MicroCapital Monitor
ON MICROFINANCE & OTHER FORMS OF IMPACT INVESTING

DECEMBER 2020 | VOLUME.15 ISSUE.12

MICROCAPITAL BRIEFS | TOP STORIES

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Accion Invests in Satellite-based Collateral System of Brazil’s TerraMagna

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Oolu Solar Raises $8.5m in Equity to Boost Sales in West Africa

Oolu Solar, a Senegal-based firm providing solar-energy collection and storage systems in West Africa, recently closed its Series B funding round at USD 8.5 million, with Austria-based RP Global acting as lead investor. Other participants included US-based Persistent Energy Capital; All On, which is backed by Royal Dutch Shell; France-based Gaia Impact Fund; and Singapore-based DPI Energy Ventures. Since its founding in 2013, Oolu has enabled solar energy in 60,000 homes in Burkina Faso, Mali, Nigeria and Senegal.

December 28, 2020

Juvo, Mastercard to Boost Alternative Credit Scoring in LAC

Juvo, a US-based financial technology startup that creates credit profiles for people without traditional credit histories, recently partnered with Mastercard to provide its Financial Identity as a Service (FiDaaS) platform to financial services providers in Latin America and the Caribbean (LAC). The platform uses “alternative transaction data… [and] machine learning tools” to evaluate applicants’ likelihood of repaying loans. “Financial institutions across LAC face a dilemma: Consumers can’t demonstrate their creditworthiness to gain access to credit. Without access to credit, however, consumers can’t establish creditworthiness,” said Juvo CEO Steve Polsky. “Using FiDaaS, financial institutions can rapidly and dramatically expand the addressable market for their services while minimizing risk.”

Founded in 2014, Juvo has subscribers in 25 countries, of whom 1 million are active per day. December 7, 2020

COFIDES Launches $145m Huruma Fund to Lend to 45k Farmers

Compañía Española de Financiación del Desarrollo (COFIDES), a development finance institution controlled by the Spanish government, recently launched the Huruma Fund, which has secured commitments equivalent to USD 145 million for assisting 45,000 rural farmers in Asia, sub-Saharan Africa, and Latin America and the Caribbean. Seventy percent of Huruma’s portfolio will be deployed via microfinance institutions and banks, and the remainder is intended to reach farmers via agricultural organizations, such as cooperatives and small and medium-sized value-chain actors. Spain’s CaixaBank has raised USD 107 million for the fund from a range of private investors. Huruma’s other commitments include USD 24 million from Agencia Española de Cooperación Internacional para el Desarrollo (AECID), Spain’s development cooperation agency; USD 1.2 million from COFIDES; and an EU-funded first-loss cushion of USD 12 million. Gawa Capital, also of Spain, is managing Huruma. In support of its direct investments, the fund has an additional USD 12 million available for…

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WE WISH YOU HEALTH!

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

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MICROCAPITAL BRIEFS

South Africa’s Planet42 Raises $13m for “Rent-to-Own” Cars

Planet42, a car financier in South Africa, recently secured the final portion of a funding package arranged by Verdant Capital, which has offices in five African countries. The package is a mix of debt and equity totaling USD 13 million. Planet42 collects a monthly rental payment from customers and offers them a buy-out price that declines over five years to the equivalent of USD 300. The firm manages risk through “an automated scoring algorithm and securing its assets [via] title deed, tracking technology [and] comprehensive and mechanical insurance.” Planet42 has financed 1,800 cars and reports annual turnover equivalent to USD 4 million. December 30, 2020

EIB Loans $100m to COFIDE to Invest in Climate, SMEs in Peru

The EU’s European Investment Bank (EIB) recently loaned USD 100 million to Corporación Financiera de Desarrollo (COFIDE), a development bank owned by the Peruvian government, to support smaller businesses as well as “green” projects such as equipment purchases that improve energy efficiency or create renewable energy. COFIDE plans to direct the funding via commercial banks, including USD 30 million for small and medium-sized enterprises negatively affected by the COVID-19 pandemic. To support these efforts, the EU’s Latin America Investment Facility is donating the equivalent of USD 4.5 million for technical support to strengthen “COFIDE’s environmental and social risk management systems.” December 29, 2020

IFU, Incofin Place $4.2m in China’s Huimin for Rural Women

Belgium-based Incofin Investment Management and the Investment Fund for Developing Countries, a government-owned entity known by its Danish acronym IFU, recently invested USD 2.1 million each in Ningxia Dongfang Huimin Microfinance to further the Huimin’s provision of financial services to female farmers in China’s Ningxia province. Incofin placed the investment through its agRIF fund.*

