MicroCapital Monitor
ON MICROFINANCE & OTHER FORMS OF IMPACT INVESTING

DECEMBER 2021 | VOLUME.16 ISSUE.12

MICROCAPITAL BRIEFS | TOP STORIES

Bank of Georgia Borrowing $200m for MSMEs, with Gender Focus

Please refer to page 2 for coverage of this MicroCapital *Deal of the Month*.

Mambu Secures $265m in Equity Round Led by EQT

Mambu, a German software-as-a-service banking platform founded in 2011, recently raised the equivalent of USD 265 million in Series E funding, valuing the firm at USD 5.5 billion. EQT Growth, a Sweden-based private equity investor, led the funding round. EQT Growth is a first-time investor in Mambu and is joined by previous investors Acton Capital Partners, Arena Holding, Bessemer Venture Partners, Runal Capital, TCV and Tiger Global. FT Partners, a US-based investment banking firm, acted as financial advisor to Mambu. According Mambu CEO Eugene Danilkis, the firm "will use its fresh funding to further accelerate innovation in its next-generation platform [and] further support its international customer base, which is active across 65 countries today." Mambu's cloud technology is deployed at 200 financial services providers that together serve 50 million customers. EQT Growth, which generally invests in amounts from USD 56 million to USD 225 million, is a unit of EQT Group, which reports USD 1.8 billion in total assets. December 23. 2021

La Fructueuse of Togo Rolls Out Dzinyefa Mobile Money

La Fructueuse, a cooperative microfinance institution in the Togolese city of Lomé, recently established a mobile service called Dzinyefa. The service allows users to view their balance and transaction history using a feature phone or smartphone. Customers also can move money between La Fructueuse and accounts with the mobile money providers Flooz and T-Money. In addition, users can sign up for transaction notifications via SMS. La Fructueuse, which has seven branches and 33,000 customers, offers services such as money transfers, credit and savings. The Luxembourgish NGO ADA (Appui au Developpement Autonome) supported the development of Dzinyefa via its Digital Finance Initiative. December 14. 2021

Aden Bank to Target MSMEs, Women, Youth in Yemen

With fresh authorization from the Central Bank of Yemen, Aden Bank for Microfinance is moving forward with plans to offer financial services in the country. Aden Bank expects to offer both financial and non-financial services to micro-, small and medium-sized enterprises. The bank also is developing products designed to meet the needs of women, youth and other vulnerable groups. This is to include "flexible financing products aimed at improving job opportunities and focusing on the green economy." According to Saleh Awadh, Board Chair of Aden Bank, "The bank will launch its business through fixed and mobile…service points, which will cover all parts of the country...." December 9. 2021

DAI Buying MicroVest

Two US-based firms involved in international development recently agreed to an acquisition whereby employee-owned DAI is paying an undisclosed sum to take over MicroVest Capital Management, which was founded in 2003. MicroVest manages a portfolio valued at USD 519 million, specializing in channeling loans to funders of micro-, small and medium-sized enterprises in low- and middle-income countries. "Promoting sustainable development on a scale that truly makes a difference to people and planet requires mobilizing vastly greater sums of private funds," said Elizabeth Littlefield, a member of the DAI Board of Directors. "The marriage of DAI's global development expertise and MicroVest's investment acumen is the right intersection of the right networks at the right time." DAI is active in 100 countries in areas such as "economic development, sustainable business, climate change and the environment, governance, gender, and health." The firm employs about 5,400 people. December 3. 2021

INSIDE Page

MicroCapital

WE WISH YOU HEALTH!

We recognize the significant health and business impacts that COVID-19 is having on communities around the world. Thank you for your efforts to minimize the risks that we all are facing. While each of us at MicroCapital is lucky enough to be able to work from home, we understand that not all of our colleagues are able to do so. We wish you and your loved ones good health and resilience during this time.

MICROCAPITAL BRIEFS

Bank of Georgia Borrowing $200m for MSMEs, with Gender Focus

The Bank of Georgia (BOG), a UK-based institution active in Georgia, recently obtained a local-currency loan package worth USD 200 million for on-lending to micro-, small, and medium-sized enterprises (MSMEs), especially those owned by women. Half of the loan is funded by the Japan International Cooperation Agency (JICA), and the other half is sourced from the Asian Development Bank (ADB). To support the loan package, ADB will help BOG implement "technical assistance resources to support women-owned MSMEs." The Director General of JICA's Private Sector Partnership and Finance Department, Shohei Hara, stated that the "facility will promote further sustainable economic growth of MSMEs and women's social success in Georgia by improving their access to financial services." BOG provides retail and business banking as well as wealth management services with 6,000 employees at 270 branches. Its assets total the equivalent of USD 6.5 billion, and its loan portfolio and customer deposits each total approximately USD 4.3 billion. December 24. 2021

