MicroCapital Monitor
On Microfinance & Other Forms of Impact Investing

FREE PREVIEW EDITION*

OCTOBER 2015 | VOLUME.10 ISSUE.10

MICROCAPITAL BRIEFS | TOP STORIES

***Want More? Subscribe Today**

This month our subscriber edition includes 10 pages brimming with the best impact-investing news available, including many more briefs, event listings and summaries of current research. We invite you to request a free sample via info[at]microcapital.org.

Orix Boosts Stake in Cambodia's Acleda to 12%

Please see page 2 for coverage of this "MicroCapital Deal of the Month."

Opportunity, ReGrow West Africa, Tata Make Commitments at CGI Annual Meeting

At the recent eleventh annual meeting of the Clinton Global Initiative (CGI), an initiative of the US-based Clinton Foundation, 123 new commitments to "alleviate poverty, create a cleaner environment and increase access to health care and education" were announced, including: (1) USD 175 million to support lending, savings and "extension services" provided by Opportunity International, a microfinance NGO based in the US city of Chicago, to 2,500 new schools and 250,000 smallholder farmers in Africa by 2018; (2) USD 4.5 million raised by ReGrow West Africa, a public-private partnership with backers including US-based oil company Chevron, to be used create a marketplace to facilitate investment in 90 small and medium-sized enterprises and 12 "high impact greenfield investment projects" in countries impacted by the Ebola virus; and (3) a commitment by India-based Tata Communications to use "mobile platforms to provide expanded economic opportunities for" 25,000 women in partnership with multiple microfinance institutions, beginning in Guatemala, India, Indonesia and Nigeria. October 8. 2015

IDB Loans $10m to Paraguay's Vision Banco for Water, Sanitation Facilities

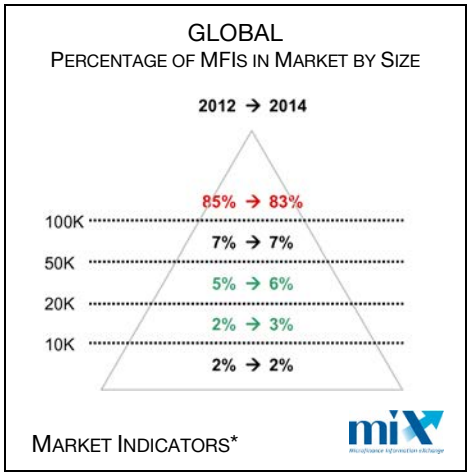
The Inter-American Development Bank (IDB), a US-based multilateral finance institution, recently approved a loan of USD 10 million to Vision Banco, a microfinance institution in Paraguay, with the goal of benefiting 10,000 households via on-lending to "water and sanitation councils" as well as directly to families. Additionally, IDB will provide technical assistance to Vision Banco regarding the design of the credit product, and training will be made available for the water and sanitation councils on "operational, commercial and financial issues." Vision Banco reports USD 1 billion in total assets, a gross loan portfolio of USD 750 million, total deposits of USD 778 million, return on assets of 1.6 percent and return on equity of 18 percent. October 5. 2015

Deutsche Bank Raises $100m for EFSE

Deutsche Bank, a Germany-based financial services firm, recently announced that it raised USD 100 million from unspecified private investors for the European Fund for Southeast Europe (EFSE), a Luxembourg-based microfinance investment vehicle. The funds will be used to place "long-term" investments in microfinance institutions for on-lending to micro-, small and medium-sized enterprises as well as yo low-income households to facilitate the purchase and modernization of housing in Eastern and Southeastern Europe. EFSE reports a gross loan portfolio equivalent to USD 1 billion. September 18. 2015

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

INSIDE | Page



MICROCAPITAL BRIEFS

MicroCapital to Cover European Microfinance Week Onsite

We at MicroCapital are pleased to announce that we again have been contracted to provide onsite reporting from European Microfinance Week, which will be held in Luxembourg from November 18 through November 20. We will publish multiple stories during the proceedings at http://microcapital.org and on Twitter @MicroCapital. For related content, please refer to the special coverage on page 4 of this newspaper. October 10. 2015

