MicroCapital Monitor
ON MICROFINANCE & OTHER FORMS OF IMPACT INVESTING

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MICROCAPITAL BRIEFS | TOP STORIES

Imkon of Uzbekistan Nets Convertible Debt from BOPA

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Paywatch, Visa Expanding Early Wage Access, Payments in Asia

Paywatch, a provider of earlier access to salaries in Asia, recently entered an agreement with US-based financial technology firm Visa to expand its geographic range as well as the menu of payment and financial education services it provides, particularly Southeast Asia. Paywatch contracts with employers and banks to offer "earned wage access," giving employees the ability to withdraw their accrued wages before the end of the payroll cycle, including via automated teller machines for USD 0.21 per transaction. The firm was founded in South Korea in 2022 but has since relocated its headquarters to Malaysia. In addition to these countries, Paywatch operates in Hong Kong and is in the process of rolling out services in Indonesia and the Philippines. The firm has raised a total of USD 14 million, largely from US-based venture capital firm Third Prime. July 24. 2023

CEB, EU Expand Roma Housing Microfinance Program to Bulgaria

The multilateral Council of Europe Development Bank and two EU institutions, the European Parliament and the European Commission, recently launched the Housing and Empowerment for Roma (HERO) program in Bulgaria. As part of HERO, Tokuda Bank, which is based in the city of Sofia, will provide 200 members of the Roma community with financial literacy training and microloans totaling the equivalent of USD 550,000. The purpose of the loans is to fund materials for home improvement. Three Bulgarian NGOs will support the borrowers with training in how to perform home upgrades as well as employment coaching: the local affiliate of Habitat for Humanity, a US-based NGO that seeks to improve housing quality, and two organizations that focus on serving the Roma population, Integro Association and the Trust for Social Achievement. Tomas Zdechovsky, a Member of the European Parliament, stated, "We started HERO as a pilot project in the Slovak Republic and Romania. The project proved to be successful in giving Roma people the foundations to start a new life.… We will not stop in Bulgaria, and I hope that HERO will become EU-wide." July 24. 2023

RFD Members in Ecuador to Evaluate Extent of Gender Bias

Red de Instituciones Financieras de Desarrollo (RFD), a network of 53 for-profit and NGO financial services providers (FSPs) in Ecuador, recently agreed to partner with IDB Invest, a member of the Inter-American Development Bank (IDB) Group, to offer RFD members advisory services relating to boosting their lending to female-led micro-, small and medium-sized enterprises. RFD will distribute an online survey designed by the IDB Group to address gender disparities by measuring: (1) direct and indirect gender biases of FSP staff; (2) the probability of employees' behavior being influenced by…*

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NEWS FROM AFRICA

EIB Lending $22m to Sahanala for Farms, Fisheries in Madagascar

The EU's European Investment Bank recently agreed to loan the equivalent of USD 22 million to Sahanala, a farmer-owned social enterprise in Madagascar, to fund half of a project to: (1) mechanize farms to increase agricultural yields; (2) develop enterprises that process grains, oils and animal feed for domestic sales; and (3) establish a central refrigerated facility and satellite ice stations to help fishers get better prices for their catch both within Madagascar and via international sales. The program includes technical assistance to help producers conserve natural resources, such as by conforming to the requirements of the Marine Stewardship Council. Among the goals of the project are to increase producers' incomes, create 1,500 jobs, reduce the country's reliance on food imports, support women's leadership, and boost food security and financial inclusion. Sahanala CEO Serge Rajaobelina said, "In line with its raison d'être, Sahanala and its partners are empowering Malagasy farmers to improve their living conditions in a sustainable manner by enabling them to sell their products at a fair price, by respecting their know-how, and by encouraging them to do their bit for local development and for the environment. Sahanala is owned by farmers - they are the ones deciding the company's strategy." July 26. 2023

FSD Africa Issues Convertible Loan to Africa Climate Ventures

Africa Climate Ventures (ACV), a Rwanda-based venture fund that invests in "green" companies across Africa, recently borrowed the equivalent of USD 1.1 million in the form of a convertible loan from Financial Sector Deepening (FSD) Africa Investments, an affiliate of the Kenya-based NGO FSD Africa. FSD Africa Investments is supporting the loan with a donation of USD 80,000 intended to help ACV begin financing carbon credits and recruit additional investors. ACV invests in early-stage companies with "under-exploited carbon potential." The entity has invested in two such startups and plans to close its first funding round in early 2024. July 25. 2023