Agents for Impact Loans $3m from IIV to Imon of Tajikistan

Two German impact investment firms, Agents for Impact (AFI) and Invest in Visions (IIV), recently collaborated to disburse USD 3 million in loan funds to Imon International, a microfinance institution in Tajikistan. The role of AFI was to manage the disbursement of the funds from IIV. Imon offers loans, savings, internet banking and payment cards to individuals as well as to small and medium-sized enterprises. It was created by the National Association of Business Women of Tajikistan and US-based NGO Mercy Corps to empower female entrepreneurs. Imon received a license from the National Bank of Tajikistan to operate as a microcredit deposit-taking organization in 2013 and became independent of Mercy Corps shortly thereafter. As of 2021, Imon had the equivalent of USD 113 million in total assets, and as of 2020 it reported a gross loan portfolio of USD 77 million and one-year return on assets of 1 percent and return on equity of 5 percent. The microbank serves 109,000 customers in 28 regions of Tajikistan. December 20. 2021

Reltime to Enable P2P Loans, Fee-free Transfers

Reltime, a Norway-based firm founded in 2018, recently informed MicroCapital that it will launch a "decentralized banking ecosystem" allowing anyone with a smartphone and internet access to engage in peer-to-peer borrowing and lending, currency exchange, and domestic and international transfers - all with no fees. The initial launch is scheduled to take place in Brazil, Europe, India, Japan and Mexico by March 2022. Reltime expects to expand the service worldwide by December 2022. All transactions take place using the cryptocurrency listed as "RTC" on BitMart, a platform based in the Cayman Islands. December 10. 2021

Finbit Financial Diaries App Adds Small-business Features

The Netherlands-based company Low-income Financial Transformation (L-IFT) recently added several features to its Finbit data collection system, which includes both an app for Android phones and a portal for accessing the aggregated data. The app can act as a financial diary, tracking every daily expense and instance of incoming funds, including purchases, savings, loan disbursements and loan payments as well as number of hours worked. Finbit's new features are oriented toward the owners of small businesses, including the ability to track assets and manage employees' hours and wages. The app also can collect non-financial data via surveys, and it can track changes in data over time. Users can display their financial histories for their own planning or to share with lenders to strengthen their loan applications. Financial services providers can use Finbit to measure knowledge acquisition and other client achievements over time. Launched in 2019, Finbit has 5,000 users in 13 countries. December 7. 2021

VNPT Launches Mobile Money Service in Vietnam

Government-owned Vietnam Post and Telecommunications (VNPT) recently won approval from the State Bank of Vietnam to pilot a nationwide mobile money service. The service, VNPT Pay, allows customers to use mobile phones to deposit money to and withdraw money from the system, pay bills, and transfer funds on a peer-to-peer basis. In January 2021, the State Bank of Vietnam gave preliminary approval for VNPT and two other firms - MobiFone Telecommunications Corporation and Viettel Digital Service Corporation - to provide mobile money services. Since then, MobiFone also released a mobile money product. Pham Trung Kien, the CEO of Viettel Digital, argued, "Some studies estimate that in Vietnam only about 30 percent of the adult population have a bank account, and when we create a habit of using electronic payments, the remaining 70 percent will be customers of banks. Thus, mobile money not only competes [with banking services] but also promotes the use of bank accounts…." December 6. 2021

Publish What You Fund Releases DFI Transparency Tool

Publish What You Fund, a UK-based NGO aimed at increasing the transparency of international development efforts, recently launched its DFI Transparency Tool. The tool offers development finance institutions (DFIs) guidance on disclosure practices and a mechanism for monitoring DFIs' transparency on an ongoing basis. The DFI Transparency Tool focuses on project costs; funding sources; impact management; and environmental, social and governance issues, including accountability to target communities. Each of these components has organization-wide and project-specific subcomponents, as project-specific data are generally much less widely available than organization-wide data. Each of these subcomponents includes a set of survey questions and supporting guidance. December 5. 2021

Northern Arc to Provide Back-office Support to FMO's Nasira

Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden (FMO), a Dutch public-private partnership, recently finalized an agreement with Northern Arc Capital, an Indian financial firm, to support Nasira, a risk-sharing program through which FMO encourages lending to entrepreneurs in Africa and parts of Asia. In particular, Nasira guarantees lending to micro-, small and medium-sized enterprises whose owners fall into one or more of the following categories: youth, women, migrants and those highly affected by the COVID-19 pandemic. Northern Arc's role will be to perform "research on macro trends, assessment of financial landscape[s], transaction monitoring, performance reporting and modelling support for securitisation transactions…." FMO's Director of Financial Institutions, Marnix Monsfort, said, "Reporting and modelling is an essential part of the Nasira guarantee program… [and] shows financial institutions the real risks of lending to underserved parts of the populations, allowing them to continue serving these groups, also after the guarantee program has ended." December 3. 2021

