MicroCapital Monitor
On Microfinance & Other Forms of Impact Investing

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MICROCAPITAL BRIEFS | TOP STORIES

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Sumitomo Mitsui Buys 12% of Cambodia's Acleda from IFC for $110m

Please refer to the subscriber edition regarding this "MicroCapital Deal of the Month."

Philippines' PLDT Buys Stake in Germany's Rocket with Eye on Mobile Money

The Philippine Long Distance Telephone Company (PLDT) reportedly has purchased a 10-percent stake in Germany's Rocket Internet for the equivalent of USD 445 million. Rocket will issue the stake in new shares, and a PLDT executive will join Rocket's supervisory board. According to a statement attributed to PLDT CEO Napoleon Nazareno, "The partnership will allow [the companies] to leverage our combined strengths in developing online and mobile payment solutions in emerging markets." As of 2013, companies in Rocket's portfolio reported revenue of USD 934 million. In the same year, Rocket raised USD 500 million to invest in startups in Africa, Latin America and Russia. August 18. 2014

IDB to Loan $100m to El Salvador for On-lending to MSMEs

The Inter-American Development Bank (IDB), a US-based multilateral finance institution, reportedly has approved a loan of USD 100 million to promote lending to micro-, small and medium-sized enterprises (MSMEs) in El Salvador. Banco de Desarrollo de el Salvador, the national development finance institution, will on-lend the funds to financial institutions to be made available primarily to MSMEs that operate production-oriented ventures. It is expected that 1,500 MSMEs, at least one third of which are led by women, will benefit from the funding. The parent loan will be carry a term of 25 years with a grace period of 5.5 years and an interest rate based on the London Interbank Offered Rate. In describing the goal of the loan, IDB Project Team Leader Maria Netto said that "the new, more service-based economy needs stronger and more productive smaller firms that can promote the development of the country's exports and create more jobs." August 17. 2014

Bank of Ghana Demands Photos of MFI Owners to Thwart Theft

The Bank of Ghana, the central bank of the country, reportedly has tightened regulations for microfinance institutions (MFIs) in an effort to address an increase in failed microbanks and stolen customer deposits, which have been attributed to "bad management practices, increasing non-performing loans, fraudulent activities and expansion without a commensurate increase in capacity." Raymond Amanfu, the head of the bank's Other Financial Institutions Supervision Department, reportedly stated that the new regulatory measures include requiring MFIs to provide photographs of "key management staff" upon license renewal and that security agencies have been enlisted for "handling cases of the institutions which have already made away with deposits funds." August 13. 2014

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

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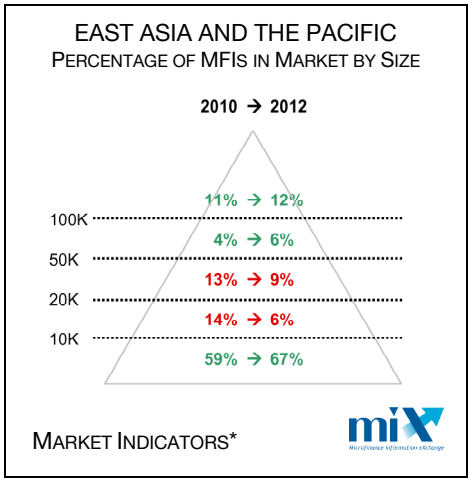

MICROCAPITAL BRIEFS

Nigeria's MSME Fund Begins Disbursements After 2-year Delay

President Goodwill Jonathan of Nigeria recently announced the first disbursements from the Micro, Small and Medium Enterprises (MSME) Development Fund, which was originally planned for launch in 2012 and is expected to channel USD 1.36 billion to 2 million MSMEs. Delta State received USD 3 million; Akwa-Ibom State received USD 1.6 million; and Grassroots Microfinance Kano, a microlender with USD 791,000 in assets, received USD 61,000. As previously reported by MicroCapital, 60 percent of the fund is allocated to women-owned enterprises, and physically impaired individuals will have access to 2 percent or more of the funds. End-borrowers will pay 9 percent annual interest. September 8. 2014

