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Shanghai Commercial and Savings Bank Buys 80% Stake in Cambodia’s AMK
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Société Générale Borrowing $50m from EBRD for SMEs in Rural Lebanon
The European Bank for Reconstruction and Development, a UK-based multilateral institution, recently agreed to loan Société Générale de Banque au Liban (SGBL), a Lebanese bank, USD 50 million to support small and medium-sized enterprises in rural areas and another USD 50 million for firms involved in imports and exports. SGBL was founded in 1953 and has 92 branches in Cyprus, Jordan, Lebanon and UAE. It reports USD 21.5 billion in total assets, USD 16.5 billion in customer deposits and a gross loan portfolio of USD 4.9 billion. SGBL is a member of Société Générale, a financial services company headquartered in France that operates in 82 countries. September 24, 2018

FMO Arranges $15m in Debt for Solar Firm Kingo of Guatemala
Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden (FMO), a development bank 51-percent owned by the Dutch government, recently arranged a local-currency loan package valued at USD 15.5 million for Solesco Centroamérica, a Guatemalan solar-products company that primarily serves rural areas under the brand name Kingo. The seven-year loan package includes USD 5.5 million from the FMO-managed Infrastructure Development Fund, USD 5 million directly from FMO and USD 5 million from Dutch cooperative Oikocredit. Kingo plans to use the funds for the purchase and installation of solar panels as well as general organizational growth projected to help Kingo reach 250,000 new customers. Kingo CEO and co-founder Juan Fermín Rodriguez said, “Kingo’s aim goes beyond eliminating energy poverty, and involves playing a spearheading role in the development of the rising billion. This financing will help Kingo advance towards...positively impacting 1 million households by 2020.” Founded in 2013, Kingo allows its 300,000 customers to rent access to solar energy as needed, using codes purchased from local stores to enable access to energy on a daily, weekly or monthly basis. September 6, 2018

Georgia Caps Interest Rates at 50%
The National Bank of Georgia (NBG) recently set an interest-rate cap of 50 percent on loans and established limits on fees for late payment. Annual interest rates in Georgia reportedly ranged as high as 4,000 percent before 2017, when NBG capped bank and non-bank lending rates at 100 percent. Starting in 2019, lenders will be required to abide by maximum sizes for personal loans, which will vary depending on the individual’s income and the collateral pledged. An estimated 630,000 of the 3.7 million people in Georgia have debt they cannot repay. For example, one bank reportedly loaned USD 1,900 at an effective interest rate of 300 percent to a woman earning the equivalent of USD 58 per month. September 5, 2018

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**MICROCAPITAL BRIEFS**

**Nigeria’s Abian State Opening Microbank to Support Agriculture**

The government of the state of Abian, which is located in southeastern Nigeria, is planning to open a microfinance bank in October. The institution expects to offer “soft loans” in amounts equivalent to USD 55 to USD 1,375. The bank also will invest in a starch processing factory and participate in the Commercial Agricultural Scheme, a government program encouraging farmers to utilize untapped land with the aim of reducing food prices, selling food abroad and reducing inflation. September 26, 2018

**Oradian Sells Software-as-a-service Instafin in Kenya**

Oradian, a software-as-a-service (SaaS) company based in Croatia, recently won a contract with Jirani Smart, a microfinance institution that has been active in rural Kenya since 2016. Oradian’s flagship product is Instafin, a core banking platform for microfinance institutions. Under the SaaS model, customers access software via the internet, reducing the need for purchasing and maintaining computer servers. Oradian was founded in 2012 and works with 70 financial institutions servicing approximately 2.5 million customers as of 2018. Jirani Smart serves 15,000 clients via seven branches. September 21, 2018

**IFC, Egypt Building African Entrepreneurs’ Networks**

The International Finance Corporation, a member of the World Bank Group, and Egypt’s Ministry of Investment and International Cooperation recently agreed to identify 100 promising young entrepreneurs to “connect them with business leaders, international investors, financial institutions, and policymakers” in an effort to help them grow their businesses. This will occur during the 2018 Africa Summit, which will be held in December in the city of Sharm El Sheikh, Egypt. The forum brings together heads of state and business leaders in Africa to address issues such as infrastructure, finance, energy, youth entrepreneurship and women’s empowerment. September 20, 2018