MicroCapital Monitor - © 2021 MicroCapital - ISSN 1935-505X
The MicroCapital Monitor is published monthly by MicroCapital
Editor & Publisher Bob Summers
Writers Zach DeLuca, Divya Deshmukh,
Bradley Shulman and Adhya Singh
Special thanks to Alíz Crowley, Karen Doyle and Sidonia Summers
For questions, comments or suggestions, please contact us in
Boston, USA, via info[at]microcapital.org or +1 617 648 0043

Please refer to MicroCapital.org for the sources of the information appearing in this publication. Among these, we recognize CGAP's FinDev Gateway for its outstanding work disseminating information on financial inclusion. Thank you!

NEWS FROM AFRICA

Bimas Kenya Borrows $900k from Grameen Credit Agricole

Bimas Kenya, a provider of loans, insurance and training in rural Kenya, recently borrowed local currency equivalent to USD 900,000 from the Grameen Credit Agricole Foundation, whose head office is in Luxembourg. Bemis serves 18,000 people - mostly women - with a portfolio worth approximately USD 8.7 million. December 31. 2021

Retail Capital of South Africa Borrowing $10m from Triodos

Retail Capital, a South African lender to small and medium-sized enterprises, recently agreed to borrow the local-currency equivalent of USD 10 million from Triodos Investment Management, a Dutch impact investor. Retail Capital issues collateral-free loans to retailers based on their monthly cash flow. Since it was established in 2011, the firm has served 38,000 customers with loans totaling USD 281 million. The firm's shareholders include Apis Partners, Crossfin and Future Growth. Verdant Capital advised Retail Capital on the deal. December 17. 2021

CEI Africa to Encourage Crowdfunding for Clean Energy

Two German governmental institutions, Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung (BMZ) and KfW, formerly known as Kreditanstalt für Wiederaufbau, are launching a foundation called Clean Energy and Energy Inclusion for Africa (CEI Africa). The foundation has the equivalent of USD 55 million to donate in support of "climate-friendly power supplies for people in sparsely populated areas of sub-Saharan Africa." In particular, CEI Africa will fund the deployment of renewable energy systems that power "grain mills, water pumping, cold storage" and other systems. Additionally, CEI Africa will support crowdlending platforms to help diaspora members and other individuals lend to support renewable energy. The initial funding is budgeted for 187 "off-grid and small-scale power networks" and 70,000 new power connections, serving 350,000 people. Triple Jump of the Netherlands has been selected as the lead manager of CEI Africa, with US-based GreenMax Capital Advisors and Switzerland-based Persistent to assist in managing the foundation. December 16. 2021

EasyCash Launches QR Code, E-wallet Solutions in Egypt

Egypt's EasyCash recently launched its eponymous digital wallet and mobile payment solution for Android and iOS devices. EasyCash partnered with Wallet Factory, a financial technology firm based in Poland, to develop the mobile apps, which use QR code technology to facilitate payments from consumers to merchants. The consumer app also allows users to deposit and withdraw cash; transfer money to users of any digital wallet in Egypt; and purchase goods and services online using virtual payment cards. The merchant app generates QR codes to enable the acceptance of in-store payments and also shows payment histories. A web-based administration panel offers reporting tools, accounting models, and controls for overdrafts and commissions. To set up a new account, each user must visit an EasyCash location for verification and to select a personal identification number. December 15. 2021

Simbatu Begins Selling Solar Energy Products in Nigeria

Simbatu, a retailer of solar equipment in Nigeria, recently launched its website, offering a range of equipment such as panels, hot water heaters, water pumps, power inverters and batteries. Pricing ranges from the equivalent of USD 44 to USD 820. Over time, the firm plans to add products powered by wind, water and biomass. Daniel Andem, the Sweden-based founder of Simbatu, told MicroCapital that the firm, "aims to be Africa's leading omni-channel clean energy marketplace. Working with globally reputable brands, we provide convenient access to affordable, quality and innovative clean energy solutions within urban, peri-urban and rural communities." Simbatu was founded in 2021. The firm's inventory includes brands such as India's Amaron, Canada's Canadian Solar, and China's SMK Solar. December 15. 2021

ATB Secures $23m DFC Guarantee for Lending to Tunisian MSMEs

Arab Tunisian Bank (ATB) recently acquired a guarantee in the amount of USD 22.75 million from the government-backed US International Development Finance Corporation to support its local-currency lending to "inland and hard-to-reach" micro-, small and medium-sized enterprises in Tunisia. The focus on inland areas is motivated by most financial services providers being located near the coast, where seven of Tunisia's eight largest cities are found. ATB has 131 branches and the local-currency equivalent of USD 2.5 billion in total assets. The bank was founded in 1982 as a subsidiary of Arab Bank Group, which was founded in 1930 and is headquartered in Jordan. The group operates 600 branches on five continents and reports total assets valued at USD 54 billion. December 14. 2021

