MicroCapital Monitor
ON MICROFINANCE & OTHER FORMS OF IMPACT INVESTING

FREE PREVIEW EDITION*

APRIL 2023 | VOLUME.18 ISSUE.4

MICROCAPITAL BRIEFS | TOP STORIES

AMK of Cambodia Raises $7.5m for Green Microfinance via Symbiotics-BII Bond

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DPAM, Korys Buy Equity in Incofin

Belgium-based Incofin Investment Management recently sold equity shares to two Belgian, family-controlled investment firms, Degroof Petercam Asset Management (DPAM) and Korys Investments. Incofin Investment Management remains majority-held by a group of its staff members via the entity Incoteam. The fourth investor in the firm is the Belgian investment firm Incofin CVSO. DPAM CEO Peter De Coensel commented, "We have been thinking about broadening our offer for a long time, especially in the direction of impact investments in private debt and equity. We also perceive a growing demand from customers in this direction that we would like to meet." Among Incofin Investment Management's plans for the fresh cash is to launch new "funds integrating a smart climate and gender lens." Founded in 2001, Incofin is a for-profit firm that seeks "to promote inclusive progress." As of 2022, it had 350 investees in 65 countries, mostly active in financial inclusion and agriculture. Incofin has offices in Belgium, Cambodia, Colombia, India and Kenya. The firm's portfolio is valued at USD 1.2 billion. For 2021, DPAM reported net income equivalent to USD 603 million on assets of USD 95 billion. In 2022, Korys reported USD 5.0 billion in assets under management. April 24. 2023

Activists Block Access to 3 MFI Branches in Nepal

Members of the Nepal Communist Party reportedly placed locks recently on the doors of two microfinance institution (MFI) branches in the western Nepali province of Sudurpaschim. Access to a third branch in the province also was blocked before police removed the unauthorized padlocks. Leaders of the youth group involved with the protests argued that the MFIs were "causing mental stress and suffering to borrowers by issuing loans at extremely high interest rates." Another accusation is that "microfinance companies don't consider the financial condition of borrowers and whether they have already taken loans from other companies before they provide loans to customers." One borrower, Juna Sunar, reportedly has loans due to 13 MFIs and said, "They come almost everyday asking for payment of installment, but I have been sending them away, saying I will pay them when I have money." The MFIs whose branches were blocked include National Microfinance Laghubitta Bittiya Sanstha and Nirdhan Microfinance Laghubitta Bittiya Sanstha, both of which report offering financial literacy and other training in addition to…*

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NEWS FROM AFRICA

Goodwell, Oxfam Novib Launch Pepea Fund for East African SMEs

Two Netherlands-based organizations, the NGO Oxfam Novib and for-profit Goodwell Investments, recently partnered to create the Pepea Fund, which will channel the equivalent of USD 22 million to small and medium-sized enterprises (SMEs) in Ethiopia, Kenya and Uganda. Oxfam Novib is providing the funding, and Goodwell Investments will manage the daily operations of the fund. Pepea is to target SMEs that are active in "sustainable agriculture, energy, clean mobility and logistics, and waste management sectors." April 29. 2023

Lidya Shifting from Retail Fintech to Supporting Lenders

Lidya, a US-based financial technology firm focused on digital lending to micro-, small and medium-sized enterprises in Africa, recently announced it will shift its efforts to providing technology infrastructure to financial institutions instead of issuing loans directly. It plans to leverage its Collect tool to help financial institutions "originate, manage and collect loans." Among the organizations to which the firm provides services is the US-based nonprofit Accion, whose partners disbursed 8 million loans during 2021. Lidya is registered in the US and Luxembourg, and it operates a technology office in Portugal. Since its inception in 2016, it has issued USD 100 million via 32,000 loans in Africa and Europe. April 28. 2023

Nigeria's DD Microfinance Promotes Savings

DD Microfinance Bank, a Nigerian institution formerly known as DavoDani, recently announced an extension of its Save and Win initiative, which is targeted at informal workers. Customers who keep deposits in their accounts for a set time period are entered in raffles through which they can win home appliances. Through one year of the program, the bank has attracted the equivalent of USD 430,000 in savings that it has leveraged to "invest in ventures with higher risk profiles." April 28. 2023