**HKL Planning $20m Bond Issue for Microlending in Cambodia**

Hattha Kaksekar Limited (HKL), a Cambodian microfinance institution, recently received approval from the Securities and Exchange Commission of Cambodia to become the first company in the country to issue corporate bonds. The initial offering will be for the equivalent of USD 19.7 million with a 30-percent expansion possible, depending on demand. HKL plans to use the proceeds from the bond sale to support micro-, small and medium-sized enterprises in rural areas. In August, HKL received an equity investment of USD 45 million from the Bank of Ayudhya, its Thailand-based parent company. Ayudhya, in turn, is a member of Mitsubishi UFJ Financial Group, a Japanese banking group with assets of USD 2.5 trillion. HKL reports total assets of USD 804 million, a credit portfolio of USD 660 million outstanding to 135,000 borrowers and deposits of USD 409 million held for 228,000 depositors. September 19, 2018

**Point-of-sale Service Provider Yoco of South Africa Raises $16m**

Yoco, a South African point-of-sale payment enabler, recently raised USD 16 million through its Series B funding round, which was led by US-based venture capital firm Paratech. While the amount invested by each participant has not been disclosed, the Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden (FMO), a development bank controlled by the Dutch government, and the Accion Frontier Inclusion Fund, which is sponsored by US-based NGO Accion, committed a total of USD 1.7 million. Yoco plans to use its fresh cash to “grow its network of small business merchants, invest in product development, and to attract top-tier fintech [financial technology] talent.” Founded in 2015, Yoco provides 27,000 retailers with payment-card readers and point-of-sale software. September 14, 2018

**First Money Microfinance of Zimbabwe Debuts iSave Debit Card**

First Money Microfinance Services, a provider of loans, insurance and...
Responsible Investment Requires Responsible Exits

In 2012, Incofin’s Rural Impulse Fund II (RIF II) bought a 25-percent stake in AMK, a microfinance institution in Cambodia. Six years later, RIF II exited AMK, selling its stake to Shanghai Commercial and Savings Bank (SCSB). Dina Pons, Incofin’s regional director for East Asia, shares some insights on the exit process.

MicroCapital: Please tell us a bit about AMK’s social performance and Incofin’s contribution to it.

Dina Pons: Founded in 2003, AMK is one of the largest and most recognised finance institutions operating in rural Cambodia. It serves around 700,000 clients nationwide with a unique set of financial services, including credit, savings, money transfers and insurance. AMK’s strong customer-centricity and deep focus on rural clients were among the key attractions for us to invest in the company. Since its inception, AMK’s mission has been “to help large numbers of poor people improve their livelihood options through the delivery of appropriate and viable microfinance services.” Far from being just a theoretical motto, AMK’s social mission is what drives the institution and its staff to perform. For instance, a board-level social performance committee, which I was privileged to chair for three years, was tasked with checking each year whether financial results had been generated whilst respecting AMK’s core social mission. AMK is also certified by the Smart Campaign and holds an “A” rating for social performance from M-Cril.

MC: A year ago, RIF II and other AMK shareholders started looking for a buyer; how did this search begin?

DP: When we and the other shareholders - Agora (which sought only a partial exit), the Cambodia-Laos Development Fund and PROPARCO - started planning our exit, we decided to implement a formal screening process that we called a “Fitness and Compatibility Review.” The concept was simple: each interested buyer would be screened against a list of financial and non-financial criteria to assess its compatibility with AMK’s corporate culture, its understanding of AMK’s core social mission, and its commitment to respect and maintain that mission in the future.