Tufts Fletcher School Offers Financial Inclusion Fellowships

The Fletcher School, the graduate school of international affairs at US-based Tufts University, is offering representatives of regulatory authorities and policy-making institutions from developing countries the opportunity to participate in nine-month fellowships within its Leadership Program for Financial Inclusion. Applications may be submitted through November 16, 2015, and the program is scheduled to start on May 1, 2016. The application can be found at: http://fletcher.tufts.edu/FinancialInclusion/Admissions#guidelines. October 10. 2015

AFD, Kredit, LOLC, VisionFund Finance Solar in Cambodia

Kredit Microfinance Institution, a Cambodian microbank; LOLC Micro Credit, the microfinance arm of Sri Lanka's Lanka Orix Leasing Company (LOLC); and VisionFund International, a microfinance investor owned by US-based Christian nonprofit World Vision, recently agreed to partner with the French government's Agence Francaise de Developpement to provide loans for the purchase of home solar panels in Cambodia at a monthly interest rate of 2 percent. Due to quality concerns, the loans will be contingent on the certification of the solar systems to be purchased. Neither details on the certification process or the scale of the lending have been released. October 9. 2015

Vision Microfinance Funds Disburse $7m in Asia, Kenya

During September, Austria's C-Quadrat Asset Management issued loans worth the equivalent of USD 7 million via the Dual Return Fund - Vision Microfinance and Dual Return Fund - Vision Microfinance Local Currency to unspecified microfinance institutions (MFIs) in Armenia, Cambodia, Kenya, Kyrgyzstan and Uzbekistan. Of this total, the firm invested USD 4 million in an MFI based in Andijan, Uzbekistan, that was launched in 1991 and reportedly "complies with strict consumer protection regulations" and "offers attractive employment conditions." The Dual Return Funds were created in 2006 and report combined assets of USD 270 million under management. C-Quadrat Asset Management is a unit of Austrian fund group C-Quadrat, which manages assets valued at USD 6.1 billion. October 7. 2015

Islamic MFIs Offer Progression from Grants to Loans in Indonesia

Perhimpunan Baitul Maal wat Tamwil (BMT) Indonesia, a cooperative coordinating 150 of Indonesia's microfinance institutions that employ the BMT model of Islamic finance, is implementing a three-stage financial empowerment program that aims to benefit low-income individuals in the country. In the first stage, individuals receive non-repayable grants to help them earn a living by starting their own business activities. Those who successfully complete the first stage "graduate" to no-interest loans. The third stage involves larger commercial loans. September 26. 2015

Kiva Winding Down Kiva Zip in Kenya

Kiva, a US-based microfinance fundraiser, recently announced that it is winding down the Kenyan operations of its peer-to-peer microfinance lending platform Kiva Zip. Since its inception in 2012, Kiva Zip enabled users to lend directly to microentrepreneurs in Kenya and the US. Kiva Zip collected funds from 8,000 individual lenders and disbursed the equivalent of USD 1.8 million in local currency to 6,500 borrowers in Kenya. In explaining the shutdown, Kiva Senior Director Jonny Price cites a declining repayment rate and "delays in both loan disbursal and repayment processing [that have] kept borrowers waiting for loans and lenders waiting on notification of repayment." The US operations of Kiva Zip will continue. Since 2005, Kiva has raised a total of USD 755 million that has been disbursed by 269 microlenders in 83 countries. Most of Kiva's loans differ from those through Kiva Zip in that they are intermediated by microfinance institutions. September 24. 2015

EBRD Loans $13m to Krygyzstan's Optima Bank for MSMEs

The UK-based European Bank for Reconstruction and Development recently announced that it will loan the local-currency equivalent of USD 13 million to Optima Bank, a commercial bank in Kyrgyzstan. The credit package will include a term loan of USD 11 million that will be on-lent to micro-, small and medium-sized enterprises and a trade finance line of USD 2 million for Optima to support its corporate borrowers in participating in international commerce. Optima reports total assets equivalent to USD 213 million, a gross loan portfolio of USD 35 million and deposits of USD 33 million. September 23. 2015

