MicroCapital Monitor
On Microfinance & Other Forms of Impact Investing

FREE PREVIEW EDITION*

DECEMBER 2015 | VOLUME.10 ISSUE.12

MICROCAPITAL BRIEFS | TOP STORIES

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BOPA Raises Equity Stake in Myanmar's AMFIM to 49%

Please see the subscriber-only edition for news on this "MicroCapital Deal of the Month."

Opportunity Selling 6 African Banks to Fintech Firm MyBucks

Opportunity International, a microfinance NGO based in the US city of Chicago, is selling six of the African banks it controls to MyBucks Group, a financial technology company in Luxembourg, under an agreement whereby Opportunity will become a minority shareholder in MyBucks. The transaction is subject to regulatory approval from authorities of the countries in which the banks operate. In addition to recapitalizing the banks, MyBucks plans to use digital and mobile banking technology to reach individuals and micro-, small and medium-sized enterprises in remote areas. Following the transaction, Opportunity plans to open an unspecified number of "transformation centers" to offer non-financial services previously offered by the banks, such as skills training, general education, health and empowerment support. Opportunity provides loans, savings, insurance and training to 12 million individuals in 28 countries in Africa, Asia, Europe and Latin America. MyBucks operates in 10 countries in Africa and Europe. December 16. 2015

EIB Loans $11m to Ademi for MSMEs in the Dominican Republic

The EU's European Investment Bank recently pledged to loan the euro-equivalent of USD 11 million to Banco Ademi of the Dominican Republic for on-lending to micro-, small and medium-sized enterprises. Ademi, which has partnered with US-based nonprofit Accion since 2006, was formerly known as the Association for the Development of Microenterprise. Ademi reports total assets of USD 361 million, a gross loan portfolio of USD 266 million, deposits of USD 210 million, return on assets of 4.5 percent and return on equity of 25 percent. December 10. 2015

India to Allow Cheaper Loans to Members of Scheduled Castes

The Reserve Bank India recently eased the maximum variance of 4 percent that is allowed between the minimum and maximum interest rates charged by microfinance institutions (MFIs) in order to encourage the provision of cheaper loans to those members of Scheduled Castes, historically disadvantaged people in India, who earn less than double the UN poverty line of USD 1.25 per day. India's National Scheduled Castes Finance & Development Corporation also will offer an unspecified level of additional funds for such lending through non-deposit taking MFIs. November 8. 2015

(For more top stories, please refer to the subscriber edition)*

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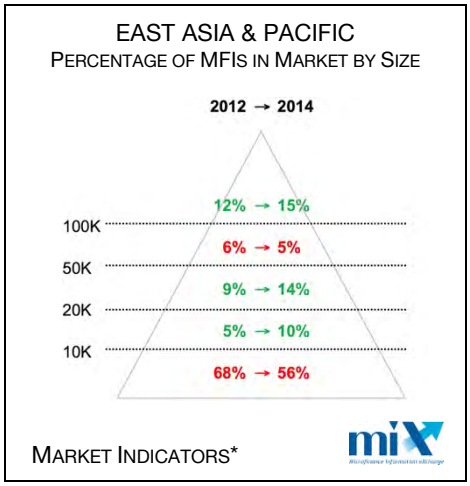

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MICROCAPITAL BRIEFS

MicroCapital's Onsite Coverage of European Microfinance Week

We are pleased to announce that MicroCapital was contracted for the fourth year in a row to report onsite from European Microfinance Week, which was held in Luxembourg from November 18 through November 20. Please see page 5 for a summary of this special coverage. A highlight of the event was the European Microfinance Award, which will focus on education next year. December 20. 2015

Sierra Leone Launches Mobile Financial Services Guidelines

The Bank of Sierra Leone, the central bank of the country, recently launched mobile financial services guidelines for the first time. Developed with the support of the UN Development Program and the UN Capital Development Fund, the guidelines are meant to promote competition, ensure customer protection, establish licensing procedures and enforce rules relating to preventing money laundering and terrorism. Bank of Sierra Leone Governor Momodu Kargbo stated "this is the first step towards encouraging people to adopt electronic channels of payments and move away from the traditional use of cash." December 18. 2015