DFC Approves $9m Loan to Apollo Agriculture of Kenya

Kenya-based Apollo Agriculture, a technology company that helps small-scale farmers boost their profits, recently agreed to borrow USD 9.5 million for up to 10 years from the government-backed US International Development Finance Corporation. Apollo provides the following services in Kenya, bundled into a single package: microloans, seeds, fertilizer, insurance, satellite data and market connections. In addition to Kenya, the firm has affiliates in the Netherlands and the US. Financial data on Apollo are not available. December 13. 2021

Oikocredit Lends CMS $5.6m to Promote Rural Finance in Senegal

Union des Caisses de Credit Mutuel du Sénégal (CMS), a microfinance institution in Senegal, recently borrowed the equivalent of USD 5.6 million from Oikocredit, a cooperative based in the Netherlands. CMS aims to use the funding to broaden its "financial inclusion portfolio… in the rural and peri-urban areas of Senegal" including via "women and youth outreach." Established in 1988, the institution has 1.3 million members and 250 branches in both rural and urban locations. CMS offers a blend of in-person and digital services, including savings, loans and pension investments. The organization holds savings of USD 345 million and a loan portfolio of USD 181 million. December 8. 2021

SPECIAL FEATURE

This feature is sponsored by Agents for Impact.

Agents for Impact: Driving Positive Impact... Together!

The 17 Sustainable Development Goals (SDGs) outlined by the UN in 2015 provide a blueprint for a just and sustainable world. While actors across a range of professional arenas are rushing to catch up with the SDGs, the term "impact" is being thrown around loosely to give the impression that the desired goals have been reached. It is tempting to assume certain businesses have a positive impact on the SDGs, simply based on intuition. However, some might negatively impact the SDGs or elicit both positive and negative outcomes in the long run. Without proper tools for impact measurement and assessment, we can only get so far!

Agents for Impact (AFI) understands how essential it is to improve the practice of impact measurement through stable and coherent frameworks. To deliver on this promise, we have designed a specialized investment approach to support microfinance institutions (MFIs) that exhibit strong commitment to and proven track records of progress toward the SDGs. To evaluate an MFI's performance, AFI peels back the surface to deploy a strong assortment of cohesive and rigorous assessment tools, including financial analysis and addressing social performance indicators; sustainability factors; and environmental, social and governance (ESG) risks. We assess the MFI's sustainability performance and its alignment to the SDGs using our in-house Sustainability Alignment Rating (AFISAR©) Tool. Through a holistic approach combining ESG indicators in consonance with a range of internationally agreed-upon standards, the AFISAR© Tool helps make impact measurable, quantifiable and transparent.

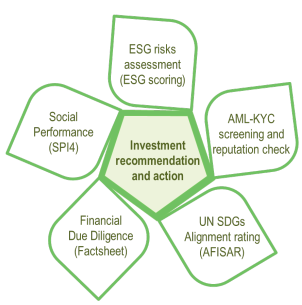
We support the Sustainable Development Goals

Check our news feed to find out more! Or to learn about our custom-built services, please email us at info@agentsforimpact.com or call +49 69 2043 69912.

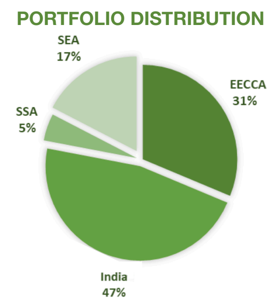
Leaving No One Behind

The Asian Development Bank estimated this year that close to USD 4.9 trillion must be injected into the economy of the Global South annually to meet the SDGs by 2030. However, investments are running 69 percent short of this target. Therefore we argue that, based upon the SDG principle of "Leaving No One Behind," challenges such as unemployment, poverty, gender inequality and climate change can only be addressed adequately through a unified global effort. With AFI's unique approach to measuring impact and our exceptional research quality, we tackle business and finance problems in a manner that serves people and positively contributes to the wellbeing of the planet.

Measuring Impact



Amid the ongoing buzz about impact investment, many investors not only are looking to reduce ESG risks in their investment portfolios but are eager to understand how they can be proactive in creating positive impacts on society and the environment. This paradigm shift has created the potential for significant expansion and changes in the geographic direction of capital to where it is required most. For example, MFIs in emerging economies can be significant drivers for promoting inclusive, sustainable development. They do this by giving small loans to microentrepreneurs, providing finance for housing, education, food security, clean energy, etc. With over a billion people in Asia living below the poverty line, microfinance offers tremendous potential to reach underserved populations with financial access. Therefore, AFI focuses its operations in Eastern Europe, the Caucasus and Central Asia (EECCA); South Asia; and Southeast Asia (SEA); and it has most recently set foot in Sub-Saharan Africa (SSA).