15% Premiums for Albanian SMEs Meeting Goals with OTP Loans

Országos Takarékpénztár (OTP) Bank Albania, a member of the Hungary-based OTP Bank Group, recently borrowed the equivalent of USD 6.1 million from the UK-based European Bank for Reconstruction and Development (EBRD) to support small and medium-sized enterprises (SMEs) in Albania in upgrading the quality and safety of their production facilities. The EU is supporting the loan with technical assistance and grant incentives of up to 15 percent of the loan principal for end-borrowers that successfully complete project goals. The head of EBRD operations in Albania, Matteo Colangeli, said that this SME Competitiveness Program will “help Albanian SMEs to introduce EU standards, improving their performance and becoming more competitive, particularly on export markets.” OTP Bank Group serves 18.5 million private and corporate clients in nine countries in...*

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SPECIAL REPORT

As part of a sponsored series on European Microfinance Week 2020, this feature describes a portion of the proceedings, which took place online from November 18 through November 20. The event is held annually by the European Microfinance Platform (e-MFP). MicroCapital has been engaged to promote and report on the conference each year since 2012.

Managing the Pandemic: Minimizing Setbacks for Women, Liberalizing Regulation, Boosting Digital Access

Despite the tragedies of the COVID-19 pandemic, Mary Ellen Iskenderian of the US-based NGO Women’s World Banking (WWB) pointed out a few bright spots. She noted “a silver lining, that saving groups are starting to use digital services more.” Also, countries including India and Peru sent COVID-19 relief funds specifically to women. Regulators in many countries also have allowed remote account opening for the first time, which can be very valuable to women whose mobility is limited by family obligations and other social factors. Perhaps surprisingly, Ms Iskenderian said, “We’ve seen in many countries that savings has risen.” This indicates that institutions have built strong trust relationships with their customers, she added, as “in the past we have seen crises leading to runs on banks.”

Before the onset of the pandemic, WWB had been working with India’s Bank of Baroda to boost outreach to women via increased usage of banking correspondents (BCs). The bank found that female BCs got more traction with customers, as both men and women were more comfortable working with them than with male BCs. These BCs were critical as Bank of Baroda became a channel for government-to-person (G2P) COVID-19 relief payments. In addition to getting aid to families, this resulted in many women opening bank accounts for the first time. Notably, the bank treated the BCs very well, Ms Iskenderian said, providing them with personal protective equipment as well as health insurance.

Savings among women in Indonesia also increased as a result of increased G2P payments prompted by the pandemic. Women receiving the payments asked telling questions: “Can I save some of this money in a bank account?” “Can I keep it private from my husband?” Although many hadn’t realized they held accounts prompted by previous G2P payments, they learned quickly.

Regarding the potential “miracle” of digital financial services, Ms Iskenderian pointed out lack of digital literacy as a major problem. To address gaps in both digital and financial literacy, Ms Iskenderian argued that the “classroom model is the least effective way to communicate. We need to take that burden on and see it as an opportunity,” for example by integrating learning directly into mobile-money apps.

To encourage financial services providers to focus more on serving women, WWB adopted a “customer lifetime model” several years ago. This model shows that women usually make smaller transactions than men, but over time women are more profitable customers because they are cheaper to recruit as new customers and are more loyal over time.

Looking forward, Ms Iskenderian said there is still a huge need for gender-disaggregated data. In countries such as India, that have set goals for improving the provision of services to women, such data have helped reach those goals.

Danone, Incofin, Water.org: WASH Sector Is Investible Now

Dina Pons of Belgium-based Incofin Investment Management explained a partnership with France-based food company Danone through which the organizations are building a 10-year equity fund to invest in expanding access to clean water in developing countries. Since 2007, the Danone Communities arm of Danone - which is mostly funded by its employees - has invested in access to drinking water on a proof-of-concept basis. Now Danone believes the sector has matured from the incubation stage to the investible stage. The company selected Incofin to help it invest in proven models, with a technical assistance component and monitoring of factors such as affordability, limiting plastic usage and replenishing water resources. The fund will invest in Africa and Asia in tranches totaling the equivalent of USD 3.5 million to USD 5.9 million per investee, taking minority stakes with board representation. These investees will fall into three categories: (1) “asset lite” firms such as bottlers offering delivery and pick-up service; (2) water-treatment technology firms; and (3) aggregators that build rural water systems.

Ms Pons said, “We need to break the prejudice that people have in mind that this sector is not investible.” She pointed out that the COVID-19 pandemic is showing how the water, sanitation and hygiene (WASH) sector is resilient to market shocks. She also suggested working with grant funders to move their cash from technical assistance donations to investing first-loss money that can leverage much greater amounts of investment capital.

