MicroCapital Monitor
On Microfinance & Other Forms of Impact Investing

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MICROCAPITAL BRIEFS | TOP STORIES

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Manappuram Acquires 70% Stake in India's Asirvad for $21m*

Please see the subscriber edition for coverage of this "Deal of the Month."

Dutch Pension Fund PGB to Invest $23m in Actiam Microfinance Fund

Persoonsgebonden Budget, the pension fund of the Dutch printing industry, reportedly will invest the equivalent of USD 23 million in Actiam Institutional Microfinance Fund III. The fund is managed by Actiam Impact Investing, which provides debt funding to microbanks as a unit of Actiam, the Dutch firm formerly known as SNS Asset Management. Actiam Microfinance III has a term of eight years, a target return of 6 percent per year and commitments of USD 147 million. Actiam Impact Investing reports USD 205 million in assets under management, and Actiam reports managing USD 53 billion in assets. February 5. 2015

EU, EBRD Loan $78m to Link SMEs in Georgia, Moldova, Ukraine with EU Customers

The EU and the European Bank for Reconstruction and Development (EBRD), a multilateral institution headquartered in London, have announced a program to provide loans to small and medium-sized enterprises (SMEs) in Georgia, Moldova and Ukraine with the intent of helping them grow and identify trading opportunities with EU members. The program includes a grant equivalent to USD 11 million from the EU that will be used to guarantee loans totaling USD 78 million from EBRD to local lenders, which will on-lend the money to SMEs in amounts ranging from USD 565,000 to USD 11 million. Bruno Balvanera, EBRD's Director for the Caucasus, Moldova and Belarus, added that the program "will benefit local banks as on-lenders and local businesses as recipients through the provision of finance and the sharing of know-how and expertise." February 3. 2015

BNDES Loans $100m to Banco do Nordeste do Brasil

Banco Nacional de Desenvolvimento Econômico e Social, the Brazilian government's development bank, reportedly will loan USD 100 million to Banco do Nordeste do Brasil (BNB), a government-controlled bank operating in Brazil's Northeast Region, to fund micro- and small enterprises. BNB will commit an additional sum equivalent to USD 16.6 million to the effort. The interest rate of the wholesale loan will be set at 1.1 percent above the country's benchmark long-term interest rate, which is known by its Portuguese acronym TJLP and currently stands at 5.5 percent. BNB offers microfinance services through a subsidiary, CrediAmigo, which was founded in 1998 in partnership with US-based Accion, and reports a gross loan portfolio of USD 935 million and 1.7 million active borrowers. January 27. 2015

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

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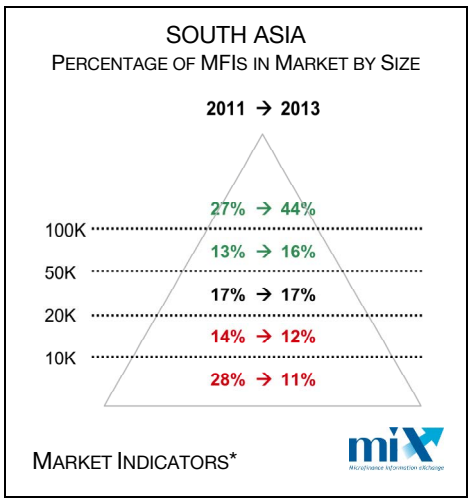

MICROCAPITAL BRIEFS

India's Satin Borrows $10m Over 8 Years from WorldBusiness Cap

Satin Creditcare Network, a microlender in India, recently borrowed the local-currency equivalent of USD 10 million from WorldBusiness Capital, a lender to small and medium-sized enterprises that is based in the US city of Hartford, Connecticut. Satin CFO Jugal Kataria argued that one advantage of the partnership is the "opportunity to reduce [Satin's] dependence on banks." IFMR Capital, an affiliate of the Indian nonprofit Institute for Financial Management and Research (IFMR), structured the eight-year loan as 65 percent senior secured debt and 35 percent unsecured subordinated debt. The Overseas Private Investment Corporation, which is backed by the US government, partially guaranteed the loan. Satin has a gross loan portfolio of USD 17 million outstanding to 800,000 borrowers. February 12. 2015