Al Tadamun Mobile Branches to Reach More Women in Egypt

Egypt's Al Tadamun Microfinance Foundation is launching three vehicles that will serve as mobile branches in the regions of Cairo, Dakhalia and Minya. Among the goals of the effort are to "contribute to the speed of disbursement of financing and reducing the cost of time and money incurred by the client in order to reach the fixed branches." Al Tadamun primarily serves female microentrepreneurs through individual and group loans as well as Meeza payment cards. Available via multiple institutions, these cards give 22 million Egyptians access to mobile wallets plus 14,000 automated teller machines and 98,000 retail point-of-service terminals. Al Tadamun also offers microinsurance and non-financial services such as access to markets and recreational opportunities. Founded in 1996, the foundation employs 2,200 staff at 112 branches, serving 240,000 people. For the calendar year 2021, the institution generated a deficit equivalent to USD 1.2 million on revenue of 10 million, resulting in return on assets of -4 percent and return on equity of -16 percent. April 24. 2023

MLF Malawi Developing Digital Finance for Women Farmers

The Malawi-based unit of the UK's Microloan Foundation (MLF) recently partnered with two Luxembourgish NGOs, the Grameen Credit Agricole Foundation and ADA (Appui au Développement Autonome), to boost its services to female smallholder farmers by creating digital loan, savings and transfer products tailored to their needs. A total of 17,000 women are to be trained in using the new products with the aim of helping them increase the productivity of their farms. The effort is part of the Smallholder Safety Net Upscaling program, which also operates elsewhere in Africa and Asia, providing technical assistance to organizations that support smallholder farmers. MLF Malawi serves 40,000 female borrowers, 80 percent of whom live in rural areas, with a loan portfolio equivalent to USD 5 million. The institution has 17 branches employing 105 people. MLF also has affiliates in Zambia and Zimbabwe. April 21. 2023

Credit Café, Sterling Lending to Schools, Hospitals in Nigeria

Two Nigeria-based companies, Sterling Bank and the financial services portal Credit Café Africa, recently agreed to collaborate to distribute the naira-equivalent of USD 22 million in loans to health and education providers. The loans, which are to be sized from USD 220 to USD 43,000 each, are to focus on "nursery, primary, and tertiary institutions' proprietors, as well as hospitals, clinics, pharmaceutical companies and diagnostic centres." The loans will be funded by Sterling Bank, and borrowers will be able to apply for them on Credit Café's website. Credit Café acts as an intermediary between borrowers and lenders, using "algorithms to determine… eligibility and available loan limits." These loans may be used by medical and educational firms for cash flow and asset purchases, with loan disbursal promised within 48 hours. Credit Café also reportedly offers "insurance and other value-added services." The firm was founded in 2022 and has offices in Ghana, Nigeria and the US. Sterling Bank was founded in 2006 and reports USD 2.8 billion in total assets and 3 million corporate, commercial and retail customers. April 7. 2023

AgCelerant, BoA, IFC Supporting Rice Value Chains in Senegal

AgCelerant, the agricultural technology (agritech) service of Mauritius-based Manobi Africa, recently partnered with the Senegalese unit of the Bank of Africa Group and the World Bank Group's International Finance Corporation (IFC) on an effort to boost the rice industry in Senegal. IFC has committed the local-currency equivalent of USD 7.2 million as a partial guarantee to expand Bank of Africa's lending to smallholder rice farmers and other actors in the rice value chain. Among the goals are to provide greater access to insurance, equipment, fertilizer and seeds. IFC also will provide advisory services to AgCelerant to support the agritech in assisting Bank of Africa borrowers with training and production tracking tools. The mission of AgCelerant is to help farms and related businesses align themselves "into organized, transparent, efficient and inclusive value chains." Manobi is active in the farming and potable water sectors in 14 countries in Africa and is in the process of expanding to Europe. Bank of Africa Group, which is headquartered in Morocco, has operations in 19 African countries. March 31.2023

SPECIAL FEATURE

Small Is Beautiful: Sustainable Agriculture Finance

What financial institutions can do to help poor smallholder farmers secure their livelihoods and make their communities more climate-resilient

By Helmut Grossmann, Senior Advisor and Training Expert at Frankfurt School of Finance & Management

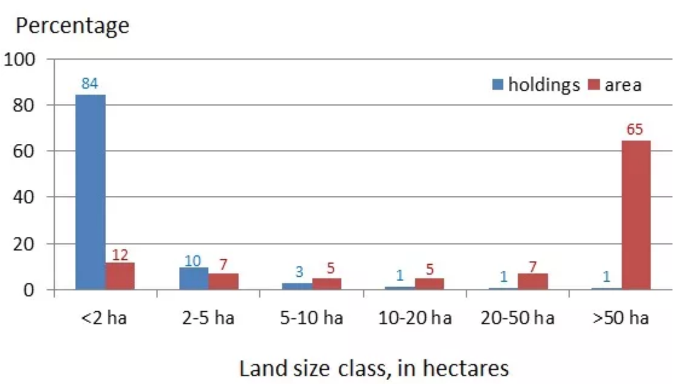
Big in numbers, small in size

When German-born British economist E F Schumacher published his book *Small Is Beautiful* in 1973, he proposed an alternative to the mainstream economic principle of "bigger is better." Mr Schumacher was an early proponent of sustainable development, demanding that people and planet should matter more than mere profits.