Safaricom, MTN to Enable Transactions Between Kenya, Rwanda

Safaricom, a Kenya-based telecommunications firm, recently partnered with MTN Rwanda, a branch of South Africa-based Mobile Telecommunications Network Group (MTN), to enable cross-border transactions between Kenyan customers of M-Pesa, Safaricom's mobile money service, and Rwandan users of MTN Mobile Money. M-Pesa serves 19.5 million customers worldwide, and MTN serves 204 million. December 8. 2015

Bangladesh Limits MFIs' Investments in Fixed Assets

The Microcredit Regulatory Authority (MRA), which oversees NGO microfinance institutions (MFIs) in Bangladesh, reportedly has placed a cap of 35 percent on the portion of "cumulative earning surplus" that MFIs may invest in fixed assets such as real estate, which are deemed to be relatively risky. MRA oversees 697 licensed NGO-MFIs serving 25 million clients in the country with total outstanding loans equivalent to USD 3.6 billion and total deposits of USD 1.4 billion. December 3. 2015

OeEB Invests $11m in Sanad Fund for MSME

Austrian development bank Oesterreichische Entwicklungsbank (OeEB), recently invested the euro-equivalent of USD 11 million in Sanad Fund for MSME, a Luxembourg-based public-private partnership that invests in micro-, small and medium-sized enterprises (MSMEs) in the Middle East and North Africa, with the goal of funding 3,500 loans. Andrea Hagmann, a member of OeEB's executive board, said that "MSMEs form the backbone of the region's economies and, therefore, providing access to much-needed credit will help create jobs." Sanad has raised investor commitments totaling USD 129 million. November 16. 2015

MasterCard Labs for Financial Inclusion Sets Ag Goals for Kenya

MasterCard Labs for Financial Inclusion, a research and development division of US-based payments company MasterCard, recently convened LaunchPad, its "collaborative innovation program" in Nairobi to create a strategy to help smallholder farmers in Kenya to "sustain their farms and enhance their livelihoods." November 23. 2015

(For more briefs, please refer to the subscriber edition)

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SPECIAL REPORT

European Microfinance Week

From November 18 through November 20, MicroCapital reported live from European Microfinance Week, which is held each year by the European Microfinance Platform (e-MFP), a 126-member network in Luxembourg. This feature offers a sample of the proceedings and is the last in a series on the event, sponsored by e-MFP.

On Financial Stability, Inclusion, Exclusion and "Big Mistakes"

Piotr Korynski of the Poland-based Microfinance Centre asked, "Is financial inclusion driving income, or is income driving financial inclusion?" Regardless of the push to increase the adoption of financial services, he suggested, "Maybe it will naturally happen." Later in the session, Mr Korynski argued, "Poverty is not necessarily a problem of finance…. Trying to solve poverty through finance would be a big mistake." Olivier Jerusalmy of the European Financial Inclusion Network argued that inclusion should be defined as access to appropriate financial products that people use without difficulty: "people with credit should not be considered financially included if they have payments they cannot afford or suffer from disadvantageous loan terms."

Piloting an Agri-finance Lending Scorecard

Mariel Mensink of ICCO Terrafina Microfinance, an affiliate of the Netherlands-based Interchurch Organization for Development Cooperation (ICCO), presented an agri-finance scorecard, a tool to assist loan officers in assessing the repayment capacity of potential microborrowers. The scorecard is crop-specific and harnesses satellite data; market prices; and interviews with farmers, agronomists and microfinance institution staff. Terrafina is testing a draft of the scorecard in Ethiopia. Regarding the organization's marketing plan for the product, Ms Mensink said, "If we create good data, farmers are willing to pay for it."

Youth Enjoy Back-to-School Savings Account Promotions

Katia Gomez of Asociación Dominicana para el Desarrollo de la Mujer (ADOPEM), a bank in the Dominican Republic that focuses on microfinance, described her institution's "Mia" youth savings accounts. Jared Penner of Child and Youth Finance International, who was moderating the session, explained that ADOPEM had to make tough decisions after initial grant funding was expended to launch Mia: "How have you…kept the excitement about the account, building that savings practice?" Ms Gomez replied that "We have seasonal marketing. We have back-to-school campaigns. If you deposit DOP 100 (USD 2.20), we give you a backpack…. Other approaches are less expensive; we make phone calls at the start of each month [to clients whose balance] has gone down. Mia has two characters - one for boys and one for girls." Staff calls clients acting as these characters: "'This is your Mia friend! Do you remember that savings is important?' It has really worked well."