AFI's diverse team, headquartered in Frankfurt, Germany - with Agents in India, Bangladesh, Ukraine, Philippines, Kenya and Indonesia - builds bridges between finance and impact. One of our main goals is to enable a conducive environment for investments to achieve the SDGs. Since its inception, AFI has facilitated investments totaling over USD 200 million to 25 MFIs. The biggest chunk of the portfolio - around USD 100 million - is allocated to the Indian microfinance sector, reaching 6.9 million clients.

AFI recognizes the potential of microfinance to contribute to reducing inequalities, promoting entrepreneurship and making women more economically resilient, helping them be more optimistic when planning their future and the futures of their children. Accordingly, 97 percent of our end-clients are female entrepreneurs from low-income households.

What Our Partners Say

"We are very glad for the AFISAR© results, which help us to gain valuable insights into our SDG performance, also by benchmarking us against other organizations in our sector."

- Mr Arunkumar Padmanabhan, Founding Director and CEO at Svasti Microfinance

"Aye Finance is excited to partner with Agents for Impact for our 3-year AFISAR© partnership. We have gained valuable insights into the strengths and weaknesses of our SDG performance during the management workshop and by benchmarking us against the metrics of other Indian organisations."

- Mr Sanjay Sharma, CEO/MD & Co-Founder at Aye Finance Private Limited

---

With a very successful year behind it, AFI is well positioned to promote the transition to a just and equitable world.

Initiatives

We are an active member of the Federal German Impact Investing Initiative, co-leading its "Initiative on Impact Measurement & Management."

Bundesinitiative IMPACT INVESTING

SPECIAL FEATURE

This feature is sponsored by Frankfurt School of Finance & Management.

Agriculture in a World of Crises: Implications of Escalating Global Challenges for Food Production and Agricultural Value Chains

We live in a world of crises

It is not only since the global spread of COVID-19 that we know we live in a world of crises! As a reminder, here are some of the shocking facts.

Approximately 9 million people die every year of hunger and hunger-related diseases globally. Over 4,000 people die of tuberculosis every day, and in Africa alone more than a million people die from malaria every year. Compared to these figures, the COVID-19 pandemic contributing to 4 million deaths almost appears to be a subordinate problem.

Yet, it is not only hunger and diseases that kill millions of our fellow human beings. The environment itself increasingly is becoming lethal: nine out of 10 inhabitants of planet Earth now breathe polluted air, which kills almost 9 million people every year. Two billion individuals drink contaminated water every day, leading to more than 500,000 diarrheal deaths annually.

While hunger, diseases and pollution are the major threats to humankind, armed conflict also is taking its toll. The war in Syria, for instance, has claimed about 400,000 lives since 2011, and it has displaced 22 million people. There are currently ongoing wars or minor conflicts in around three dozen countries, mostly in West Asia, South Asia and Sub-Saharan Africa.

Global trends add to the already stark picture. The world population is expected to increase from 7.8 billion today to over 9 billion by 2050. This will aggravate the already serious depletion of natural resources - including arable land - and the pollution of air, oceans, fresh water and soils.

Last and certainly not least, we increasingly face the complex effects of global climate change, such as floods, droughts, wildfires, heatwaves and storms, as well as the loss of the biodiversity that is essential for our survival. At the same time, higher temperatures and more intense pressure from pests and diseases will threaten us, our crops and our animals. Furthermore, the impact of climate change will force more people to migrate into cities and across borders, and this most likely will trigger more violent conflicts. Scientists also predict that the probability of new epidemics is increasing due to climate change.

Hence, it is probably not an exaggeration to say that we will ever more live in a world of multiple crises. The challenges that we face in the 21st century are countless and almost overwhelming. And the poor already take the brunt of it.

Agriculture: part of the problem or part of the solution?

How are we then responding to these disturbing insights? How will we ensure the survival and the wellbeing of all people living on this planet? And more specifically, what role will agriculture play in this crisis scenario?

Even at first glance, we have to admit that agriculture actually is part of the problem. Modern agricultural production systems significantly contribute to soil and water pollution, loss of biodiversity and increasing greenhouse gas emissions. On the social side, we find widespread child and slave labour on farms; there is indifferent waste of food despite starving children; and millions of poor smallholder farmers barely manage to survive while irresponsible investors grab their land.

Farmers are also victims; not only poor smallholders, but even large farms suffer from the effects of climate change. They stand to lose everything when wildfires, droughts or floods hit their homesteads. Soil erosion and the loss of biodiversity mean lower crop yields and more pressure from pests and diseases. And warmer temperatures force farmers to change their farming practices, cultivate more resilient crops and raise different types of animals.