Agriculture plays a key role in global and local sustainable development. It is not an exaggeration to say: Farming is everyone's business! Just think about the following mind-blowing facts:

- The world population will reach 10 billion by the year 2050, and global food demand will increase by some 50 percent by then.
- 30 percent of global food production is wasted after harvest.
- Every year, we lose almost 1 percent of global farmland due to environmental degradation.
- 26 percent of global greenhouse gas emissions, which cause climate change, come from the food sector.
- Up to 2,000 species of wild animals and plants are estimated to become extinct each year, and agriculture is a main driver of this biodiversity loss.
- There are an estimated 570 million farms worldwide, 84 percent of which are smallholdings with less than 2 hectares of land (equivalent to a plot of 200 meters by 100 meters).
- Smallholder farms comprise only 12 percent of all agricultural land on our planet, but still produce roughly one third of the world's food.

Distribution of the world's farms and farmland area by land size class



Source: CGAP.

Why do smallholder farmers matter?

To consider sustainability in all its dimensions - social, economic and environmental - we need to focus on the world's half billion smallholder farms.

About two thirds of the world's poor are farmers. The good news first: Growth in the agricultural sector is two to four times more effective in raising incomes among the poorest, compared to other sectors. The bad news: Only a quarter of the estimated USD 200 billion of farmers' financing needs currently are being met by the financial sector. Put more positively: providing finance to smallholders is the biggest opportunity for scale and impact in financial inclusion today.

Most smallholder farmers are poor and suffer seasonal food shortages. Already insecure, these livelihoods face increasing threats from the effects of climate change, degraded ecosystems, pollution and depletion of natural resources: Think of droughts, floods, storms, farmland turning into deserts, water polluted by agrochemicals; on top of that, armed conflicts, land grabbing and forced displacements of farmers who have no official land ownership titles. There are countless threats to smallholders' livelihoods, most of which can be tackled by shifting to sustainable farming methods.

The typical smallholder farm is managed in a traditional way: mixed farming to produce food for the family and sell any surplus on the local market. Even where smallholders cultivate cash crops, like coffee or cotton, they use less agrochemicals than larger farms. With the help of simple investments, these small farms can be made more productive and at the same time more environmentally sustainable. For example, trees planted on farms as part of an agroforestry system generate additional income for the farmer, while making the farm more climate-resilient (via protection from heat and storms), capturing carbon (in the timber and soil) and fostering biodiversity (by creating habitats for insects and birds). There are many such simple sustainable farming methods that can have positive social, economic and environmental impacts at the same time.

Financial institutions can make a difference

Why are smallholder farmers not putting all these great ideas into practice? Simple answer: They lack the funds. This is where financial institutions come into play.

The main reasons why most banks and insurers shy away from serving smallholders are the perceived risks of agriculture and the relatively high transaction costs of serving farmers in remote areas. Fortunately, there are answers to these problems.

Successful providers of smallholder finance, such as rural microfinance institutions and agricultural development banks, have found ways to tackle the risk and cost challenges. For example, they cooperate with farmer groups, cooperatives, exporters and food processors to channel loans and repayments through their books. Funds are invested for sustainable farming practices, including agroforestry, certified organic farming, the production of biofuels, or rainwater harvesting and drip irrigation, to just name a few examples.

Insurance companies have successfully experimented with index insurance to cover farmers against droughts and other risks. And there are many innovations in the field of digital finance, such as the use of mobile phones to transfer payments from buyers to farmers and to distribute technical farming advice via text messages.

Frankfurt School Summer Academy

Employees of financial institutions require new technical and managerial skills to tackle the various challenges related to the ongoing transformation of agriculture. This is one of the focus areas of the Inclusive Finance Summer Academy 2023 offered by the Frankfurt School of Finance & Management from 3 to 7 July 2023 in Frankfurt am Main, Germany. Other themes of this year's Summer Academy are Risk Management, Digital and Inclusive Finance, Sustainable Finance, and Strategic Bank Management.

For more information, visit: https://www.fs.de/summeracademy.

This feature is sponsored by Frankfurt School.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EAR TO THE GROUND

Seeking Efficiencies of Scale in Tech…by Looking Back 10 Years

I spent some time this month looking back at my columns from 10 years ago. We're reprinting much of the one on technology sharing within Germany's Sparkassen banking network because it resonates with a major ongoing challenge in microfinance. In January, the Financial Access Initiative published some research I conducted for the organization on the state of digitization among MFIs in Central America. The results dovetail with an idea I have been pondering for at least 10 years (as you will see below): there are myriad opportunities for institutions to join forces to cover the high upfront costs of technology in order to better serve customers with products such as savings and remittances. This can keep larger players with deep pockets - and less concern for clients' well-being - from monopolizing this market, which is meant to help, not just be extractive.