Bankingly, Woodcore Partner to Help FSPs in Africa to Offer DFS

Bankingly, a Uruguay-based company that helps smaller financial services providers (FSPs) deliver digital services, and Woodcore, a provider of core banking software that has offices in Nigeria and the US, recently entered a partnership to help microfinance institutions and other FSPs in Africa add digital financial services to their product menus. Among the goals is to help the FSPs "improve operational efficiency and boost customer satisfaction and engagement." Bankingly is a financial technology company that offers software-as-a-service establishing digital channels for small and medium-sized FSPs to reach their customers with the aim of providing "financial health and inclusion for all." The company enables services including "web and mobile banking, conversational banking, digital onboarding and loan origination, [an] admin portal, and fraud prevention." Established in 2021, Woodcore is a developer of cloud-based software for FSPs in Africa. Its systems enable the management of FSP portfolios totaling USD 65 million, spanning 300,000 loan accounts and 420,000 deposit accounts. July 21. 2023

24 Startups in Kenya, Nigeria Joining EdTech Fellowship

Groups of 12 educational technology (edtech) startups in both Kenya and Nigeria recently joined the Mastercard Foundation EdTech Fellowship program, which promotes "technology in learning and teaching to benefit learners, education and edtech innovators" in Africa. The program provides funding as well as "skills development, coaching and mentorship, bespoke market research, and market access" to help participants address challenges such as boosting product quality and acquiring industry certifications. The primary phase of the program lasts seven months, with "light touch" support continuing thereafter. The foundation previously accepted 12 edtechs into a cohort in South Africa, and additional application windows are scheduled to open beginning in late 2023 for rounds of the program to take place in 2024. The Kenyan inductees are listed at https://www.edugab.com/kenya/ihub-selects-12-edtech-startups-for-mastercard-edtech-fellowship-programme/, and those from Nigeria are listed at https://cchub.africa/cchub-announces-its-2023-nigerian-cohort-for-the-mastercard-foundation-edtech-fellowship-program/. July 18. 2023

Uganda's Patasente Ag Trading Platform Nets Credit Line

Verdant Capital, a Mauritius-based corporate finance firm, recently facilitated a revolving credit line for Patasente, a Ugandan firm that operates a digital trading platform for actors in agricultural value chains. The facility will fund "invoice discounting and supplier financing" via the platform, which helps 3,000 farmers, 100 warehouses and 20 processors to optimize pricing, invoice customers, transfer money and borrow working capital. The size of the credit line and the identities of its funders remain confidential. Patasente, whose name can be translated from Swahili as "Get Money," was established in 2016. July 17. 2023

Invest International Places $11m in uMunthu II for SMEs in Africa

Netherlands-based Invest International recently committed the equivalent of USD 11 million to uMunthu II, an equity fund of Netherlands-based Goodwell Investments and Nigeria-based Alitheia Capital. The goal of uMunthu II is to generate market-rate returns by supporting the international expansion of "fast-growing" small and medium-sized enterprises (SMEs) in Africa in an effort to improve access for low-income consumers "to essential products and services, such as food, energy, transport, education, or mobile payment and savings products." Eelco Benink, Head of Equity for Invest International, said this investment by his firm "extends our reach in emerging markets and links it directly to growth opportunities for the Dutch business community in the agro-food sector and other sectors." Invest International was established in 2021 and seeks to invest in both funds and SMEs in a manner that supports progress toward the UN Sustainable Development Goals. The uMunthu II fund is the successor to uMunthu I, which reportedly created 2,000 jobs through investments in 20 portfolio companies serving 322 million people in 36 countries. Goodwell, which was founded in 2006, has offices in Kenya, Nigeria and South Africa and focuses on impact investing in regions such as Africa and India. In its efforts to meet "business, social and environmental needs," it holds placements in 36 companies that serve 30 million customers in 72 countries. Alitheia Capital was founded in 2007 and manages four funds, through which the firm seeks to uplift SMEs. July 10. 2023 *Continued on Page 7*

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SPECIAL FEATURE

Let's Channel Climate Finance to Those on the Climate Front

Climate finance is hot, and rightfully so. The threat is real, and the needs are towering. The good news is that there are investible solutions out there. As with any new field, the development of climate finance has been accompanied by a range of standards, taxonomies and metrics. For climate mitigation, a clear consensus seems to be emerging on emissions reductions as the preferred metric to be tracked by investors, however the jury is still out on the ideal standards for tracking the impact of climate adaptation, and it is only starting to deliberate on resilience projects.