While agriculture certainly is part of the problem, there are also some signs that it can be part of the solution. New ways of farming and of managing supply chains can help tackle some of the challenges. Climate-smart agriculture, for instance, promotes adaptation to the effects of global warming and the reduction of greenhouse gas emissions. Well managed soils and modern agroforestry systems can even act as carbon sinks, while also reducing the loss of biodiversity. Precision agriculture may soon reduce the application of agrochemicals on croplands through the use of robots and drones.

There is reason to hope that agriculture soon will play a key role in achieving the UN Sustainable Development Goals - in particular to end hunger, achieve food security and improved nutrition, provide clean water and renewable energy, reduce poverty, promote decent work and economic growth, and contribute to climate action and biodiversity.

However, to live up to these expectations, it is urgent that the agriculture sector adopt the new paradigm of "inclusive green growth," thus shifting away from exploitation, degradation and depletion and toward social justice, environmental protection and restoration. Technological and social innovations can be combined to achieve a triple bottom line: people, planet and prosperity.

Agriculture finance: quo vadis?

The transformation of agriculture toward inclusive green growth also requires concerted action by the finance community - public, private and philanthropic. Massive investments and innovative financial instruments are needed to promote sustainable agricultural practices and supply chains. Smallholder farmers in particular need to get more attention: while they make up the bulk of the global farming community, they are often excluded from the formal financial system and suffer most from the various crises outlined above.

People working in financial institutions require new technical and managerial skills to tackle the challenges related to the transformation of agriculture. This is one of the focal areas of the Inclusive Finance Summer Academy offered by the Frankfurt School of Finance & Management in July 2022, in Frankfurt am Main, Germany. The program seeks to equip participants with deep technical knowhow across the following major themes: Risk Management, Housing Finance, Digital Finance, SME Banking, Rural Finance, Human Resources and Social Performance Assessment.

About the author: Helmut Grossmann is a Senior Advisor and Training Expert at Frankfurt School of Finance & Management.

For more information, please visit the Inclusive Finance Summer Academy.

EAR TO THE GROUND

Unexpected Sources of Efficiency: Reflecting on a Decade of Digitization

We have been talking about digitization and other forms of automation in microfinance for years. Back in 2012, when MFIs were focused on upgrading their core banking systems and only beginning to experiment with new technologies, I visited some MFIs in Central America to evaluate a capacity-building project. At one large MFI in Honduras, the staff explained to me that they had tried uploading their loan application onto tablets. The problem was that they lost the benefit of face-to-face contact with clients, because loan officers were uncomfortable with the technology and kept looking at their screens instead of their clients when they spoke. The MFI scrapped the tech and went back to paper. Staff of a smaller MFI in a rural part of the country explained that they hired an expensive consultant to recommend a core banking system that quickly became obsolete, so their internal IT team built one for less money and that stored data on the cloud - something few MFIs were doing back then, partly because of antiquated regulations.

At the time, we hoped technology would reduce the stubbornly high operating costs of microfinance, which usually is very labor intensive. The premise was that back-office processes could be streamlined first, and eventually front-line processes would be digitized as well. Over the past decade, we indeed have seen some big gains in back-office efficiency. More sophisticated risk management tools have contributed to this, driven by data collection, cloud computing and - in some cases - AI. Though there are still wide variations by country, lending model, regulatory status, etc, overall efficiency clearly has improved. However, front offices are where operating costs really tally up, and these continue to be high. While most loan officers have learned to toggle their glances between their devices and client gazes, they still need to be there to recruit clients, meet with them periodically and follow up on non-performing loans. For borrowers to continue repaying their loans at rates of 97 percent or more, they must internalize the accountability that comes with engagement and trust. So far, humans are still the best way to achieve this.

Operating costs in microfinance are stubborn, but the COVID-19 pandemic and the corresponding acceleration of digitization have led to some unexpected improvements in efficiency. I was speaking with the commercial manager of a large MFI last week. She noted two important and interrelated ways that efficiency has improved during the pandemic: greater staff retention and improved customer service. By allowing loan officers to spend more time with clients remotely - instead of shuffling between home, the office and client businesses - the result has been a safer work environment, shorter working hours and happier loan officers. Meanwhile, call centers, WhatsApp messages and other online platforms have increased client touch points, helping customers feel they are getting better service. As such, some MFIs are seeing greater client loyalty and growth. As we move into our new normal - which will inevitably include even more digital usage - there is reason for hope that clients' growing familiarity with digital tools will allow them to use more "self-led" financial services. Perhaps this can help us achieve a different goal than we had been focusing on: Rather than cutting personnel costs, maybe digitization works best as a tool for improving client service, offering more frequent and convenient touch points without replacing the human touch.

About the Author: Ms Barbara Magnoni is President of EA Consultants, a development-consulting firm based in New York. She has more than 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, and you may follow her on Twitter at BarbaraatEA.

