help MFIs have conversations about the future and what their risk management requirements should be as they grow. Within the strategic planning process, this will allow them to start proactively allocating resources and getting staff skill sets prepared or hiring new staff as they prepare for the future.

In some instances, institutions that have fairly large balance sheets - and might be looked at as Tier-1 institutions from an asset standpoint - are living up to only Tier-3 standards from a risk management standpoint. Recently in Ghana, I have seen reports that anywhere from 50 to 60 microfinance institutions have collapsed since 2013. And some of that, fundamentally, has to do with risk management. In Uganda, the same thing is happening: I've had conversations with the association of microfinance institutions there, and risk management is one of its top concerns.

After MFIs use the Graduation Model to make strategic decisions about where they want to build out capacity, they can engage whichever technical service provider they wish to support them. Or they can approach technical assistance facilities to assist with co-financing and sourcing consultants. A lot of the skills in the risk management space come from the West and bring a fairly expensive price tag. To address this, RIM endeavors to facilitate the training of a pool of local talent, so an institution in Kenya, for example, can engage with folks locally or regionally, which can ultimately reduce the cost to the institution.

MC: How can our readers participate in this process?

KF: The Graduation Model will be released to the public for free on our website in time for European Microfinance Week, which begins November 12. We are inviting organizations to become members of RIM, be part of our governance structure and join our working groups. One of those is our technical working group, which is primarily responsible for building out these standards. Also, we are actively looking for highly influential people in the industry who understand the core issues that face the industry as well as senior-level risk management experts who can help advise RIM both from a strategic standpoint as well as from a technical standpoint. We are currently piloting the Graduation Model in a number of MFIs around the world, and we are continually looking for additional MFIs to participate.

Kevin Fryatt is the Director of US-based RIM, which was founded in 2013 by ADA, Calmeadow, the Center for Financial Inclusion at Accion, MEDA, Microfinanza Srl, MFX Solutions, Oikocredit and Triple Jump.

FIELD NOTES

Balancing the Long-term and Short-term for Financial Inclusion

I am writing from the FOROMIC Conference in sunny Guayaquil this week. More than ever before, I feel that participants have come to this event in search of answers - big ones! They have questions that are key to the future profitability and perhaps survival of their organizations. The gist is that while *financial inclusion* has been promoted as an important counterbalance to microcredit, it has yet to be widely proven as a business model by many microfinance institutions (MFIs). So here they are, trying to figure out how to make the model work.

On the one hand, there is the small-savings question. One MFI manager admitted to me that his organization hadn't quite addressed how it could make this viable even as it began a donor-sponsored program to help poor women save from cash transfers. Perhaps, he mused, these small savings could be an attractive "hook" to provide access to credit for unbanked clients. Another MFI manager explained to me that when his institution began taking small savings, it was in the spirit of financial inclusion. The MFI wanted to do right by its clients. Today, its Board is frustrated and impatient about losses. Opening an account that goes dormant or has deposits of USD 10 to USD 20 is bad business. We contemplated whether this MFI's Board sufficiently understood - in advance - that small savings is a long-term bet, offering few short-term gains.

Then there are remittances. Later this week, I will join a panel discussion on remittance-linked savings in which we will consider some of the challenges that financial institutions have faced in offering this linkage. Often money transfer agents need to be better incentivized.

Similarly, I will lead a panel on microinsurance, in which I plan to raise the question: Why have MFIs failed to live up to their promise as an insurance delivery channel? When delivery gets the least bit complicated, they run for the woods or make products mandatory (or strongly suggested).

Another topic that promises greater inclusion is mobile money and alternative delivery channels. But the talk is not related to demand as much as it is to the interest of financial institutions in cutting costs. If the key value proposition of an MFI is that it has a close and personal relationship with its customers, this poses a challenge to non-branch relationships. How can an MFI keep that relationship going?