The two people leading the Fitness and Compatibility Review were AMK’s pre-eminent independent board member and ex-CEO Pete Power as well as myself, the Chair of the Social Performance Committee. These were busy times, gathering potential buyers’ annual reports, audited financial statements, rating reports, etc. We also conducted interviews with potential buyers’ auditors and credit raters to learn about their risk appetite and overall approach to transparency. We spoke with their overseas branch managers to assess their corporate culture and management style. We also spoke with the people who would take seats on the AMK board to assess their fit with the AMK team as well as their understanding of financial inclusion in general and the Cambodian microfinance market in particular. We then evaluated the information we gathered using a list of 18 criteria that we hope can help inspire future responsible exits in the impact investment industry.

MC: How did this matrix of criteria lead the exiting shareholders to choose SCSB?

DP: We felt this process really tested our own intent to exit AMK responsibly, against the realities of timing constraints and return expectations that are inherent in any exit process. By forcing ourselves to give SCSB a grade against each of the criteria, we engaged in meaningful conversations with shareholders on topics such as the level of SCSB’s commitment to the poor clients that AMK serves. One result of these conversations was that SCSB agreed to include a clause in the shareholder agreement whereby any change to AMK’s social mission or target client group would require the positive vote of Agora, the company’s original promoter-shareholder. A similar clause was written to protect AMK’s Cambodian managers. The process also helped us gain confidence that other aspects of SCSB are well aligned with AMK’s vision, including: (1) SCSB’s history as a retail bank serving MSMEs in its home markets for more than a hundred years; (2) its strategy of sharing its banking expertise in multiple emerging economies in Southeast Asia; (3) its long-term investment horizon; and (4) its commitment to boosting economic development in Cambodia.

Fitness and Compatibility Review Matrix

Reputation
1. Know-your-customer and anti-money-laundering checks show no reputation issues
2. Public information (including traditional press and internet sources) shows no reputation issues that the candidate cannot legitimately explain
3. The central bank is positive about the candidate

Financial Inclusion and Regional Knowledge
4. Previous exposure to microfinance and understanding of microfinance models
5. Understanding of the Cambodian microfinance market

Financial Performance
6. Strong financial performance, including an “A” credit rating, of the candidate and its affiliates
7. Capacity to provide emergency funding to affiliates
8. Capacity to provide low-cost funding to affiliates

Social Performance
9. Responsible pricing (including both interest rates and fees)
10. Responsible return expectations and long-term investment horizon

Strategy and Vision
11. Commitment to the mass market
12. Commitment to the company’s overall mission
13. Candidate’s future strategy is in line with the company’s social mission

Corporate Culture
14. Flexibility of organisational and reporting structures
15. Compatibility of candidate’s organisational culture
16. Clear plans for the company’s management team
17. Agreement to maintain the employee stock-ownership plan for management and staff

Additional
18. Knowledge and access to resources relating to MSME lending, non-credit retail products, mobile banking, risk management, etc

This feature is sponsored by Belgium-based Incofin Investment Management.
SPECIAL REPORT

This sponsored feature is part of a series on European Microfinance Week, which will be held from November 14 through 16 in Luxembourg by the European Microfinance Platform (e-MFP), a network of over 130 financial-inclusion stakeholders. MicroCapital has been engaged to promote and document the event.

A Model for Preventing Overheating - Not Just Multiple Lending

Since 2016, the 95-member Cambodia Microfinance Association (CMA), Incofin, MIMOSA, the Credit Bureau of Cambodia, and several other stakeholders have been developing the CMA Lending Guidelines, under which microfinance institutions (MFIs) are working together to prevent over-indebtedness in Cambodia. The project is funded by Incofin, PROPARCO, BIO, FMO and ADA.

MicroCapital: How long have you been concerned about possible overheating in the Cambodian microfinance market?

Kea Borann: Concerns of the market overheating started at least as early as 2015. Since then, the total outstanding portfolio of the industry has been growing at an average of 25 percent per year, even as the number of loans has remained unchanged at 2.3 million. This seems to mean that the same clients are taking on more debt when their loans are renewed. The average loan size grew from USD 1,691 to USD 3,003.

Dina Pons: This phenomenon is coupled with another: While most loans had a tenor of 12 to 24 months in the past, we now see loan maturity as high as four or even five years.

MC: What metrics do the Lending Guidelines measure?