UPCOMING EVENTS

11th Biennial Microfinance Conference

January 25 - January 28, 2022; Bahirdar, Ethiopia

Organized by the Association of Ethiopian Microfinance Institutions, this conference is themed Promoting Digital Finance and COVID-resilient Financial Services Towards the Achievement of Financial Inclusion. Sessions will cover topics such as government policy, client protection, digitization, governance, serving medium-sized enterprises, rural services, renewable energy, microinsurance and sanitation. Registration is free of cost. More information is available by calling +251 11 5572190, emailing aemfiet[at]gmail.com or visiting https://aemfi-ethiopia.org/j/5-content/annoucements/106-call-for-paper-11th-biennial-microfinance-conference.

Sankalp Africa Summit

March 1 - March 4, 2022; Nairobi, Kenya

Organized by the Aavishkaar-Intellecap Group, this event is themed "mainstreaming impact to create impact-driven economies." In addition to participating in "deal rooms," delegates may attend sessions on topics such as Inclusive Financial Technology; Healthcare, Water and Sanitation; Gender-lens Investing and Women Leaders; Agriculture; Climate Change and Circular Economies; and Impact Investing, Blended Finance and Collaborative Philanthropy. The event includes two virtual and two in-person days. In-person tickets range in cost from USD 139 to USD 559, and virtual tickets range from no cost to USD 499. More details are available by calling +91 022 6124 8900 or +254 20 2441000, visiting https://www.sankalpforum.com/sankalp-africa-summit/, or emailing sankalpforum[at]intellecap.net.

Invest In Africa Summit

March 3 - March 4, 2022; Amsterdam, the Netherlands

The purpose of this conference is to promote "investment and trade opportunities in African countries...and enabling small and medium-sized enterprises and startups to find alternative financing solutions." Session topics include women in business, financing agriculture and financing international trade. The fee to attend is EUR 700, and more information is available via https://investinginafrica.eu/, info[at]investinginafrica.eu or +31 616 950 384.

Finovate Europe: Tech to Succeed Today. Vision to Thrive Tomorrow.

March 22 - March 23, 2022; London, UK

The first day of this event on financial technology includes 50 demonstrations of new products, and the March 23 agenda offers 70 presenters. Registration costs GBP 1,499 plus tax. Discounts are available for groups and all who purchase tickets before January 21. For more information, you may call +44 (0) 20 7017 7200, visit https://informaconnect.com/finovateeurope/ or email info.events[at] informaconnect.com.

Skoll World Forum

April 5 - April 8, 2022; Oxford, UK

Organized by the Skoll Foundation, the purpose of this conference is to advance entrepreneurial solutions to social problems. While, this year's agenda has not yet been released, previous iterations covered topics such as investing in underserved markets, financial innovation for inclusive business, and funding impact at scale through market segmentation. Virtual attendance is open to all at no cost. Depending on the sector of the delegate's employer, the in-person attendance fee varies from USD 1,300 to USD 3,500 plus 20 percent tax. Although the deadline to request an invitation to attend in-person has passed, you may seek more details via registration[at]skoll.org, +1 650 331 1031 or https://skoll.org/skoll-world-forum/.

Africa SACCOs Week

April 25 - April 27, 2022; Nairobi, Kenya

This event on the development of Savings and Credit Cooperatives (SACCOs) in Africa is focusing this year on digitization. The fee to attend ranges from EUR 300 to EUR 850, depending on organization type. For more details, you may visit https://www.africasaccosweek.com, call +250 7885 16557 or email info[at]africasaccosweek.com.

MORE DETAILS COMING SOON ON:

Impact Investor Global Summit

May 18 - May 19, 2022; London, UK

Finovate Spring: Discover Tomorrow's Solutions to Today's Challenges

May 18 - May 20, 2022; San Francisco, California, USA

7th European Research Conference on Microfinance

June 20 - June 22, 2022; Glasgow, UK

World Finance Conference

August 1 - August 3, 2022; Turin, Italy

Finovate Fall: Cutting-edge Fintech in the World's Financial Capital

September 12 - September 14, 2022; New York, New York, USA

Opportunity Collaboration

September 25 - September 29, 2022; Miches, Dominican Republic

International Conference on Inclusive Insurance

October 24 - October 26, 2022; Kingston, Jamaica

MEDA Convention

November 3 - November 6, 2022; Lancaster, Pennsylvania, USA

PAPER WRAP-UPS

Policy Framework on the Regulation, Licensing and Supervision of Digital Banks

Published by the Alliance for Financial Inclusion, November 2021, 34 pages, available at https://www.afi-global.org/wp-content/uploads/2021/11/DFSWG-framework_FINAL.pdf

This report provides a framework for regulators and policymakers seeking to improve the way they oversee digital banks, especially with the aim of increasing financial inclusion. It draws on "in-depth secondary research and extensive consultation with [Alliance for Financial Inclusion] member countries and regulators in other jurisdictions, and other relevant analysis of developments in financial inclusion and DFS [digital financial services]."