We would all like to see greater financial inclusion, and credit-led institutions seem like a good place to promote this. However, it will take more than small experiments and donor-led projects. It has to come from within the institutions with a view for the long-term. Planning for the long-term isn't easy to prioritize when you have an untapped market you can comfortably serve without much competitive pressure. Nor is it easy when large multinational players are pushing into your market. In both cases, MFIs tend to chase credit market share. Those that have a long-term vision might see that the only survival strategy that makes sense is aligning the institution with its clients' needs and aspirations. However, these aspirations might include building assets and protecting them, which may be hard to monetize in the short term. In the words of former General Electric CEO Jack Welch, "You can't grow long-term if you can't eat short-term. Anybody can manage short. Anybody can manage long. Balancing those two things is what management is."

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

The Next Stage of Financial Inclusion

By Dean Karlan, published by the Stanford Social Innovation Review, Fall 2014, 9 pages, available at: http://www.ssireview.org/pdf/Fall_2014_The_Next_Stage_of_Financial_Inclusion_1.pdf

This paper investigates the evolving role of nonprofit organizations in providing microcredit to people with low incomes. Dr Karlan argues that the role of nonprofit organizations has moved away from providing microcredit to people with low incomes in general, as for-profit companies have entered the market and begun to provide these services effectively. Instead, nonprofit institutions are addressing market failures to reach those who continue to be excluded from the market. The article is structured around three issues: (1) reaching individuals not covered by the for-profit sector, including those "too rural," "too poor" or "too young;" (2) building trust among customers and microcredit providers; and (3) promoting innovation.

The author argues that pursuing poor people living in very rural areas is expensive and in fact unsustainable on a for-profit basis. He suggests that nonprofit organizations should promote savings-led microfinance, such as savings groups in which 10 to 30 people work together to save and issue loans to each other. Randomized trials conducted in Ghana, Malawi, Mali and Uganda by Innovations for Poverty Action (IPA) - with the help of Plan International, Oxfam and Freedom from Hunger - indicate that savings groups initiatives have a modest, but positive impact on total savings, livestock levels and levels of food security.

Dr Karlan further argues that nonprofit institutions are essential to strengthen trust between the financial industry and its future customers and that they are vital in ensuring a smooth transition for the emergence of for-profit companies. A recent study conducted by IPA in Uganda showed that certain products previously unknown to the public had a purchase rate of 49 percent if sold by nonprofit vendors compared with 31 percent if sold by for-profit vendors. Endorsement or certifications by microfinance institutions (MFIs) can also lead to higher purchase rates. BASIX, an India-based MFI, demonstrated in one instance that the purchase rate for weather-index insurance was 36 percent higher when an MFI-endorsed insurance educator promoted it.

As financial returns of process innovation in the microfinance sector are very low, Dr Karlan argues that nonprofit institutions should be the key agents promoting innovation. For example, equity financing can replace debt financing, as is common in Islamic finance models, such as ijarah, murabaha and musharaka. The second proposed measure is to provide more generous repayment schedules using concepts from corporate project financing. For instance, a company that borrows money to build a factory would only have to repay its loan once the factory starts generating revenues.

A study conducted in India demonstrated that test groups with a grace period of two months had a 4.5 percent likelihood of starting a business compared with 2 percent for control groups that had a two-week grace period. It further showed that after three years the group with the longer grace period had business profits… *(Continued in the subscriber edition)*

Microfinance Barometer

Published by Convergences, 2014, available at http://www.convergences.org/en/bibliotheque/microfinance-barometer-2014/

The fifth annual edition of this report, themed "The Future of Microfinance: Towards a New Deal," presents insights from researchers and practitioners on the "evolution and prospects of microfinance" globally.

The piece titled "Mobile Money: State of the Industry" presents data on the mobile money sector that show an uptick in the use of mobile services for bulk transactions such as government-to-person payments.

"UGAFODE's Improvements Through Social Performance Management" features a case study on a microfinance institution (MFI) in Uganda illustrating its adoption of a social performance management system.

The column titled "Addressing Evolving Financial Needs: Can Microfinance Meet the Challenge?" argues that MFIs find it difficult to broaden their product ranges to include services such as savings, insurance and a greater diversity of credit products, without "cannibalizing too much of their primary source of revenue - the microenterprise loan." It makes the case for "new entrants and emerging organizations" to provide services beyond microcredit to fulfill the goal of financial… *(Continued in the subscriber edition)*