Incofin, Triodos Invest in Arvand of Tajikistan

Incofin Investment Management, a Belgian investor in microfinance, and Triodos Investment Management, a subsidiary of Triodos Bank of the Netherlands, have acquired equity stakes totaling 36 percent of Microcredit Deposit-Taking Organization Arvand of Tajikistan. Incofin executed its investment via its Rural Impulse Fund II, and Triodos invested through the Triodos Microfinance and Fair Share Funds. Neither the portion of the shares taken by each entity nor the price it paid has been disclosed. The investors will provide technical assistance to Arvand and take seats on its Board of Directors. Caspar Sprokel of Triodos said, "We are very much looking forward to be part of Arvand's continuing journey to expand its outreach, especially in the rural areas…." Arvand reports assets of USD 25 million, a gross loan portfolio of USD 21 million, deposits of USD 2.9 million, return on assets of 4.5 percent and return on equity of 30 percent. September 5. 2014

Canada, IFC Support Agricultural SMEs in Ukraine

The Department of Foreign Affairs, Trade and Development Canada and the International Finance Corporation, the private-investment arm of the World Bank Group, plan to partner to provide an unspecified level of financial support and technical advice to small and medium-sized agricultural enterprises in Ukraine in an effort to contribute to "sustainable" economic growth and job creation to help the Ukrainian government increase its tax revenue. Additional goals of the Canadian government are to improve the "business-enabling environment," restore confidence in financial institutions, and support democracy and the rule of law in Ukraine. August 23. 2014

EBRD Likely to Loan BCP Affiliates $133m for Moroccan MSMEs

The European Bank for Reconstruction and Development, a multilateral institution headquartered in London, is considering disbursing a loan equivalent of USD 133 million to Banque Centrale Populaire, a member of the Moroccan mutual banking group Groupe Banque Centrale Populaire (GBCP), as well as to 10 of its affiliates for on-lending to micro-, small and medium-sized enterprises in Morocco. GBCP reports consolidated assets of USD 35 billion. August 21. 2014

Hana of South Korea Using MFI to Establish Foothold in Myanmar

South Korea's Hana Bank reportedly has established a microfinance institution in Myanmar named Hana Microfinance, which is expected to disburse loans up to the equivalent of USD 485 in 23 townships. An unnamed official of Hana Bank reportedly said that "the microfinance unit is set to boost Hana Bank's corporate image in Myanmar and potentially help the bank's long-term goal of entering the local banking industry." Hana Bank reports assets of USD 23 billion. August 18. 2014

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

SPECIAL REPORT

This description of the work of one of the eight Action Groups of the European Microfinance Platform (e-MFP) is sponsored by e-MFP, a 130-member network located in Luxembourg.

Microfinance and the Environment

MicroCapital: Would you please tell us about the European Microfinance Platform (e-MFP) Microfinance and Environment Action Group?

Marion Allet: The e-MFP Microfinance and Environment Action Group was officially launched in February 2013. It is an initiative of various organizations that were already involved in "green microfinance," such as MicroEnergy International, ADA, PlaNet Finance, Enclude, PAMIGA (the Participatory Microfinance Group for Africa), Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) etc. A few years ago, there were very few actors addressing the issue of the environment within microfinance, so we thought there was a real need for sharing experiences. We also wanted to provide some practical tools to help stakeholders understand what green microfinance is and how to get involved.

This is why the Action Group developed a directory that soon will be published on the e-MFP website. It will allow organizations to announce what they are doing in terms of green microfinance, the countries they work in and the specific areas of environmental management in which they are involved. This will help others interested in this area to get in touch with organizations that already have some experience in it.

We have also created a second tool, a catalog of around 10 fact sheets on renewable energy and energy-efficient devices, such as solar water pumps, improved cook stoves, and "pico" solar solutions for lighting and mobile phone charging. These fact sheets are specifically written for microfinance institutions (MFIs) that may be interested in offering loans for purchasing these products.

MC: Are you also working on how to assess environmental performance?

MA: Yes, we have also designed another tool called the Green Index, and right now we are working on a short publication to present it. It is a pedagogical tool that shows a range of strategies that can be implemented by an MFI to improve its environmental performance.

The tool is built along three dimensions. The first one relates to the formal environmental strategy of the MFI, including indicators such as having a formal environmental policy, appointing a specific person to manage environmental issues or reporting publicly on the organization's environmental performance. The second dimension involves looking at the MFI's environmental risks. In terms of its internal ecological footprint, an MFI might seek to reduce the usage of paper, water and energy at its offices. External risks include the environmental risks of the activities that an MFI finances, which might be addressed through an exclusion list, by which certain activities are ineligible for funding; by raising clients' awareness of mitigation solutions; or by requiring borrowers to reduce environmental risks as a condition for receiving future loans. The third and final dimension focuses on how MFIs can foster green opportunities, for example by offering loans or training specific to promoting environmentally friendly practices (such as within agro-forestry), businesses (such as recycling), or technologies (improved cook stoves, for example). There is a wide range of possibilities here.