Nigeria Grants National Microfinance License to Fortis

The Central Bank of Nigeria (CBN) recently granted a microfinance banking license to Fortis Microfinance Bank, which was licensed as a financial institution by CBN in 2007 and went public in 2012. Fortis Chairman Felix Achibiri stated that with this new license, "Fortis will be driving the Central Bank of Nigeria's financial inclusion programme across the country by providing financial services to all the states of the federation," expanding its service area beyond Abuja and the northern part of the nation. Fortis reports total assets equivalent to USD 84 million and return on equity of 10 percent. September 17. 2015

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

EUROPEAN MICROFINANCE PLATFORM

NETWORKING WITH THE SOUTH

SPECIAL REPORT

This interview is part of a sponsored series relating to European Microfinance Week, which is held each November by the European Microfinance Platform (e-MFP), a 120-member network in Luxembourg. MicroCapital will report live from the event.

European Microfinance Week

MicroCapital: Would you please discuss this year's focus on sustainable development?

Anne Contreras: Given the recent adoption of the UN Sustainable Development Goals, this issue is particularly relevant. The plenary on "Sustainable Development Goals and financial inclusion" will address the topic directly. Breakout sessions will also cover related topics: How can we implement clean cooking options to decrease mortality and mitigate air pollution? How can practitioners bundle finance and training to serve farmers? What can networks do in these areas?

MC: Is there a plenary session that you'd like to tell us about?

AC: I'm particularly excited by the opening plenary, "Assessing Limits: Towards Sustainable Growth in Microfinance." It will feature speakers from the two most prominent studies of market sustainability, Microfinance in Crisis and MIMOSA, along with two investors who are focused on the issue from different perspectives - Klaus Tischhauser from responsAbility and Tanmay Chetan from Agora.

MC: Would you please tell us about a topic that a first-time speaker will be covering?

Christoph Pausch: It's a hard choice, as we have quite a few new faces this year. I'm particularly looking forward to the presentation of Francis Vazheparambil, the CEO of Nigeria's Standard Microfinance Bank (MFB), who will be speaking on the panel "Bringing Financial Services to Underserved Markets." His organization serves remote populations in Adamawa province at the eastern border of the country - an area that is among the most financially excluded in the country. Financial institutions operate just 47 branches in the province - less than one per 60,000 inhabitants. It's also an area where the insurgency of Boko Haram caused many institutions to pull back, further reducing financial access. However, Standard MFB has been growing, including in the areas under threat from Boko Haram. I personally find Francis's story an inspiration for the sector.

MC: What would you say to someone who is unsure whether she or he should take the time to attend European Microfinance Week?

CP: European Microfinance Week is the ideal opportunity to network with 400 leading practitioners, funders, analysts, consultants and other specialists from the microfinance and inclusive finance sector. It's also a great way to keep up on the latest in the industry: subjects will include whether and how financial inclusion can foster financial stability, the role of apex organizations, bringing financial services to underserved markets, assessing impact, best practice in risk management, micro-finance investment fund governance, the future of microfinance investment vehicles in maturing markets, how to comply with social and environmental governance, and the latest innovations in agri-finance. So join us in Luxembourg on November 18th through 20th; we look forward to your participation!

Anne Contreras serves as the Chair of the board of directors of e-MFP, and Christoph Pausch serves as the organization's Executive Secretary.

EAR TO THE GROUND

Keeping the "Ps" in P2P - Reflections on Peer-to-Peer Lending

Last week, my colleague Danielle Sobol attended a session on peer-to-peer (P2P) lending hosted by the Microfinance Club of New York. We are interested in the concept, and its promise to democratize financial transactions for borrowers and lenders alike. Direct lending between friends, family and other community members has existed since before there were banks, legal agreements and even currency. What is exciting about the latest incarnation of P2P lending is that it allows lenders and borrowers to reach way beyond their immediate community while using the same principles of trust and accountability. This widens access for underserved populations and reduces interest rates by cutting transaction costs and through increased competition among lenders.

