Incofin-managed Funds Buying $10m in Equity in Progresemos of Mexico
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BlueOrchard Arranges $20m Loan to FINCA Impact
FINCA Impact Finance, a network of microfinance institutions (MFIs) in 20 countries, recently agreed to accept a three-year loan of USD 20 million arranged by BlueOrchard, a commercial impact-investment manager based in Switzerland. The funding is sourced from the BlueOrchard Microfinance Fund and the Microfinance Enhancement Facility, whose investors include the World Bank Group’s International Finance Corporation and development banks of the German and Austrian governments. FINCA Impact will use the loan proceeds to manage the liquidity of its MFIs, which provide digital credit, payment services, money transfers and insurance to 2 million customers. FINCA Impact is majority-held by FINCA International, a US-based nonprofit that primarily serves poor women in the Americas, Eurasia and sub-Saharan Africa. October 22, 2018

MFIs in India Gain Tool to Monitor Over-indebtedness
Sa-Dhan, an association of 190 financial services providers in India, and the Smart Campaign of US-based NGO Accion recently announced the launch of an online monitoring tool intended to reduce over-indebtedness and otherwise increase consumer protection in India’s microfinance industry. Sa-Dhan will hold workshops around the country to help its members use the tool to identify potentially oversaturated markets and monitor the “risk of non-compliance to India’s microfinance Code of Conduct.” Sa-Dhan is recognized by the Reserve Bank of India as a self-regulatory organization, which gives Sa-Dhan the power to monitor its member microfinance providers, including the responsibility to see that they meet various standards for client protection. The organization’s members serve 29 million customers in 33 states and hold an aggregate gross loan portfolio equivalent to USD 6.8 billion. October 9, 2018

Kiva, UN Using Blockchain for Digital ID System in Sierra Leone
President Julius Maada Bio of Sierra Leone recently signed a memorandum of understanding under which US-based nonprofit Kiva, the UN Capital Development Fund and the UN Development Programme have agreed to create a digital identification (ID) system that includes all 7 million citizens of Sierra Leone. Each person will get an ID number that formal and informal financial institutions can use to track credit histories, making it easier for individuals to access loans. The system will be based on blockchain, using distributed ledger technology that “allows simultaneous access, validation and record updating in an immutable manner across a [computer] network spread across multiple entities or locations.” Kiva, which pools funds from individuals to on-lend to microlenders, reports total assets of USD 41 million. October 4, 2018

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MICROCAPITAL BRIEFS

NMI Loans $3m to Musoni for Cashless Lending in Kenya
The Nordic Microfinance Initiative (NMI), a Norway-based public-private partnership, recently agreed to loan USD 3 million to Musoni Microfinance, a financial technology (fintech) company founded in 2010, to help it expand its cashless services and other “technology driven financial solutions” in Kenya. Musoni Microfinance serves 30,000 clients in the country, lending in amounts equivalent to USD 5 to USD 30,000, with monthly interest rates of 1.67 percent for individual loans and 1.83 percent for group loans. Musoni Investments, which is based in the Netherlands, holds stakes in Musoni Microfinance as well as Musoni Services, which provides software for managing microfinance institutions to 93 organizations in Africa and Asia. October 29, 2018

Grameen Credit Agricole Lends $2m in Ghana, Senegal
The Grameen Credit Agricole (GCA) Foundation, whose head office is in Luxembourg, recently informed MicroCapital that it has issued the following loans: a three-year loan in local currency equivalent to USD 1.15 million in favor of Sinapi Aba Trust of Ghana and a four-year loan equivalent to USD 673,000 in favor of Coopérative Autonome pour le Renforcement des Initiatives Économiques par la Micro Finance (CAURIE-MF) of Senegal. Sinapi Aba Trust provides financial services through Sinapi Aba Savings & Loans (SASL) with the aim of creating development and income-generation opportunities for people with low incomes. Of SASL’s lending, 80 percent goes to women. Sinapi Aba Trust, which reports total assets of USD 34 million, also provides services such as “capacity building training, youth development programmes, research and development, corporate relations, project management, and educational programmes.” CAURIE-MF has total assets of USD 19 million. Of its 80,000 borrowers, 97 percent are women and most live in rural areas. October 22 and October 26, 2018