This difference in the pace of development of climate mitigation and adaptation standards has led to an unintended consequence: that the story of climate finance today is the story of climate mitigation. Less than 10 percent of all climate finance today goes to adaptation and resilience. This happens not because mitigation is more important than adaptation, but because the impact of mitigation projects is easier to track than that of adaptation projects. Simply put: what gets measured, gets managed.

The problem with too narrow of a focus on climate mitigation is that it does not take into account the fact that climate change is a challenge of livelihoods and social justice as much as it is an environmental challenge, especially for low-income populations and other vulnerable communities in the global South. Because climate change is not gender neutral, applying a gender (or JEDI for Justice, Equity, Diversity) approach to investments can increase the effectiveness of efforts to combat climate change and accelerate adaptive capacity. And vice versa: because climate change disproportionately impacts the lives of socially vulnerable people, investing with a JEDI lens can only work if it includes a holistic climate focus as a centrepiece.

Scaling up and mainstreaming climate adaptation and resilience is critical to ensuring that communities most vulnerable to climate change are not left behind. A smallholder farmer in South America or Africa would benefit, for example, from climate-resilient seeds, a smart irrigation system, soil rehabilitation or an emergency shelter for livestock. What needs to be done to channel more funding toward a more holistic approach to climate change?

Balancing standardization versus innovation

More standardization would lure more investments to climate adaptation and resilience solutions, but this can be an uphill battle.

The lack of clear, evidence-based definitions of resilience investments (e.g., healthcare, housing, gender equity, food security, employment, water) is a barrier for investors. While standards could boost credibility, they simultaneously risk inhibiting innovation, which is much needed given the high level of unpredictability about future climate change impacts. The underlying vulnerability of people and ecosystems as well as their ability to recover from climate shocks depends on many factors (e.g., physical, social, ecological, financial).

On the capital demand-side, the additional costs linked to demonstrating environmental impact in a rapidly changing and increasingly regulated context can be a stumbling block. Not all companies can afford to issue such instruments, undergo periodic external audits, deploy sizeable eligible portfolios and report in alignment with regulatory taxonomies. Therefore high transaction costs are seen as one of the key factors deterring firms from issuing green bonds.

Overcoming these roadblocks requires a more inclusive approach in building a framework for climate adaptation and resilience.

Three steps toward a "fit-for-purpose" approach

An inclusive, bottom-up approach needs to draw upon an understanding of the realities of communities most threatened by changing climate conditions. The poor and marginalized in emerging countries - who have limited economic and institutional capacities - are the most vulnerable to these changes, so the proportionality principle should be applied to create "fit-for-purpose" standards. Investors can put this in practice through three steps.

First, it is imperative to start with a detailed diagnosis of the underlying assets. It is important to understand how partner financial institutions and their clients are affected by climate change and how they contribute to climate mitigation, adaptation and resilience solutions. Such an investment approach emphasizes the importance of financial sustainability and recognises that investments in climate resilience, mitigation and adaptation can be mutually reinforcing and socially beneficial. Several efforts and initiatives in the impact investing space aim to better understand the social dimension of climate resilience, such as the resilience index of 60 Decibels.

Second, it is important to develop fit-for-purpose metrics that go beyond emissions reductions and suit the nature of the asset. For Incofin's recently launched Water Access Acceleration Fund, for example, Incofin does not just track one metric, but a whole range, including the number of water businesses implementing a climate resilience strategy, the number of these businesses using carbon credits, volume of water reused, efficiency of water use and tonnes of CO_2 emissions averted. These metrics are tailored to the chosen sector (in this case, water) and provide clear guidance for tracking the climate-related impact of the investments.

Finally, take the reality of the specific market into account. Standardized metrics and rigid frameworks developed in the global North sometimes fail to account for the diverse and specific needs of end clients in the South. A comprehensive, bottom-up approach must complement rigorous quantitative data with qualitative insights gained on the ground, with a human-centered lens that accounts for the needs and demands of end clients. The physical presence of an investment team in the countries in which investments are made enables a flow of feedback that allows for the development of products and metrics that take into account the unique needs of the local market.

While the inclusive finance sector widely acknowledges the climate adaptation gap in low-income countries, there is an urgent need to accelerate the flow of financial resources to support low-income populations at the front line of climate change. Failure to do so will lead to further social and financial exclusion. To avoid this, it is imperative to break silos and develop a holistic approach that recognizes that investments in climate mitigation, adaptation and resilience reinforce one another and create positive environmental outcomes, as well as promoting gender empowerment and other social benefits. The sector can play a key role in doing this at scale by drawing on more than two decades of experience in developing, tracking and delivering impact in a sustainable manner.