Crédit Rural de Guinée Wins $110k Award for Ebola Response

Crédit Rural de Guinée (CRG), a microfinance institution in Guinea, won the sixth European Microfinance Award for its response to the Ebola virus. The award, which carries a cash prize equivalent to USD 110,000, focused this year on serving post-disaster, post-conflict areas and fragile states. When the virus broke out in 2014, CRG continued its operations, adding procedures to prevent infection among clients and staff. This included processing payments and contacting clients by phone, rescheduling loans for affected entrepreneurs (including canceling debt in cases of death) and continuing to offer deposit services and new loans. CRG also provided grants to the families of staff who contracted Ebola. In addition, CRG launched a national awareness campaign to teach clients and the general population how to prevent transmission of the virus, involving 4,000 people in these sessions. With support from the World Food Programme, an Italy-based organization run by 36 member countries, CRG is distributing compensation to 1,000 Ebola survivors who continue to be stigmatised by their communities, as well as to 55,000 affected families.

How Mongolian Herders Used Microinsurance After a Drought

Veronika Bertram-Hümmer of Deutsches Institut für Wirtschaftsforschung Berlin (the German Institute for Economic Research) and Leibniz Universitat Hannover presented research on how insured and uninsured herders in Mongolia recovered from the 2009-2010 drought that killed 22 percent of the livestock in the country. Insured households received an average payout of USD 312, but none used the money to buy livestock. Instead, they bought food, paid off debt and improved their livestock shelters. In terms of rebuilding assets, the effect of microinsurance appeared to be largest after two years, at which time the insured households had an average of 27 percent more assets than those that had been uninsured during the drought.

Good News, "Painful" News About Digital Finance

Bram Peters of the US-based Foundation for International Community Assistance (FINCA International) described the experience of FINCA Tanzania bringing on 50 new banking agents for the cost of one new branch. However, the rollout of mobile payments ushered in a significant drop in attendance at borrowing group meetings, where loan payments had been collected. Mr Peters said, "Village banking was [synonymous with] FINCA, and that is changing. It is a painful process." Andrew Tushabe of UOB Rwanda described the mHose mobile banking service, which is supported by US-based payments firm Visa. He said it has improved staff retention by increasing client satisfaction. However, he also said, "It doesn't come so easy," citing difficulties such as increased delinquency. UOB Rwanda has sought to address this risk by accentuating the importance of attendance at group meetings, and the organization's leadership is considering changing the frequency of group meetings from weekly to monthly.

Microfinance & Environment Action Group Gets Quantitative

Marion Allet of the Paris-based Participatory Microfinance Group for Africa (PAMIGA) led e-MFP's Microfinance and Environment Action Group in exploring the group's three areas of focus: (1) developing a training model for green microfinance; (2) establishing guidelines for tracking the effects of green microfinance on clients; and (3) improving the group's Green Index to include more quantitative measures and align more closely with indicators from other organizations such as rating agencies and the US-based nonprofit Microfinance Information Exchange (MIX).

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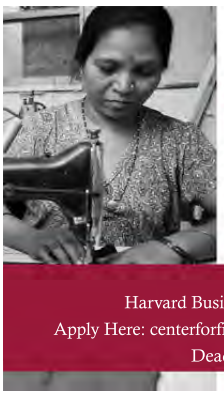

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EAR TO THE GROUND

Don't Let Me Down

Those who have heard the cry of The Beatles' song "Don't Let Me Down" might understand my feelings as I wrap up a busy period of professional soul searching. Among other places, I sat in a U-shaped room in Cape Town at The MasterCard Foundation Symposium on Financial Inclusion, where we considered how client-centric approaches tie into business results. I also spent a day in Brooklyn, talking to some of New York's poorest residents about why they do not trust financial institutions' offerings. Finally, I participated in an event on women's entrepreneurship sponsored by the Costa Rican government.

The subtext of many of these visits was the trade-offs between offering financial services to poor people with new technologies versus face-to-face approaches. Some said that it might be time for the long-established "high-touch" of microfinance institutions (MFIs) to take a back seat to fresher "fintech," with its promise of lower costs and greater convenience. But few at The MasterCard Foundation event pointed to successes in fintech reaching poor people with services they need and use. While mobile money seems attractive, phone carriers have bigger fish to fry than convincing poor people to sign up for accounts *and* use them.