Josien Sluijs of the Netherlands’ Aqua for All explained how her nonprofit is motivated to work with small and medium-sized enterprises (SMEs) in the water value chain to reduce the estimated 7 percent of GDP that many countries are losing due to medical costs, lost productivity and other effects of poor access to clean water. As an example of private firms succeeding where government has failed, Ms Sluijs cited a firm founded in 2012 in East Africa that is active in water bottling, delivery and wholesale. Despite high upfront costs and low margins, the firm has grown to serve 90,000 people, bringing in USD 1.9 million per quarter. Inspired by examples such as this, Aqua for All has a Making Water Count program with a five-year budget of USD 47 million to build pathways from clean-water innovation to reaching scale. Part of the effort involves meeting with investors to learn about their needs in order to help WASH SMEs become investment-ready.

Bjoern Struewer of Germany-based advisory Roots of Impact explained his firm’s “social impact incentive” model, which Aqua for All is using to enhance the returns and reduce the risks of WASH investments. Earning carbon credits is one way to increase returns. Another is to reward SMEs for achieving social impact. Aqua for All commits to pay cash to enterprises as they meet their social goals over two to four years, allowing them to raise impact investment in advance, knowing they will be able to repay investors with the cash incentives from Aqua for All. Roots of Impact has closed six transactions using social impact incentives, and it has 10 more in its pipeline. One of these transactions was with Clinicas del Azucar, a private firm bringing diabetes treatment to low-income people in Mexico at 40 percent of the price charged by its competition. With USD 275,000 from Roots of Impact, the firm reached an additional 10,000 people and raised USD 7.5 million from impact investors and development finance institutions.

Darren Miao of US-based Water.org discussed his organization’s Global Credit Enhancement Facility (GCEF), which issues partial guarantees to commercial banks that lend for WASH. Although its launch in India has been delayed until 2021 by the COVID-19 pandemic, GCEF is slated to deliver WASH to 3 million people over three years. This is made possible by USD 7.8 million committed by donors to cover a portion of first losses, The World Bank Group’s International Finance Corporation (IFC) has committed to cover second losses of up to USD 5.4 million out of its first commitment to WASH, which totals USD 50 million and is priced at a “commercial” rate. After India, Water.org plans to bring GCEF to other countries in Asia as well as to Kenya.
Financial Inclusion for Forcibly Displaced Persons

Mariam Jemila Zahari of the Alliance for Financial Inclusion (AFI) described her organization’s work in Afghanistan, Mauritania and Rwanda. The Central Bank of Mauritania, for example, used AFI’s peer-learning model to connect with regulators from Burundi and Zimbabwe to improve forcibly displaced persons’ (FDPs’) access to finance. Ms Zahari underscored the importance of including FDPs in national financial inclusion plans. This can help address obstacles such as lack of identification documents, low levels of financial literacy and the lack of data on FDPs.

Lisa Klönger of the German government’s Gesellschaft für Internationale Zusammenarbeit (GIZ) discussed the utility of proportional regulation, which can allow simpler know-your-customer (KYC) - including electronic KYC - procedures for low-value financial accounts. Another key option is to permit FDPs to use identity cards from the UN High Commissioner for Refugees to open accounts. Without options like this, FDPs can be stuck in “infinite limbo,” according to Swati Mehta Dhawan of the Catholic University of Eichstätt-Ingolstadt. Ms Dhawan argued for building up legal frameworks for FDPs to access identity documentation, work legally and integrate with host populations. She offered the example of a person who was displaced to Kenya and has been there for 15 years without being allowed to work.

Ms Dhawan also outlined how FDPs’ needs for financial services may increase over the course of years, for example: (1) from needing only basic financial services for one to two years as they depend primarily on humanitarian aid; (2) to being able to benefit from small loans and payment services as they begin to generate income during years three through five; (3) to wanting savings and larger loans thereafter as they start a business or otherwise attain greater financial stability. Ms Dhawan’s data are from Jordan, where FDPs are allowed to use financial services but do so only minimally due to low income levels. This contrasts with Kenya, where FDPs are only allowed to use certain elements of the mobile money service M-Pesa within the confines of the refugee camp. Due to this restriction, outside the camp, people often use other people’s accounts to meet their needs.

Felix Okech, of the UN’s World Food Programme, described his work in Kenya, where he said the KYC requirements are too strict to allow FDPs to use many financial services - mobile or in-person. While the government has allowed aid vouchers to be disbursed via M-Pesa, other services remain closed to FDPs. The Central Bank of Kenya has signaled it is willing to open more M-Pesa services to FDPs, but this has been blocked by the country’s Financial Reporting Centre, whose mission is to prevent financial crimes.