ICD Lending for Shariah Finance in Uzbekistan
Two commercial banks in Uzbekistan, Bank Asaka and Asia Alliance Bank, recently agreed to open credit lines from the Islamic Corporation for the Development of the Private Sector (ICD), a member of the Saudi Arabia-based Islamic Development Bank, to support lending that follows Islamic law, also known as Shariah. Islamic law prohibits traditional interest charges, which are often replaced with profit-sharing. While the maximum ICD will lend to Asia Alliance Bank has not yet been established, Asaka has been authorized to borrow…

BIO Loans XacLeasing $5m for SME Leasing in Mongolia
The government-backed Belgian Investment Company for Developing Countries (BIO) recently disbursed a loan to XacLeasing, a subsidiary of Mongolia-based TenGer Financial Group, in the amount of USD 5 million to expand its financing for small and medium-sized enterprises (SMEs) to lease vehicles as well as equipment for medical services, agriculture, manufacturing, mining and road construction. The largest of TenGer Financial’s members is XacBank, which reports USD 1.3 billion in total assets. October 15, 2018

Yoma Lending Easy $5m to Reach 28k Borrowers in Myanmar
Yoma Bank of Myanmar recently agreed to lend the equivalent of USD 5 million to Easy Microfinance of Myanmar to enable the microfinance institution (MFI) to extend its lending to an additional 28,000 borrowers, primarily owners of micro- and small businesses. Easy Microfinance provides loans ranging in size from USD 630 to USD 6,300 to small businesses and individuals who do not have access to conventional financing methods. Easy Microfinance, a for-profit MFI established in 2016, serves approximately 70,000 clients through 12 branches. As of 2018, it has a loan portfolio of USD 12.6 million. October 17, 2018

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Over the last decade and a half, Inclusive Financial Institutions have vehicles” or MIVs.

A specialist investor base is typically described as “microfinance investment vehicles” or MIVs. This global microfinance asset class totals USD 15.8 billion, approximately eight times larger than it was 10 years earlier.

Inclusive Financial Institutions are active in segments such as

traditional microfinance (microloans for individual traders and other microentrepreneurs), simple savings products, lending to small and medium-sized enterprises (SMEs, often described as the “missing middle”), housing finance, education finance, health finance and agri-value chain financing. Some of these lenders specialize in asset classes that disproportionately appeal to SMEs, e.g. leasing, invoice discounting and merchant credit advances. Fintechs can be considered Inclusive Financial Institutions, especially if their core technology is used to reduce transaction costs and enable services such as borrowing, savings or payments on a micro scale. The term “microfinance” is often used as a catch-all to describe the full range of such institutions, and the global specialist investor base is typically described as “microfinance investment vehicles” or MIVs.

In recent years, the Inclusive Financial Institution sector has grown significantly in Africa and elsewhere, driven in part by growth in the global specialist investor base supporting the sector, and in part due to the growth of local debt markets. In Africa, this growth has stretched the equity capital bases of many institutions - and of the sector as a whole - due to the narrow range of equity and equity-like capital sources and instruments available to these institutions.

One solution to this problem is hybrid capital, an intermediate capital type that sits between debt and equity while meeting the regulatory capital requirements of financial institutions. In Africa, hybrid capital can provide funding that can be leveraged by both specialist global (debt) investors and local debt investors, thereby achieving a multiplier of developmental impact: “crowding-in.”

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The term “Inclusive Financial Institution” describes financial institutions with broader developmental impact than traditional banks, including those that serve previously unbanked populations and smaller companies. In contrast, the impact of African commercial banks on broad-based economic development can be narrow, due to their tendency to focus on multinationals and the largest local corporates as well as investing in government bonds and bills.

Inclusive Financial Institutions are active in segments such as “traditional microfinance” (microloans for individual traders and other microentrepreneurs), simple savings products, lending to small and medium-sized enterprises (SMEs, often described as the “missing middle”), housing finance, education finance, health finance and agri-value chain financing. Some of these lenders specialize in asset classes that disproportionately appeal to SMEs, e.g. leasing, invoice discounting and merchant credit advances. Fintechs can be considered Inclusive Financial Institutions, especially if their core technology is used to reduce transaction costs and enable services such as borrowing, savings or payments on a micro scale. The term “microfinance” is often used as a catch-all to describe the full range of such institutions, and the global specialist investor base is typically described as “microfinance investment vehicles” or MIVs.

The community of MIVs has established itself as a niche asset class in the global investment universe. The growth of this asset class is a testament to the strength of its financial performance, including a positive return every year since 2006, coupled with much lower volatility than other fixed-income benchmarks such as the JPMorgan Global Bond Index.