In Costa Rica, half the women in the audience where self-declared poor entrepreneurs. I shared with them and government officials an impact study of two Inter-American Development Bank training interventions for microentrepreneurs in Peru. One was a "mini" three-hour training that reached 100,000-plus women, the other a 150-hour, in-depth series for over 700 women. The results of the mini training were unimpressive, while the longer training had greater impact on sales, profitability and employee hiring. Fifty-nine percent of participants in the longer training went on to train at least one friend after the class, with some going as far as training over 20 friends. As I touted the virtues of the mini-training (it's fast, it's scalable, it involves a fun soap opera…), my audience members insisted that they would not be interested, given the meager outcomes. In return for the more useful 150-hour class, they said they would "take responsibility to teach others and help the program reach scale." This echoed comments from a focus group I held in Brooklyn: "This [conversation] is so useful," they exclaimed; "each one teach one."

The highlight of The MasterCard Foundation Symposium was a debate over which camp will lead the future of financial inclusion. Microfinance began the session with a disadvantage for audience votes compared with the fresh, exciting fintech sector. After all, fintech companies show the promise of scale and geographic outreach that many MFIs have yet to reach. Yet the minority supporting microfinance in the audience argued with conviction that the social goals of this industry will prevail in serving those without access, particularly women, youth and rural groups, while fintech will become bored with the effort needed. After a heated exchange, the self-named "microfinance religion" won the debate. Outside the halls of the conference, however, if the microfinance model is to both reach scale and meet its social goals, clients' economic challenges must be tackled seriously, and the cost of service delivery must be cut. I suggest listening to comments like those I heard in Costa Rica and Brooklyn: provide clients with the tools and support to allow *them* to drive social change. The opportunity is staring microfinance in the face: *Don't Let Me Down*.

About the Author: Ms Barbara Magnoni is President of EA Consultants, a development-consulting firm based in New York. She has over 20 years of international finance and development experience and has worked with organizations including Goldman Sachs, Chase and BBVA and has advised institutions such as the International Finance Corporation, the US Agency for International Development and the International Labour Organization. She may be reached at +1 212 734 6461 or bmagnoni[at]eac-global.com, or you may follow her on Twitter at BarbaraatEA.