ProCredit Georgia Sells Microcredit Portfolio to TBC Bank

TBC Bank, a commercial bank founded in Georgia in 1992 as the Tblisi Business Centre, reportedly will acquire the microcredit portfolio of ProCredit Bank Georgia (PCBG), which is majority-owned by ProCredit Holding of Germany. PCBG's portfolio of loans smaller than the equivalent of USD 11,300 total USD 19.2 million, or 5 percent of PCBG's total loan portfolio. The purpose of the move is to allow PCBG to concentrate on the financing of small and medium-sized enterprises. TBC Deputy CEO Nikoloz Kurdiani said, "Given that TBC Bank has recently completed the integration of its fully-owned micro-focused subsidiary Bank Constanta, the acquisition of the Micro Loans portfolio is another major step forward for the enhancement of our Micro Banking business…[including] reaching out to rural areas." February 11. 2015

Orange, Ecobank Partner on Mobile Money in Mali

Orange, a French provider of telephone and Internet service in 30 countries, and Ecobank Transnational, a Togo-based bank operating in 28 countries, have launched a mobile banking service that will enable Orange subscribers in Mali to transfer money between Ecobank accounts, top-up "Orange Money" e-wallets and receive "mini-statements" via short message service (SMS, also known as text messaging). Patrick Akinwuntan, who leads Ecobank's domestic banking department, said, "This roll-out further demonstrates Ecobank's commitment to make branchless banking a reality by activating multiple service channels in every country in which we operate. Our unique pan-African footprint also enables us to be at the forefront of efforts to develop the market for cross-border mobile financial services in Africa." February 9. 2015

Belarus Requires Microlenders to Register with National Bank

The National Bank of the Republic of Belarus, the central banking authority of the country, has announced that organizations providing microfinance services in the country have six months to register with the National Bank to comply with the guidelines set forth in Decree Number 325 "on the raising and provision of loans [and] the operation of microfinance organizations." The decree, which was signed in June 2014 and came into effect during January 2015, states that consumers will be able to access microloans for consumer needs from pawnshops while the other microfinance organizations will be allowed to provide loans for business purposes only. February 7. 2015

IFAD Loans $29m to Uganda to Reach 576k Rural Households

The UN's International Fund for Agricultural Development has loaned USD 29 million to the government of Uganda to support the Project for Financial Inclusion in Rural Areas, which aims to connect 576,000 rural households with financial services over seven years. The intended indirect effects include to increase incomes, improve nutrition and otherwise reduce the vulnerability of people in rural areas. February 5. 2015

BMZ to Invest $17m in Equity in EFSE for MSMEs in Ukraine

The German government's Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung (BMZ) has agreed to invest the equivalent of USD 17 million in equity in the European Fund for Southeast Europe (EFSE), a Luxembourg-based microfinance investment vehicle, within the fund's highest risk, "first-loss" tranche. The investment, which raises BMZ's total commitment to the fund to USD 200 million, will be used to provide local-currency financing to micro-, small and medium-sized enterprises in Ukraine. EFSE Chair Monika Beck said, "This investment provides a good opportunity for the EFSE to foster its development objectives in the Ukraine where local-currency financing is in high demand, in particular in the agriculture sector." February 5. 2015

Vikram Akula Buys 26% Stake in India's Vaya Finserv

Vikram Akula, the founder and former chairman of Indian group-lender SKS Microfinance, recently bought a 26-percent stake in Indian start-up Vaya Finserv for an undisclosed price. Vaya plans to acquire a "small finance bank" license to lend to individuals who have been rejected by traditional banks, primarily women's self-help groups. February 4. 2015