The growth of MIVs has been matched in many markets by growth in local bond markets. Institutions such as afb in Ghana and Madison Finance in Zambia, both of which first issued bonds in 2015, are blazing a trail for other Inclusive Financial Institutions to follow in their home markets.

Meanwhile, this growth in debt funding has exacerbated the imbalance between the availability of equity and debt capital. Another factor is that many IPO markets in Africa are highly illiquid. Most Inclusive Financial Institutions are too small to tap the IPO markets effectively, i.e. to offer an IPO large enough to create meaningful liquidity in the secondary market. In this respect, the contrast between Africa and other markets is stark. According to Caspian Impact Adviser, a leading Indian MIV, 72 Indian microfinance institutions have launched IPOs since 2011, compared with only 17 on the African continent.

Hybrid capital includes a range of instruments - from subordinated debt to preferred equity - which are popular in the banking sector globally, but rarely available to financial institutions in Africa. Hybrid capital instruments enable regulatory capital to be tiered according to factors such as tenor, degree of subordination and loss-absorption capacity. They also allow for fixed redemption, exit and other contractual terms, which can help balance the requirements of regulators with the needs of investors. Finally, and perhaps most importantly, hybrid capital can bring into play new investors that otherwise might not have invested in the sector.

Typical Inclusive Financial Institutions leverage their regulatory capital four or five times with senior debt. In other words, their regulatory capital typically represents 20 to 25 percent of their total assets. Thus, an investment of USD 100 into hybrid capital instruments can facilitate a loan of USD 400 to USD 500 to an SME, a school, or a family buying a home.

Thus, an investment of USD 100 into hybrid capital instruments can facilitate a loan of USD 400 to USD 500 to an SME, a school, or a family buying a home.

Verdant Capital recently launched the Verdant Capital Hybrid Fund, which will invest hybrid capital in Inclusive Financial Institutions in Africa. The fund is a limited partnership, established under the laws of Mauritius, with a 12-year life and a targeted size of USD 80 million. The fund has secured initial approval for a commitment from its anchor investor, a leading European development finance institution. The Verdant Capital Hybrid Fund is scheduled to close in 2019.
SPECIAL REPORT

This vignette is the third in a sponsored series demonstrating the value of SAM (the French acronym for African Microfinance Week), a major conference dedicated to financial inclusion in Africa. The first three SAMs were held in Arusha, Tanzania, in 2013; Dakar, Senegal, in 2015; and Addis Ababa, Ethiopia, in 2017. The next SAM will take place in 2019 in a location to be announced soon!

The goal of SAM is to provide a unified platform for addressing issues facing microfinance in Africa by bringing together investors, microfinance institutions (MFIs), researchers, banks, networks, innovators, governments and other stakeholders.

The 2017 SAM hosted 700 participants from 58 (mostly African) countries, including representatives of 200 MFIs; 25 exhibitors at the Innovation Fair; and 26 investors who made 170 MFI contacts at the Investor’s Fair. The proceedings also included conference sessions presented by 60 speakers plus a menu of 20 training programs.

Growing Enterprises in Kenya from Micro- to Small to Medium-sized, With Help from SAM

Since ECLOF Kenya opened its doors in 1994, more and more of its clients - mostly group borrowers in rural areas - have been growing their businesses beyond the bounds of “micro.” Mary Munyiri, the CEO of the MFI, knew her organization had to find a way to grow with them. When she attended SAM in 2017, she benefited from sessions on topics such as “Challenges Facing Actors Financing SMEs” and “Key Players of SME Growth: Incubators, Accelerators and Business Angels.”

Ms Munyiri says, “During SAM, my understanding was enhanced regarding the fact that SMEs are price sensitive, and they also require longer loan terms compared with the shorter term products offered to smaller enterprises. This information was very useful when our organization was developing a loan product for this category of customers.”

Since then, ECLOF Kenya has been growing its SME portfolio. Ms Munyiri explains, “We have developed a product that is now able to take care of the customers that are upgrading from micro- and small enterprise to the SME level.” She adds, “The institution’s commitment is to start by growing its SME portfolio to 5 percent and thereafter sustaining it at about 10 percent.”

ECLOF Kenya has 44 service outlets and a portfolio equivalent to USD 11.9 million outstanding to 38,000 borrowers. Two percent of its portfolio is made up of individual loans, which have an average size of USD 3,557. The MFI is a member of Switzerland-based ECLOF International, a nonprofit network of 13 MFIs on four continents. The network was established in 1946 as the Ecumenical Church Loan Fund.