Under a pilot program of the World Food Programme and the US-based nonprofit International Rescue Committee, a very small number of FDPs in Kenya are being allowed to receive food assistance via bank accounts. There are also a few refugees who have managed to become registered as retailers, which gives them more access to financial services.

Mr Okech describes this as having a positive ripple effect through the FDP community. He added, “In terms of credits, refugees are very creative - creating their own credit groups and accessing hawala,” a form of long-distance value transfer that is based in Islamic tradition. Meanwhile, some retailers in Kenya have been willing to lend to FDPs, who use the credit to manage the difficulties of being provided only about 60 percent of the food they need.

Erica Van Eeghen of the Netherlands Development Finance Company, which is also known by its Dutch acronym FMO, described her organization’s Nasira fund, which offers partial guarantees to banks that lend to FDPs and other target populations. For most FDPs, FMO has found, “credit alone does not serve the group well because they are too vulnerable.” Hence Nasira focuses on refugees who live outside of camps, are more integrated with host communities and often operate small businesses.

Housing Investment Notches Better Returns During Pandemic

Maria Claudia Rojas of the Netherlands’ Triple Jump described her firm’s experience managing the MicroBuild Fund that it created with US-based Habitat for Humanity in 2012. Compared to Triple Jump’s portfolio as a whole, MicroBuild has maintained higher asset quality, and that margin has doubled during the COVID-19 pandemic.

Lucie Astier Such of the French government’s Agence Française de Développement explained her agency’s role in providing technical assistance, loans and data to support housing finance in developing countries. This includes connecting households and microfinance institutions (MFIs) with reputable builders and suppliers of construction materials. One tool for this purpose is the iBUILD app, which facilitates networking among lenders, contractors and households in five countries in Africa and Asia. Ms Such also cited the work of the Center for Affordable Housing in Africa, which tracks 80 indicators, such as home prices and loan costs.

Regarding MFIs expanding from enterprise lending into housing loans, Ms Rojas discussed the importance of training loan officers on the basics of construction, such as region-specific building materials and contractor selection. To help with this, Habitat for Humanity developed agreements with materials suppliers to control prices and quality. Deborah Burand, who teaches at the New York University School of Law and sits on the MicroBuild Board of Directors, explained that the credit analysis of a mortgage applicant is quite different than for someone seeking a microenterprise loan, because a housing loan does not increase household income directly. She also noted the importance of the wholesale lender understanding this difference. In borrowing from investors, a housing lender generally is looking for local-currency investments with longer terms and lower rates than for microenterprise lending.

Brett Gwinner, formerly of the International Finance Corporation, underscored that - unlike a working capital loan with a term of a few weeks or months - a housing loan is repaid over years. A home improvement loan, such as to install a toilet, might be paid over one to three years, whereas a construction mortgage might have a term of 20 years.

Mona Kachhwaha of India-based Unitus Capital discussed the affordable housing market in India. Four of the 11 active lenders there have been established during the past five years. These 11 firms serve a total of 750,000 clients with assets equivalent to USD 9 billion. To meet the need, Ms Kachhwaha says, “We need equity capital in large portions; the capital needs to be developmental capital.” This is despite her reports that: (1) the process of “underwriting informal incomes has been refined;” and (2) enough housing loans have closed over the last several years to prove that default rates are low. Going forward, she encourages investment in technology to streamline micro-mortgage lending as well as proactive interaction with policymakers and regulators. As an example, she cited recent improvements in foreclosure laws that have stemmed from collaboration among investors, lenders and government.

Lastly, Ms Kachhwaha notes that Unitus is now raising money for a new housing fund that will prioritize serving women.

Vinod Kothari of India-based Vinod Kothari Consultants argued in favor of securitization to grow housing lending. Pools of housing loans can be divided into three tranches, for example, with a first-loss tranche and a mezzanine tranche increasing the rating of a senior tranche, which is where most investor interest lies. The senior tranche indeed can be made investible, Mr Kothari argues, given the 30-year safety record of prime mortgage loans. While defaults are slightly higher among affordable housing loans, the interest rate is significantly higher, more than offsetting the marginal risk. To boost the micro-mortgage ecosystem, Mr Kothari underscores the need for improved bankruptcy laws as well as leveling the playing field for off-shore investors. On the topic of enabling environments, Mr Gwinner advocated for improvements to land titling systems. In West Africa, for example, title transfers often take two years or more.
EAR TO THE GROUND

2021 Outlook: The Kids Will Be OK

As a mom, some of the greatest apprehension I felt during the course of 2020 was for young people. My heart sank as my kids’ and their friends’ study-abroad programs and summer internships were cancelled, schools moved online, and friendships were relegated to masked activities in parks and city streets due to the COVID-19 pandemic. I have been haunted by thoughts of them missing out on jobs, classes, social activities and travel that I was lucky enough to have experienced.