Daniel Rozas: It’s a mix of traditional indicators for measuring over-indebtedness, such as multiple borrowing and loan-to-income ratios, but we’ve also added metrics for measuring loan refinancing, that is to say taking out new (and usually larger) loans to refinance existing loans that have not yet matured.

MC: What obstacles did you overcome to bring the partners together?

DP: The first obstacle is related to differences of opinion on risk levels. Contrary to overheating microfinance markets in other parts of the world, Cambodia does not have high levels of multiple borrowing. Instead, it has a fast increase of average loan size vs GDP per capita. This is coupled with a noticeable increase of loan tenor.

Some argue that the country’s annual GDP growth of 7 percent justifies extending the maturity of a loan in order to inject more cash into a business if the monthly installment remains the same. On the contrary, defenders of the Lending Guidelines argue that credit risk increases if the time required to repay a loan exceeds the time required to create the income required to repay the loan.

Meanwhile, self-regulatory measures are very hard to implement because they are based on willingness to comply. While many MFIs understand the value of the Lending Guidelines, some fear that non-endorsing competitors will take advantage of the situation to grab market share in pursuit of short-term profits.

MC: How are MFIs adjusting their processes to stay within the guidelines?

KB: MFIs that have endorsed the Lending Guidelines are adapting their credit underwriting policies and enhancing their risk management practices. They are also putting more emphasis on helping their staff communicate better with clients about the risks of taking on too much debt, especially with longer tenors. In support of this, CMA has produced a range of educational videos and press releases. The association has also done a lot of advocacy with industry stakeholders to build their support for the Lending Guidelines.

MC: What is the reaction from investors and regulators?

DP: Both the National Bank of Cambodia (NBC) and the investor community - more than 24 microfinance investment vehicles and development finance institutions - have been very supportive of this initiative. When the Lending Guidelines were formally unveiled in December 2016, NBC and several lenders made public statements calling on MFIs to adopt them.

Today, the Credit Bureau of Cambodia issues each MFI a monthly “dashboard” that shows its level of compliance with the key metrics of the Lending Guidelines. These dashboards are sent to NBC, and they are also used by a growing number of investors when conducting monitoring visits and discussing funding rollovers and increases.

MC: What are the next steps?

DR: In the near term, we’re focused on tightening monitoring to minimize the room for MFIs to “game” the system through practices that meet the technical requirements of the metrics, even as they violate the spirit of the Lending Guidelines. This is an inevitable part of performance metrics; whichever way you define them, clever individuals will try to find a way around them. In the longer term, we expect to expand the Lending Guidelines to cover other relevant lending practices, as well as bring outside parties - including commercial banks - into the framework. We also hope that NBC can play a more proactive role in helping “call out” financial services providers that are flouting the Lending Guidelines and putting clients at risk. This is critical to insuring that the Lending Guidelines remain a meaningful force in Cambodia over the long term.

Kea Borann is Board Chair of the Cambodia Microfinance Association and the CEO of microfinance institution AMK. Dina Pons serves as the regional director for East Asia as well as impact manager for Incofin. Daniel Rozas is the co-founder of MIMOSA and senior microfinance expert at e-MFP. Representatives of all three organizations will discuss the Lending Guidelines in much greater detail at European Microfinance Week.

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EAR TO THE GROUND
Households, Income and Our Complicated Lives

This year, my team has conducted an unusually high number of household interviews and surveys, causing us to reflect on converging trends in the Global South and North relating to multiple income sources. The rate of households relying on two or more sources of income seems to be growing in both developed and developing markets. Our work suggests that the household cash-flow trends and behaviors of a farmer in rural Peru - who augments his income during slow times as a day laborer and whose wife cleans houses in the nearest town - look a lot like an increasingly familiar story line in the US. For example, a public school teacher in the suburbs of Washington, DC, may drive an Uber in the evenings and live with his retired parents, one of whom works part-time at the local mall. The families in both countries have multiple income sources. Some of these sources provide a low and steady flow of cash to pay most of the bills, while other sources provide mild spikes that can cover additional expenses. Rarely is the total sufficient to increase savings. In both cases, families have a sense of what they will earn from one month to the next, but aren't sure. For both families, an income shock is damaging but not devastating. Both rely roughly equally on skilled and unskilled labor. And both have a thin government safety net.