Nigeria's Bank of Industry Earmarks $105m for MSMEs

The Nigerian government's Bank of Industry (BOI) recently budgeted the equivalent of USD 105 million to support micro-, small and medium-sized enterprises. According to a statement attributed to BOI Managing Director Rasheed Olaoluwa, "Before we grant a loan, the state government must recommend…the applicants to us." This is separate from the fund BOI launched in late 2014 to offer agricultural firms five-year loans with annual interest rates of 9 percent. February 4. 2015

EBRD Loans $45m to BNP Paribas's Tunisian Unit UBCI for MSMEs

The European Bank for Reconstruction and Development, a multilateral institution headquartered in London, has announced that it will loan the equivalent of USD 45 million to Union bancaire pour le commerce et l'industrie (UBCI), the Tunisian commercial banking subsidiary of French financial group BNP Paribas, for on-lending on a "long-term" basis to micro-, small and medium-sized enterprises. As of 2012, UBCI reported total assets of USD 1.3 billion, and BNP Paribas reported total assets of USD 2 trillion as of 2013. February 3. 2015

DEG, EBRD Loan $10m to Bai Tushum of Kyrgyzstan for MSMEs

Deutsche Investitions-und Entwicklungsgesellschaft (DEG), a German development finance institution, and the UK-based European Bank for Reconstruction and Development (EBRD) have announced that they will loan funds equivalent to USD 10 million to Bai Tushum Bank (BTB), a microfinance provider in Kyrgyzstan. DEG will loan the bank USD 8 million, and EBRD will loan it the equivalent of USD 2 million in som. Bai Tushum reports assets of USD 134 million, a gross loan portfolio of USD 107 million outstanding to 28,800 borrowers, USD 12 million in deposits held for 33,100 depositors, return on assets of 7.4 percent and return on equity of 57 percent. February 3. 2015

Movistar, MasterCard to Launch "Tu Dinero Móvil" in Peru

Movistar, a mobile phone operator owned by Spain's Telefónica, and MasterCard, the US-based payments and technology company, recently launched "Tu dinero móvil" (Your mobile money), which reportedly is the first electronic money service operating in Peru. The service will allow Movistar's 16 million users in Peru to perform transactions such as depositing and withdrawing money, refilling mobile balances and purchasing goods in the 65,000 establishments in Peru that are affiliated with MasterCard. Movistar operates in 13 countries in Latin America, and MasterCard reports 1.2 billion payment cards in circulation in 210 countries and territories. February 3. 2015

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

FIELD NOTES

Loan Officers Have Feelings Too: Links Between Incentives And Over-indebtedness

This week, I had the pleasure of spending a few days in Ecuador, where, among other people, I visited a microfinance institution's (MFI's) loan officers and clients. The beauty of the fog-laden hills provided a sharp contrast to the gloomy feeling in the microfinance sector. Competition is rampant, and despite multiple regulatory constraints aimed at consumer protection, consumers are paying the price of this excessive competition. Many clients I met had three or more loans from various financial institutions, often in amounts that seemed incongruous with their business size or household needs. In some cases, loan sizes have been ticking up to finance real estate, primarily in the form of major home improvements. It is great that clients are able to use microfinance to build their wealth. But the value of a large house in a tiny town is questionable, and household cash flows seemed strained by high loan payments. One low-income family I met had a loan of USD 35,000 from a cooperative that was fully guaranteed by their house. We calculated that their loan payments equal just over 50 percent of their household income, which puts them in a difficult place since the husband and main carpenter in the family's furniture business is having such severe back pain that he is near tears every morning. The doctor recommended an MRI, which - at USD 800 - he cannot afford.

Loan officers, meanwhile, were saddened. Seeing their clients struggle is hard, and in addition they themselves are struggling. A large part of their salary is made up of variable "incentives," and many said that they are not meeting their sales targets and thus collect only their very low, fixed salary. "How can we grow our portfolios if our clients are over indebted?", one loan officer asks. "Many clients realize they have borrowed too much and don't want any more loans."