Digital banks can be regulated either within existing frameworks for banks or through a separate, targeted set of regulations. The authors suggest evaluating the following determinants when approaching potential regulatory changes: (1) the policy objectives of the regulator; (2) the maturity of the jurisdiction's financial market; (3) the "presence of non-financial enablers;" and (4) the adequacy of existing bank regulations for regulating digital banks. The authors note that all jurisdictions that developed a specific set of regulations for digital banks cite financial inclusion as a driving factor.

Some jurisdictions have used a licensing approach to limit the entry of new digital banks in order to ensure they have the capacity to monitor the banks. To establish such a licensing regimen, the authors suggest the following: (1) create plans for increasing financial inclusion; (2) ensure strong "technological and financial skills" among management and board members; (3) present clearly defined "operational and IT [information technology] risk management strategies," especially for services that are outsourced; and (4) build a strong exit plan to reduce harm to customers in case of bank failure.

The authors express concern over large non-financial companies - specifically technology companies - purchasing controlling stakes in digital banks and this leading to "market conduct and consumer protection challenges." To minimize these risks, there must be a "clear demarcation between the non-financial activities of these shareholders and those of the digital banks" to ensure the interests of the digital banks do not conflict financial inclusion goals. Other concerns include cybersecurity and data privacy, which can be mitigated partially via digital financial literacy programs.

A Digital Bookkeeping App to Improve Access to Finance

Published by the UN Capital Development Fund, November 2021, 12 pages, available at https://www.findevgateway.org/paper/2021/11/digital-bookkeeping-app-improve-access-finance-case-study-ghana

Ghana-based financial technology firm Ozé and Ecobank, a Togo-based bank operating in 35 countries, partnered to help young entrepreneurs in rural Ghana track their business data using the Ozé Business App. This mobile app is designed for users whether or not they are familiar with bookkeeping practices, and the resulting data can be used to support users' loan applications. During a needs assessment on the target population, Ecobank and Ozé found that young entrepreneurs most often kept bookkeeping records in notebooks, and the records were often incomplete.

Before rolling out the program, Ecobank widened its network of agents in the targeted areas, and Ozé added several features to its app: (1) the integration of digital payments; (2) the ability to have sub-accounts for multiple businesses; and (3) the option of adding a separate profile through which an accountant can manage the account - particularly for those who do not have access to a smartphone. Ozé and Ecobank launched the initial pilot in March 2021 in the Ashanti Region and expanded it to the Western Region in June 2021.

As of March 2020, 37,000 businesses in Ghana were using the Ozé Business App. Of this total, 35 percent were women-owned, and 61 percent were youth-owned. From the rollout of the new program in March 2021 through June 2021, Ozé onboarded 1,910 new users. The authors deemed the progress slow. Due to low levels of digital literacy, Ozé found that in-person support staff were vital to increasing uptake and usage of the app. Once customers were using the app, however, the collected data were helpful in building the perceived creditworthiness of young business owners.

Impact Evaluation of Credit Guarantee Schemes in Agriculture

Published by the UN's Food and Agriculture Organization, December 2021, 72 pages, available at https://www.findevgateway.org/paper/2021/12/impact-evaluation-credit-guarantee-schemes-agriculture

This paper reviews the impacts of agricultural partial credit guarantee schemes (PCGSs), through which governments agree to absorb a portion of lenders' losses on particular types of loans. Governments often use PCGSs to de-risk financial institutions' lending to small and medium-sized firms, especially as a counter-cyclical tool in times of financial crisis. Previous studies have offered mixed evidence on the efficacy of PCGSs, as they can increase moral hazard for both borrowers and lenders.

The paper includes an analysis of previous studies on the Agricultural Credit Guarantee Scheme Facility (ACGSF), which was established in 1977 by the Nigerian government to benefit small-scale farmers, ranchers and fishers. One study found the scheme to have a positive relationship with GDP. Another found that although 71 percent of farmers interviewed were "ignorant of the ACGSF's activities," those who knew of ACGSF stated it had a positive economic impact on their community.

The authors also reviewed several guarantee schemes of the Development Credit Authority (DCA), which was established in 1999 by the US Agency for International Development (USAID). In 2001, USAID Rwanda began several projects to assist the Rwandan government in its National Coffee Strategy. For example, DCA provided a guarantee to the Bank of Kigali covering 40 percent of its losses on the principal of loans to "export-oriented agriculture enterprises." The bank issued USD 1.7 million in loans to such enterprises, but an external evaluator found that the program "failed to influence the overall lending behavior of the formal banking sector to agriculture." That is, banks remained resistant to lending to the agricultural sector, particularly without a third-party guarantee.