This article is by Noémie Renier, Partner and Head of Debt for Financial Institutions at Incofin Investment Management, and Kapil Kanungo, Incofin's Private Equity and Fund Development Manager.

Incofin, the sponsor of this feature, is a leading impact investor headquartered in Belgium that has over USD 1.4 billion of private debt and private equity assets under management.

SPECIAL FEATURE

The Impact of Digital Financial Inclusion on Global Development

In September 2015, every UN member country endorsed the 2030 Agenda for Sustainable Development, which comprises 17 target areas known as the Sustainable Development Goals (SDGs).

After falling from 10.1 percent in 2015 to 8.6 percent in 2018, the global poverty rate increased to 9.2 percent in 2020 because of the COVID-19 pandemic, reversing a long trend of poverty reduction. Other headwinds such as armed conflicts, rising inflation, food insecurity, and political and social unrest also are affecting global development, and the UN estimates that these crises combined to cause an additional 95 million people to live in extreme poverty in 2022.

On the other hand, the digital revolution has made many people's lives easier with access to mobile phones, the internet and other tools. Digital financial inclusion (DFI) and its innovative business models have had a particularly disruptive effect, bolstering financial inclusion worldwide.

Impact on Sustainable Development Goals

DFI is enabling all types of pathways to advance the achievement of the SDGs, strengthening the link between financial inclusion and development. In 2016, CGAP and the UN Secretary General's Special Advocate (UNSGSA) for Inclusive Finance for Development determined that DFI furthered progress toward 11 SDGs. In 2018, UNSGSA published new research showing that a total of 13 goals were positively influenced. In 2023, the research was updated again, with more evidence showing encouraging signs of progress.

Regarding SDG 1, "End poverty in all its forms everywhere," DFI has helped the most vulnerable populations to channel cash flows and build resilience when facing tough situations. Both social protection transfers and remittances received through mobile devices have helped stabilize income streams. Outstanding examples include: Kenya, where the use of mobile money lifted 1 million households (2 percent of the population) out of extreme poverty from 2008 to 2014; Brazil, where the COVID-19 Emergency Program supported microentrepreneurs, informal workers and unemployed citizens by setting up digital savings accounts that reached more than 68 million participants, including 5 million microenterprises; and Colombia, where the Ingreso Solidario program provided financial support via bank accounts and mobile wallets to 4 million low-income households to help them cope with the COVID-19 crisis.

For SDG 2, "End hunger, achieve food security and improved nutrition and promote sustainable agriculture," DFI has improved the efficiency of agricultural value chains and offered new opportunities to smallholder farmers to use financial products to bolster resilience to shocks. Noteworthy examples include: East Africa, where farmers who accessed agricultural microinsurance through mobile devices between 2009 and 2012 earned 16 percent more than their uninsured peers; Uganda, where the use of mobile money accounts increased food security in rural households by 45 percent; and Lebanon, where digital transfers to 87,000 Syrian refugees via payment cards increased food and water expenditures by USD 25 per month in comparison to non-recipients.

For SDG 3, "Ensure healthy lives and promote well-being for all at all ages," DFI makes families less vulnerable to major healthcare expenditures by improving the reach, effectiveness and management of health services, including the efficiency of wage payments to healthcare workers. Remarkable cases include: Pakistan, where mobile money-enabled incentives increased the efficiency of a tuberculosis program by mobilizing a wider population of screeners and improving availability of data, resulting in a 90-percent increase in patient treatment adherence and a 300-percent increase in detection over one year; Kenya, where M-TIBA, a healthcare financing platform, onboarded 4.7 million users and over 3,000 healthcare providers between 2016 and 2021, enabling the efficient management of more than 1 million treatment claims each year; and Tanzania, where Jammi, a mobile health microinsurance product, reduced insurance administration costs by 95 percent while enabling access to low-cost insurance via USSD, starting at USD 1 per month.

Given that researchers also have found ample evidence that DFI has helped with progress toward 10 other SDGs, it's fair to claim that DFI drives inclusive growth and advances global development.

India's UPI

Another impressive example of the DFI-development link is India, where the local instant payment system (Unified Payments Interface or UPI) has revolutionized commerce. The model builds on Aadhaar, considered the world's largest biometric ID system. (As of 2021, 1.3 billion adults - 99 percent of India's population - held Aadhaar cards.) UPI relies on a QR code massively used by people and merchants, offering services from hundreds of banks and dozens of mobile payment apps. The scan-to-pay system makes financial transactions convenient and low in cost. (No transaction fees are charged.) In 2023, the system reached the milestone of carrying out 8 billion transactions worth USD 200 billion for 300 million individuals and 50 million merchants. In 2022, the number of digital transactions in India exceeded the combined number in four big economies: the US, the UK, Germany and France.