At last, my "aha" moment arrived! For over a year, I have been complaining about the role of variable compensation schemes in client over-indebtedness, but when I asked loan officers in Colombia, Jamaica and Peru whether they would be happier with a higher fixed salary, they emphatically said, "No!" Now, in Ecuador, things have gotten so bad that the two loan officers I had lunch with were thrilled with the idea. One said, "I would work much harder, because I would care for my job and make sure not to lose it."

I was reminded of Joanna Ledgerwood's and Victoria White's excellent book *Transforming Microfinance Institutions,* which was written in 2006 - the heyday of microfinance - and cites an International Finance Corporation (IFC) toolkit suggesting that variable incentives should range between 20 and 50 percent. However, the last decade has been tumultuous, and we are now less interested in growth than in balancing profitability with client welfare. Perhaps in Ecuador, loan officers are ready for a 100-percent fixed salary (ok, maybe the goal should be 90 percent). In other countries, they aren't there yet, but it's time to start rethinking the balance. We could begin slowly, by going to the bottom of the IFC range - 20 percent incentive and 80 percent fixed - and see how it goes. At the same time, MFIs can bring on leadership that knows how to motivate its staff with other incentives, such as learning opportunities, recognition and team activities. Otherwise, the "engine" of these MFIs - loan officers - may start to look more like a horse and buggy.

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.

PAPER WRAP-UPS

Annual Survey 2014, e-MFP Action Group of Investors in Tier 2/3 MFIs

By Gabriela Erice, Daniel Rozas and the European Microfinance Platform (e-MFP) in collaboration with the e-MFP Action Group of Investors in Tier-2/3 Microfinance Institutions; published by e-MFP; 2015; 22 pages; available at http://www.e-mfp.eu/sites/default/files/resources/2015/01/Annual%20Survey%202014%20-%20final.pdf

This survey covers investments made during 2013 by 11 investors in microfinance institutions (MFIs) with assets worth up to USD 5 million - Tier-3 MFIs - and larger institutions with assets of up to USD 50 million - Tier-2 MFIs. Fifty-eight percent of the transactions completed by the survey participants were investments in Tier-2 and -3 MFIs, accounting for 23 percent of the total value of those transactions.

Approximately 90 percent of the investments were made through debt instruments, except in South Asia, where 30 percent were equity investments. Of the total value of investments, MFIs in Eastern Europe and Central Asia received 50 percent, while MFIs in Latin American and Caribbean countries received 25 percent. Of the investors that participated in the survey, five offered technical assistance to their investees.

The Business of Doing Good: Insights from One Social Enterprise's Journey to Deliver on Good Intentions

By Anton Simanowitz and Katherine Knotts, published by Practical Action, 2015, 152 pages, available for purchase in electronic or paper format via the sources listed at http://www.thebusinessofdoinggood.co.uk/order-the-book.html

The authors of this book explore why "social purpose organizations" sometimes fail to achieve their goals and even exacerbate the issues they seek to ameliorate. They cite the case of Cambodian microbank Angkor Mikroheranhvatho Kampuchea as a successful turnaround involving "radical choices and reach[ing] deep into rural villages, touching the lives of almost two million people living in poverty."

Benchmarking Inclusive Growth and Development, Discussion Paper

By Richard Samans, Jennifer Blanke, Gemma Corrigan and Margareta Drzeniek; published as a World Economic Forum Discussion Paper; 2015; 38 pages; available at http://www3.weforum.org/docs/WEF_Inclusive_Growth_Development.pdf

The authors of this paper compare the use of policy incentives and other institutional mechanisms to expand socio-economic inclusion through the lens of six policy domains or "pillars." One of these, "asset building and business investment," addresses how conducive the regulatory, cultural, infrastructural and financial environments of a country are to small business entrepreneurship. The authors also find… *(Continued in the subscriber edition)*