Lightly edited from my column (then called "Field Notes") published in the May 2013 issue of this newspaper: Sparkassen is a German network of 423 savings banks with a total of 15,000 branches, 250,000 staff members and revenues exceeding the equivalent of USD 1.4 trillion countrywide. Each of the banks is owned by a municipality - though all are run by professional managers - and each is restricted from operating outside its municipality.

Can a group of smaller banks be more competitive than one larger bank? There is reason to suspect so. Niclaus Bergmann, the managing director of the network, told me that the aggregated cost/income ratio of Sparkassen is among the lowest in the country: 62 percent, compared with 85 to 88 percent at its big-bank competitors.

So how does the network keep costs low and income high? The first element is scale. Reaching scale both in savings and lending brings revenue, and Sparkassen's client base of 50 million (in a country of 81 million people) is impressive. Germany's relative wealth is a clear factor, too. It is also important to note that revenues from Sparkassen's brick-and-mortar banking are more stable and - in years of turmoil in financial markets - may offer a stronger revenue base than many activities of large commercial banks, such as investment banking.

But what of costs? Sparkassen has invested in various joint platforms to benefit its members: most notably a joint IT platform, which reduces costs immensely. This platform, of course, has implications for products. One common IT platform cannot adapt to differing product portfolios from 423 institutions. Products, as a result, have become quite standardized, which is fine, since the banks don't compete against each other. Perhaps it would be fine even if they did, since developed-country banks compete more on service than they do on products. Other cost savings come from joint risk management functions, which are handled at the regional level, although each bank retains control over its own risk taking. Staff training also is consolidated at regional training centers.

Let's imagine for a minute that the many small MFIs in a country such as Mexico were to defray the high cost of training by sharing this cost. Or what if, in a region such as Central America, which is characterized by small institutions, MFIs formed networks to share joint IT platforms? Would costs be cut? How likely is it that the MFIs could leave their competitive concerns aside to cut expenses? I suspect we will find out over time as telecoms and other non-bank alternatives start to encroach on MFIs' territory, pushing them to adapt or leave their ambitions behind.

About the Author: Ms Barbara Magnoni is President of EA Consultants, a development consulting firm based in New York. She has more than 30 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.

PAPER WRAP-UPS

Financial Inclusion in Niger: Challenges and Opportunities

By Yoro Diallo, Arsène Kaho and Can Sever; published by the International Monetary Fund; January 2023; 14 pages; available at https://www.elibrary.imf.org/view/journals/002/2023/029/article-A004-en.xml

This paper examines the inclusivity of financial services in Niger. The data examined indicate that Niger is behind other countries in the West African Economic and Monetary Union (WAEMU) in terms of access to financial services. Only 14 percent of the adult population of Niger accesses and uses formal financial services, while the WAEMU country closest to Niger in terms of this metric is Mali, in which 55 percent of the populace is financially included.

The authors highlight the contraction of Niger's microcredit market as key in explaining the population's low utilization of financial services. Microloans were used by 11 percent of the population in 2015 but only by 5 percent by 2021. Another factor is the gender gap; data from the World Bank indicate 11 percent of women in Niger have a bank account, while 20 percent of men do. Looking forward…*

The Relationship Between Financial and Social Performances in Microfinance: Insights from the Provision of Agricultural Loans in Cambodia

By Tristan Caballero-Montes; published in Savings and Development*; February 2023; 11 pages; available at https://savingsanddevelopment.scholasticahq.com/article/56673-the-relationship-between-financial-and-social-performances-in-microfinance-insights-from-the-provision-of-agricultural-loans-in-cambodia*

In the context of agricultural lending in Cambodia, Dr Caballero-Montes assesses the extent to which microfinance institutions (MFIs) are able to pursue both financial and social…*

Impacts of Microcredit Access on Climate Change Adaptation Strategies Adoption and Rice Yield in Kwara State, Nigeria

By Adejoke Yewande Bakare, Ayodeji Sunday Ogunleye and Ayodeji Damilola Kehinde; forthcoming in World Development Sustainability*; June 2023; 18 pages; available at https://www.sciencedirect.com/science/article/pii/S2772655X2300006X*

Data collected during 2021 from 320 rice farmers indicate that those with access to microcredit adopt more climate change adaptation strategies than those without such access: an average of approximately seven strategies versus four strategies, respectively. The study also found that membership in farmers'…*

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