The market is small but rapidly growing - the number of P2P loans in the US doubled each year from 2010 to 2014, when it reached USD 5.5 billion. With projections by Price Waterhouse Coopers putting this figure over USD 150 billion by 2025, it is no surprise that institutional investors want in. Banks, hedge funds and insurance and pension funds have co-opted the P2P model, using proprietary algorithms to quickly select borrowers. This is a great deal for institutional investors because they can quickly assess risk, utilize existing payment structures at low costs, and avoid minimum capital or liquidity requirements. Returns are higher than government bonds, bank CDs or savings accounts.

At the session in New York, Danielle learned that the entry of these players has resulted in lending demand overtaking the demand to borrow by an estimated 400 percent. This is disconcerting because we all know that flooding borrowers with low-interest loans has gotten the global financial market in trouble in the past. Part of the yin-yang of P2P is that lenders scrutinize borrowers to ensure that their personal investment is protected. Investors can start with small portfolios (often 8 to 10 borrowers), lending as little as USD 25 to each. However, when the lender is a big institution that repackages loans into diversified portfolios, it might place loans with little regard for the impact of potential default on the end borrower. Could this become just another way to push borrowers into larger (albeit cheaper) loans?

I recently talked to a man in Peru who had moved there a few years ago from Ireland. He owes hundreds of thousands of euros to banks in Ireland for homes he couldn't afford. He explained that his first mortgage was on his home. Then his banker offered him a no-down-payment loan on "investment" property. Shortly after, he was convinced to make an even larger investment. Six years later, he cannot afford to live in Ireland anymore. He wants to "do right" by the bank and makes minimum payments each month, but his friends tell him he should just default, since the bank itself no longer owns his debt. "Is that the way it works?" he asked me.

P2P lending is, as its name implies, an arrangement between two people. The concept is attractive, in part, because it offers a way to circumvent financial institutions. However, when the human feature is removed, the concept becomes flawed. The ageless concept of P2P lending may become just another vehicle for institutional investors to profit from consumers. Will borrowers soon be asking whether they should bother to repay their loans, since they don't know who they are repaying?

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

Symbiotics 2015 Microfinance Investment Vehicles (MIV) Survey Report: Market Data and Peer Group Analysis

Published by the Symbiotics Group, 2015, 45 pages, available at http://www.syminvest.com/papers/ed4710d3-cd20-4366-ad75-095f2b3adffe

This ninth annual microfinance investment vehicles (MIVs) survey covers both financial performance, such as growth, risk, return, cost structure, efficiency and funding patterns, as well as social performance, such as commitment to environmental, social and governance (ESG) practices. The dataset includes responses from 84 funds holding aggregate total assets of USD 10 billion, representing 96 percent of the MIV market. The term "benchmark" is used to refer to this sample population.

The survey indicates that MIVs' total assets grew at a rate of 13 percent, and their microfinance portfolios grew by 16 percent during 2014. The authors describe the microfinance investment market as having remained "concentrated," as the top five MIVs maintained the same market share of 45 percent as in the previous year. MIVs tended to… *(Continued in the subscriber edition)*

Doing Digital Finance Right: The Case for Stronger Mitigation of Customer Risks

By Katherine McKee, Michelle Kaffenberger, Jamie Zimmerman; published by CGAP (Consultative Group to Assist the Poor); June 2015; 40 pages; available at: http://www.cgap.org/publications/doing-digital-finance-right

The authors of this paper report that digital financial services (DFS), which allow the use of cellular devices to send and receive payments, are expanding in emerging markets but remain underutilized due to consumers' perceived risks. To address this issue, the authors seek to offer DFS providers with a consumer perspective and to promote risk mitigation practices.

As of 2015, approximately 120 mobile financial service companies serve 300 million people in developing markets. DFS accounts outnumber bank accounts in 16 countries.

The authors cite evidence from research in 16 markets to identify seven consumer risk areas: (1) inability to complete transactions due to network downtime; (2) insufficient agent liquidity; (3) complex user interfaces; (4) consumer fraud; (5) lack of recourse for fraud victims; (6) lack of transparency in fees and other terms of service; and (7) inadequate data protection. Those surveyed stated that user interfaces were difficult to operate, with some fearing costly mistakes from keystroke errors. Furthermore, customers cited inadequate… *(Continued in the subscriber edition)*