Developing high-level, innovative skills

Bearing in mind the importance of the SDGs, Frankfurt School aims to support financial market participants - both practitioners and policymakers - in addressing current challenges and thriving through new opportunities facilitated by digital and inclusive finance by way of its Summer Academy and the upcoming online courses, Certified Expert in Financial Inclusion Policy and Certified Expert in Digital Finance.

This feature was written by Ricardo Estrada, an expert in inclusive and digital finance; its publication in the MicroCapital Monitor *is sponsored by Frankfurt School of Finance and Management.*

NEWS FROM AFRICA (continued)

Verdant Lending $9m to LOLC to Expand in Africa

The German subsidiary of Verdant Capital recently agreed to lend USD 9 million from the Verdant Capital Hybrid Fund to support financial services providers in Africa that are controlled by Sri Lanka's Lanka Orix Leasing Company (LOLC) Holdings. These institutions, which serve Democratic Republic of Congo, Egypt, Ghana, Kenya, Malawi, Nigeria, Tanzania, Zambia and Zimbabwe, plan to use the proceeds to strengthen their capital bases and increase their lending to micro-, small and medium-sized enterprises. A portion of the funds also may be used for LOLC to expand into additional countries. The goals of the wholesale loan include to boost "financial inclusion, employment creation, income generation and economic growth," and Verdant Capital has agreed to support the effort with technical assistance funding. LOLC Holdings, which is a unit of the Japanese conglomerate Orix, has operations in a range of industries in Africa, Asia and Australia. The organization was founded in 1980 and reported 12-month profits of USD 264 million during 2022, ending the year with total assets of USD 4.7 billion. July 10. 2023

Reefy Borrows $6.5m from EBRD for Youth-led MSMEs in Egypt

Reefy Microfinance Enterprise Services, an Egypt-based institution, recently agreed to accept a loan in local currency equivalent to USD 6.5 million from the UK-based European Bank for Reconstruction and Development (EBRD). The loan is part of EBRD's Youth in Business program, which supports "youth-owned and youth-led private micro-, small and medium-sized enterprises… particularly in remote areas."

Among Reefy's products are loans designed for women borrowers as well as for funding medical equipment, home improvement and vehicles. Founded in 2007, the institution has 154 branches and an outstanding portfolio of USD 93 million. The company is controlled by the Egyptian financial services group CI Capital. July 3. 2023

I&M, Spenn Boost Access Via App to Banks Across Rwanda

Norway's Spenn Technology recently expanded its partnership with Investments & Mortgages (I&M) Bank Rwanda to allow users of the Spenn mobile application to send money to any financial services provider in Rwanda, including competing banks and mobile money services. The app's other features include the ability to make purchases, borrow, save and pay bills without need for a bank account. The savings product pays interest at a rate of 4 percent per year. Spenn also offers merchant services. In addition to Rwanda, Spenn is available in Tanzania and Zambia. I&M Bank Rwanda is a unit of Kenya's I&M Bank, which also operates in Mauritius, Tanzania and Uganda. Spenn's ongoing relationship with I&M Bank Rwanda reportedly has brought hundreds of thousands of customers to the bank. Founded in 2015, Spenn leverages blockchain technology to offer financial services and news via subsidiaries in seven countries in Europe and Africa plus an affiliate in the Philippines. The firm has 40,000 agents and 1.3 million customers who perform 6 million monthly transactions. July 3. 2023

First City Monument of Nigeria Financing Assets Costing $600+

First City Monument Bank (FCMB) of Nigeria has begun offering local-currency loans worth USD 600 to USD 3,600 - with terms of one year to four years - to finance purchases of business equipment and machinery. Founded in Nigeria in 1982, FCMB offers savings, loans, payment cards, insurance, letters of credit and investment services. Its loan offerings include products designed for schools and women-owned businesses as well as access to government-subsidized programs. The bank serves 8 million customers online and via 205 branches across Nigeria, plus one in the UK. FCMB reports assets of USD 2.6 billion, deposits of USD 2.6 billion and loans of USD 1.6 billion. It is a unit of the FCMB Group, whose other members offer services such as microfinance, asset management and securities trading. June 29. 2023