ADA, an NGO based in Luxembourg, co-organizes SAM every two years with the support of Luxembourg’s Ministry for Development Cooperation and Humanitarian Affairs. The SAM steering committee members are: ADA, Luxembourg’s Ministry of Foreign and European Affairs, the Microfinance African Institutions Network, and the African Rural and Agricultural Credit Association. The Fédération des Association Professionnelle des Systèmes Financiers Décentralisés de l’Union Economique et Monétaire Ouest Africaine is about to join the steering committee as well. We invite you to read more about SAM at http://www.microfinance-africa.org/.

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EAR TO THE GROUND

Digital Remittances: How to Keep the Promises of Price, Convenience and Transparency

Digital cross-border money transfers (remittances) promise to be cheaper, more convenient and more transparent - in terms of exchange rate, timing, etc - than their brick-and-mortar predecessors. Still, many migrants continue to wait in line to send cash remittances from old-fashioned storefronts. When sending money from the US to a family member in Latin America, there are many combinations of destination, payment method, channel and retrieval method. Of the 65 most common, 25 involve cash. It often looks like this: you are paid in cash, you walk the cash to a retail shop that offers financial services, it sends money to your family member via a well-known service provider and your family member retrieves the payment in cash.

The cost of sending money to Latin America has fallen significantly in the past few decades (even while regulation has increased). As a result, the profit margins of brick-and-mortar remittance companies are getting squeezed. Nevertheless, they persist. Why? The answer likely is volume.

This autumn, my company has been conducting a survey of 2,000 migrants to the US from Latin America and the Caribbean for the Inter-American Development Bank’s FOMIN. (In case you’re wondering, the surveys are completely anonymized.) While we don’t have the hard numbers yet, our perception is that many migrants still prefer to send money home in cash. Based on the wide range of reasons they cite for this choice, it seems there will be no easy way to turn it around.

For those who are paid in cash and don’t have bank accounts, switching to a digital service just for their remittance payments doesn’t make much sense. For migrants who receive checks, many check cashers offer remittance services, which makes for convenient one-stop shopping. Even those who have bank accounts may find it easier to go directly to a remittance operator rather than bringing their pay to their bank and then transferring part of it.

Convenience is just one of many factors. Some migrants tell us that they still don’t trust digital channels to follow through on delivering payments. Others are uncomfortable sharing their - or their family members’ - data with digital providers. In some cases, a family member may be telling the migrant how he or she prefers to receive the payment. Finally, there are some migrants who simply have become accustomed to traditional channels and have little appetite for change.

In the coming weeks, we will be quantifying these responses, and we look forward to using the data to look for some “easy wins” for digital financial service providers. However, I suspect that the answer is not so easy and that, instead, it will require the combined efforts of a broad range of stakeholders. Though this will involve quite a bit of coordination, it is essential to many of the new entrants that are betting on a digital strategy. The alternative - if the demand-side barriers are not tackled - is that more and more players dig in to the relatively small digital pie, leaving less money to be made, which means fewer incentives to offer quality products at attractive rates. This is just what I fear could reverse the promise of digital remittances to be cheaper, more convenient and more transparent.

About the Author: Ms Barbara Magnoni is President of EA Consultants, a development-consulting firm based in New York. She has 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]ea-global.com, or you may follow her on Twitter at BarbaraEA.
PAPER WRAP-UPS

By Nandini Harihareswara et al; published by Mobile Money for the People, a program of the UN Capital Development Fund; 2018; 32 pages; available at https://uncdf-cdn.azureedge.net/media-manager/89877

The rate of mobile-phone penetration in Zambia is 82 percent, and the rate of financial inclusion is 59 percent. The financial inclusion rates of men and women are 69 and 57 percent, respectively.

From 2014 to 2017, the percentage of people who have access to digital financial services in Zambia rose from 2 percent to 24 percent. The least tapped market segments include women and youth as well as men in rural areas. The country has 18 firms offering mobile money services, and the number of agents - which provide cash-in, cash-out and other services - grew 74 percent from 2014 to 2017, reaching 243 agents per 100,000 inhabitants.

Among the challenges that need…

Sub-Saharan Africa: “Digital Financial Services for Agriculture”

Although the potential mobile-money market in Africa is large, barriers remain, such as a lack of client training on product usage and a lack of client trust in the…

Informal Finance in Sierra Leone: Why and How it Fits into the Financial System

This paper outlines four theories for why the informal financial sector in Sierra Leone continues to be strong despite the innovations that have occurred in the country’s formal financial sector since the 1990s. Among these is the “imperfect information” theory, whereby channels specializing in different…

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