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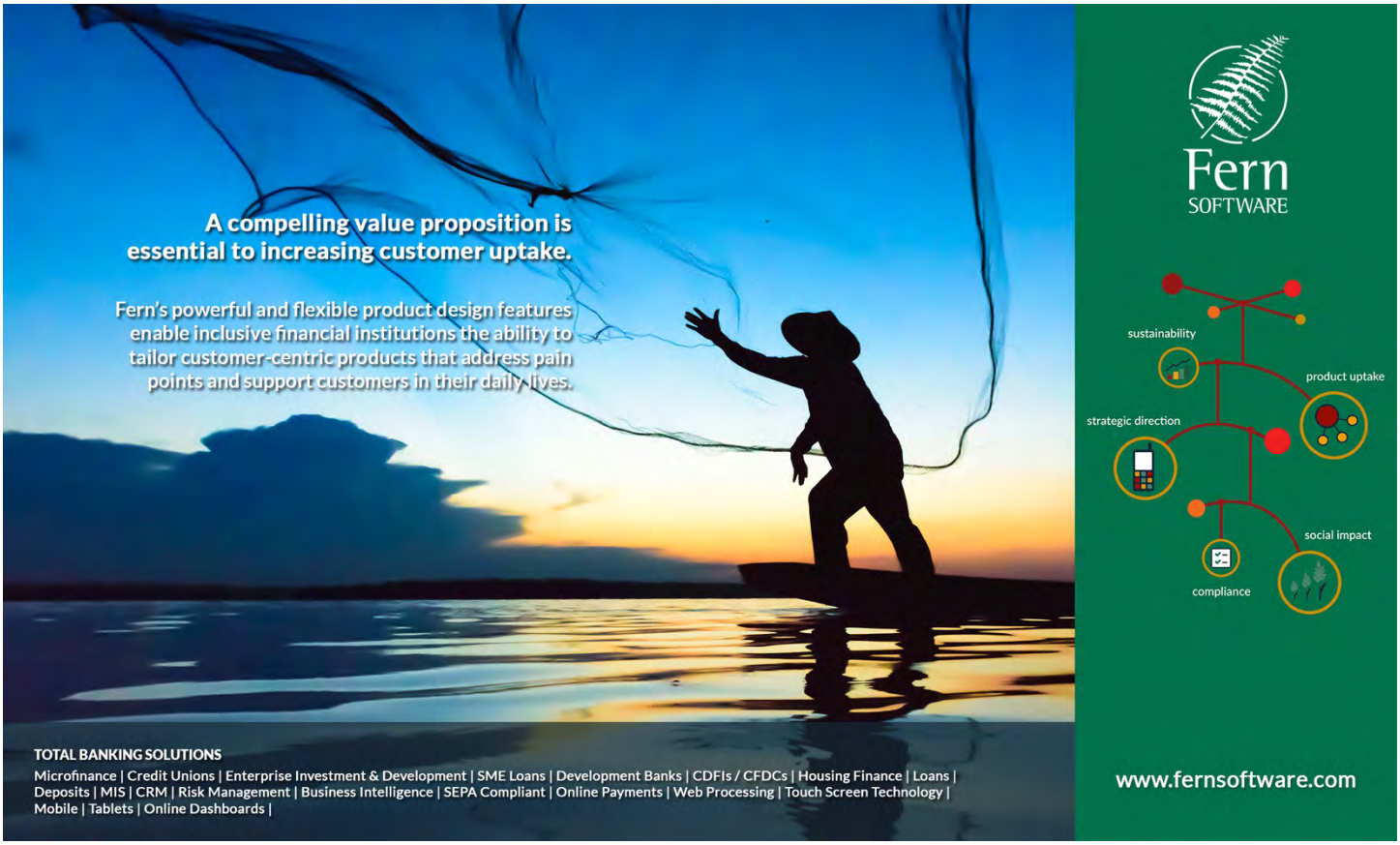

PAPER WRAP-UPS

Costs and Sustainability of Sharia-Compliant Microfinance Products

By Mayada El-Zoghbi and Kaylene Alvarez, published by CGAP (the Consultative Group to Assist the Poor), February 2015, 12 pages, available at: http://www.microfinancegateway.org/library/costs-and-sustainability-sharia-compliant-microfinance-products

This focus note assesses the operational costs, overall cost structures and business models of Sharia-compliant financial service providers (FSPs) to evaluate what might "prohibit the development of a sustainable Sharia-compliant microfinance sector." The authors analyze two Sharia-compliant microfinance products offered by both Algeria's Bank Al Baraka and Pakistan's Wasil Foundation: *musharaka* and *salam*. *Musharaka* is "equity participation in a business venture," in which profits and losses are split in a predetermined ratio, and *salam* is "an advance payment against future delivery," typically utilized in agriculture. The authors note "takeaways" including: (1) the business models of traditional FSPs are not suited to handle Sharia-compliant microfinance products; (2) scale and sustainability vary for each Sharia-compliant product… *(Continued in the subscriber edition)*

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Islamic Microfinance in Yemen: Challenges and Opportunities

By Ali Saleh Alshebami and Dr DM Khandare, published by MacroThink Institute, June 2015, 9 pages, available at: http://www.microfinancegateway.org/library/islamic-microfinance-yemen-challenges-and-opportunities

Reviewing the Yemeni Islamic banking sector from 1997 to 2013, the authors identify challenges including reaching the poorest and most rural populations, over-indebtedness, and high operational costs. They argue that increased demand for Islamic microfinance is the biggest positive, framing it as an opportunity to diversify product lines and expand the industry. The authors also offer proposals including… *(Continued in the subscriber edition)*

Is Islamic Banking Good for Growth?

By Patrick Imam and Kangni Kpodar, published by the International Monetary Fund, April 2015, 33 pages, available at: http://www.microfinancegateway.org/library/islamic-banking-good-growth

This paper analyzes the relationship between the development of Islamic banking and economic growth using data from 52 low-and middle-income countries from 1999 to 2010. The authors conclude that "Islamic banking is positively associated with economic growth even after controlling for various determinants."

The influences minimized via regression analysis included levels of… *(Continued in the subscriber edition)*

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