The Green Index has been included in the latest version of the Social Performance Indicators tool, SPI4, which was developed by CERISE (Comité d'Echanges de Réflexion et d'Information sur les Systèmes d'Epargne-crédit). It is currently being tested, and we look forward to receiving feedback and suggestions on how to improve it.

MC: Can you offer an example of a problem an MFI experienced in entering this arena?

MA: Yes, I have many examples! Getting involved in environmental management is challenging for an MFI. Some years ago, I worked with an MFI in El Salvador that tried to assess the environmental risks of its clients' activities and raise awareness on mitigation solutions. The MFI had developed practical tools for that and provided some training to its staff. But loan officers found it very difficult to provide useful advice to the clients since they were not "technicians" of environmental risk mitigation. They also felt it took up too much of their time. A better solution might have been possible by partnering with an environmental NGO.

MC: Please share a success story.

MA: There are various MFIs today that offer products that are specific to financing clean energy access, such as solar solutions, biogas digesters or improved cook stoves. By doing so, they contribute to the livelihoods of their clients while reducing health risks linked to traditional sources of energy and preserving the environment.

MC: Do you have any comments on the European Microfinance Award, which this year is specific to microfinance and the environment?

MA: I think the award will give us a great opportunity to discover some inspiring initiatives in this field and reflect on how to improve environmental management in microfinance. Poor people are the most affected by environmental issues and by climate change; as microfinance actors, there is a link here that we cannot dismiss.

In addition to serving on the e-MFP Microfinance and Environment Action Group, Marion Allet serves as the Senior Programme Officer for the Environment & Microfinance at PAMIGA (the Participatory Microfinance Group for Africa), which is based in France.

FIELD NOTES

Banks vs. Mobile Money: The Tortoise and Hare in Youth Savings?

Relishing the last remaining hours before the start of the school year, my 11-year-old daughter and her friend recently went to our local burger joint for lunch, had their nails painted at a salon and enjoyed Frappuccinos at Starbucks, all with no adult supervision. The money was easily accessible - my daughter carries all of her savings in a little purse with a picture of an owl on it rather than depositing it into her savings account. "The bank is too far" or "Its not worth it; I only get a few pennies in interest" are common complaints. What she means is, *"The opportunity cost is too high, and I want to access my money though a convenient and accessible mechanism*." Without batting an eyelash, these two girls spent the equivalent of a week's salary for many of the people we work with.

I became even more worried when I learned that Apple is rumored to have made a deal with Visa, MasterCard, American Express and possibly PayPal to allow people to use iPhones to make retail purchases. My daughter is too young to apply for a checking (transactional) account, but she has an iPhone and can navigate both online and physical shops. If her recent spending of large amounts of money in short time spans is any indication of things to come, we are in trouble! Throughout the world, non-bank solutions are becoming more accessible for the underbanked and unbanked. In the US, little girls throughout the country, too young to access traditional accounts but armed with iPhones and highly developed shopping habits, will soon have an even more convenient way to shop - and basically dis-save.

The business model of most non-bank financial firms is to get people to spend money. Banks, on the other hand, seem unable to keep up with the competition, which is too bad since their "bread and butter" is more conducive to good habits like savings and investments rather than impulse buys. There is a clear social value in their services, but is there a business case for banks to attract small amounts of savings from youth?

I recently participated in a Web-chat with representatives of CGAP and the MasterCard Foundation to discuss the "Framework for a Business Case for Youth Savings" that my firm, EA Consultants, developed with CGAP. The session included an online poll asking participants to identify the biggest driver of the business case for youth savings. The answer given by 74 percent of participants was that financial institutions should serve youth as a long-term strategy for acquiring the business of these future adults.

Despite the high opportunity cost of investing in the future, banks should not be discouraged from thinking long-term (i.e. growing their customer base by attracting low-balance savings accounts). Regulators, policy-makers and parents should help promote savings habits and facilitate the distribution of products appropriate for young people. There are great examples in Europe, where countries with a strong culture of thrift have been more resilient in the face of financial crises. In our Framework, we highlight the example of Germany's Sparkassen in promoting youth savings products to build a customer base of the future. Though non-bank models may be more agile in reaching youth, I am wary of the promise of their models. Faster, easier access to mobile transactions will neither make my daughter - nor me - any wealthier over time. Instead, I am hoping that financial institutions that make a business case from savings intermediation will start to innovate faster. My own bank has realized this and offers a transactional account for my older daughter, who is in high school. Maybe it's time for banks to move into an even younger youth segment.