This has been a hard time for most youth. According to the Economic Policy Institute, young workers’ already-high unemployment rates in the US jumped from 8.4 percent to 24 percent from spring 2019 to spring 2020, compared to 2.8 percent to 11 percent for older folks. In the developing world, where young people make up the bulk of the population, the impact of COVID-19 has been even more dramatic. The African Union expects some 20 million African youth to lose jobs during the pandemic. In Latin America also, youth are losing jobs by the millions.

Yet kids have certain advantages over middle-aged people. They are digital natives and are in the learning phase of life. They also are low-cost, which means some employers prefer them to older workers and some will accept lower productivity from them. Over the course of 2020, despite my worries, one of my children got into her first-choice college while the other lineup her dream job for after she graduates - all thanks to digital platforms. My girls have found ways to make it through ok, and I suspect they are not alone. In Mexico, I spoke to a former employee whom we had to let go during the pandemic. She is still out of work, but her 26-year-old daughter has flourished. During lockdown, she began delivering pre-sorted boxes of groceries to her neighbors - using WhatsApp as her main business tool. She has been expanding her client list since then, allowing her to support her family, including by buying a car and paying for her daughter’s school fees. Her 45-year-old mom is still unemployed.

Looking to 2021, I suspect much attention will turn to unemployed youth in the hopes of averting a “lost generation.” Indeed, young people cannot sit idle until the global economy recovers. I am optimistic, however, that they won’t. Young people are connected, agile and able-bodied. They offer cheap and flexible labor, and they grew up in a time when steady incomes were not to be assumed. When economies begin to bounce back, we will need to leverage these assets. In the meantime, we can’t cut off their oxygen, but rather we must take advantage of young people’s willingness to learn. One example of how to do this is Laboratoria, a six-month bootcamp that trains young women in UX and web development. The program, now in Peru, Chile, Mexico, Colombia and Brazil, provides women from low- and middle-income households with a pathway to tech careers. Many of the students are former public servants or have worked in the tenuous and low-paid services industry. After the bootcamp, many go on to work for fintechs, banks, other large firms or as consultants. It would serve us well to nurture young folks like the students of Laboratoria - after all, one day we probably will be working for them!

About the Author: Ms Barbara Magnoni is President of EA Consultants, a development-consulting firm based in New York. She has more than 25 years of international finance and development experience and has worked with organizations including Goldman Sachs, Chase and BBVA and has advised institutions such as the International Finance Corporation, the US Agency for International Development and the International Labour Organization. She may be reached at +1 212 734 6461 or bmagnoni@eac-global.com, or you may follow her on Twitter at BarbaraEAtweets.

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PAPER WRAP-UPS

Protecting Low-income Communities Through Climate Insurance
By Will Bogler, Lydia Messling, John Firth, Virginie Fayolle and Maribel Hernández; published by InsuResilience Investment Fund; October 2020; 48 pages; available at https://www.blueorchard.com/protecting-low-income-communities-through-climate-insurance/

Launched in 2015, the InsuResilience Investment Fund (IIF) is dedicated to increasing access to financial services that increase resilience to climate change in developing countries. The report focuses on IIF's “achievements in facilitating adaptation of climate insurance to improve productivity and resilience of smallholder farmers and agribusinesses.” As of September 2020, IIF has invested USD 133 million in debt and equity in 21 companies based in 14 countries. These companies serve 25 million beneficiaries in 25 countries. BlueOrchard Impact Investment Managers, which is based in Switzerland, manages the fund.

IIF combines private and public monies, partly by encouraging private investors to…*

Digital Cash Transfers for Stranded Migrants

Through its Corona Sahayata (Assistance) program, the Indian state of Bihar distributed welfare transfers equivalent to USD 15 directly to the bank accounts of migrants from the state who were stranded away from…*

Gender Data in Financial Inclusion

The authors of this brief argue that the use of sex-disaggregated data can allow stakeholders to accelerate the financial inclusion of women, bridging the gaps in women's account ownership and finance for women-owned micro-, small, and medium-sized enterprises.

To increase the availability and usage of sex-disaggregated data: (1) regulators and…*

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