Over the last few decades of global prosperity, inequality among countries has decreased, but this is not always true within countries. In the US, the poorest families obtained no real income growth from 1980 to 2014, while the ultra-rich enjoyed annual growth averaging about 6 percent. In the developing world, income inequality has been stubborn, but it has declined since the 1980s. According to Lopez-Calva & Lustig (2010), Latin America’s fall in income inequality has occurred in places with wide differences in political ideologies and economic performance. As for the factors causing this declining inequality, they cite an increase in government transfers to the poor and a decrease in the earnings gap between high-skill and low-skill workers. One factor behind the earnings gap, note Lopez-Calva and Lustig, is that higher rates of government investment in education are resulting in a larger pool of skilled graduates than the private sector can absorb.

For financial institutions with a social mission, these trends suggest opportunities to expand services to better serve local economies. Unpredictable household incomes will always create demand for products that smooth cash flows, whether these be loans, savings or insurance products. But financial institutions should also be capitalizing on the growing cadre of workers who can find only low-paid jobs, despite being more educated and technologically connected than their parents. Members of this underutilized labor force can become more active participants in their countries’ growth and development, and financial institutions are poised to succeed alongside them by supporting entrepreneurial initiatives and cooperative economic groups. Financial institutions can also offer more creative wealth-building products to make businesses more resilient while also tackling wealth inequality.

Over the past half century, the promise of better formal jobs made independent work less desirable, but deregulation, globalization and multiple financial crises have led to fundamental changes in the structure of economies both in the North and the South. Formal jobs are more scarce and less financially attractive for all but the elite in many countries. Financial institutions have a role to play in supporting independent economic activity as a strategy toward better work and wealth building. If no one steps in, however, those at the bottom may be left patching together multiple jobs to keep their families - in the South - from losing hard-fought gains or - in the North - from losing even more ground.

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@ea-global.com, or you may follow her on Twitter at BarbaraatEA.
**PAPER WRAP-UPS**

**The Rise and Fall of Global Microcredit - Development, Debt and Disillusion**


The authors of this book discuss the history, concepts and adverse impacts of microfinance as it has been deployed in the Global South since the 1980s. Contrary to the intent of most practitioners and regulators involved with microcredit to enable low-income people to benefit from entrepreneurship, the authors present cautionary evidence from nine countries. These case studies link microcredit to problems such as: (1) rising levels of debt among low-income borrowers; (2) the emergence of economic recessions; and (3) transferring wealth and power away from poor people. Despite these criticisms, the authors argue that financial inclusion is important, and…

**Building Inclusive Payment Ecosystems in Tanzania and Ghana**

By Max Mattern and Claudia McKay; published by CGAP (the Consultative Group to Assist the Poor); June 2018, 35 pages; available at: [http://www.cgap.org/sites/default/files/Focus-Note-Building-Inclusive-Payment-Ecosystems-June-2018.pdf](http://www.cgap.org/sites/default/files/Focus-Note-Building-Inclusive-Payment-Ecosystems-June-2018.pdf)

This report describes how the usage of mobile money in Ghana grew slowly until 2011, when regulators first allowed non-banking organizations to enter the sector. Subsequently, the portion of people in Ghana using mobile money grew from 13 percent in 2014 to…

**Capital Structure and CEO Tenure in Microfinance Institutions**

By Leif Atle Beisland, Roy Messland and Daudi Pascal Ndakic; published on ResearchGate; July 2018; 26 pages; available at [https://www.researchgate.net/publication/327229255_Capital_structure_and_CEO_tenure_in_microfinance_institutions](https://www.researchgate.net/publication/327229255_Capital_structure_and_CEO_tenure_in_microfinance_institutions)

The authors find a positive relationship between microfinance institutions’ (MFIs’) debt financing and CEO tenure, possibly due to the better ability of long-time CEOs to establish “a personal trust relationship” with investors. The researchers also…

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