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

Self-Selection into Credit Markets: Evidence from Agriculture in Mali

By Lori Beaman, Dean Karlan, Bram Thuysbaert and Christopher Udry; released as a working paper by the Poverty Action Lab; May 2014; 36 pages; available at http://www.nber.org/papers/w20387

This study examines the impact of a micro-lending program that sampled 198 villages from the Sikasso region of Mali between 2010 and 2012. In the past, microcredit agencies offered farmers loans that required small, regular repayments. This can undercut an industry that typically makes money seasonally. The researchers try to circumvent this predicament with a loan product that collects a larger loan repayment once or twice per year. A second goal is to determine if high-performing farmers, in particular, self-select into these loan products.

In this experiment, researchers arranged to offer loans in 88 villages randomly selected out of the 198 villages studied. The loans were disbursed through the microlender Soro Yiriwaso, and a one-time USD 140 cash grant was given to a random subset of participants who chose not to accept a loan. In the remaining 110 villages - the control group - no loans were offered, but some households were randomly selected to receive the cash grant of USD 140.

In "no-loan" villages, the cash grants boosted productivity as 8 percent more land was cultivated, 14 percent more fertilizer was used and profits rose by 12 percent. On the other hand, in villages in which loans were disbursed, households that accepted grants had zero returns, while households that self-selected into the borrowing scheme produced higher returns. This suggests that the experiment's process sorts farmers by productivity: high producers tend to choose to borrow while low producers forego the loan.

Arguing that microcredit products with small, repeating repayments are… *(Continued in the subscriber edition)*

Myanmar: Demand, Supply, Policy and Regulation

By Doubell Chamberlain et al; published by the Centre for Financial Regulation & Inclusion; 2014; 41 pages; available at http://cenfri.org/documents/MAP/2014/MAP%20Myanmar%20Synthesis%20Note.pdf

The authors find that 30 percent of adults in Myanmar use regulated financial service providers, including banks, microfinance institutions (MFIs), cooperatives and state-regulated pawnshops; and 6 percent of adults use more than one regulated financial product. Twenty-one percent of adults rely on unregulated financial service providers including "rice specialization companies," "agricultural input providers," informal money-lenders, community groups and informal pawnshops, which often offer services at "substantially higher cost" than regulated providers. The study indicates that rural areas offer slightly better access to regulated financial services than urban areas due to government measures and a significant commercial banking presence. MFIs serve 700,000 clients in the country.

The authors identify five financial inclusion target groups: "farmers," "formal enterprises," salaried consumers, "informal enterprises," and consumers who work in the informal sector. Farmers constitute the largest group and are the most frequent users of regulated credit. Formal enterprises report the lowest… *(Continued in the subscriber edition)*

Symbiotics 2014 MIV Survey Report: Market Data and Peer Group Analysis

Published by Symbiotics Group; 2014; 36 pages; available at http://www.symbioticsgroup.com/media/72461/symbiotics-2014-symbiotics-miv-survey-report.pdf

Symbiotics, a Switzerland-based investment company, recently performed a survey of the 2013 financial and social performance of 80 microfinance investment vehicles (MIVs), representing 94 percent of the global MIV market. As of December 2013, the respondents managed assets valued at USD 9.3 billion.

The first section of the survey reveals an increase of 17 percent in the funds' aggregate microfinance portfolio from 2012 to 2013. In 2013, "the market for asset managers became more concentrated" with approximately 40 percent of the total assets managed by the top three MIVs. The microfinance portfolio of the MIVs also was regionally concentrated, with 40 percent of funds invested in Eastern Europe and Central Asia and 30 percent in Latin America and the Caribbean. The asset composition of the MIVs was stable, with investments primarily made through direct debt. In 2013, the average size of direct debt investments increased slightly to USD 1.9 million from USD 1.8 million in 2012. The average number of investees per MIV increased from 29 in 2012 to 34 in 2013. The simple average yield of the MIVs decreased to 6.9 percent in 2013 from… *(Continued in the subscriber edition)*