MicroCapital Monitor
On Microfinance & Other Forms of Impact Investing

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MICROCAPITAL BRIEFS | TOP STORIES

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Namibia's Trustco Borrows $33m from Norsad, EIB, Others

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

Oikocredit Increases Equity Stake in Bolivia's Banco FIE

Oikocredit, a cooperative "social investment" fund based in the Netherlands, recently increased its equity stake in Banco para el Fomento a las Iniciativas Económicas (Banco FIE), "more than doubling" its investment in the Bolivian microbank. Although the price it paid and the size of its stake remain confidential, Oikocredit held 6.96 percent of Banco FIE shares as of December 2015. The microbank offers credit, deposit, insurance and cash transfer services in addition to making equity investments in small and medium-sized enterprises, particularly in the agricultural sector. It reports total assets of USD 1.5 billion, a gross loan portfolio of USD 1.2 billion outstanding to 239,000 borrowers and total deposits of USD 1.1 billion held for 800,000 depositors. November 29. 2016

Kenya Sets Maximum Lending Rates, Minimum Deposit Rates

The government of Kenya recently passed legislation capping the interest rates on bank loans at 4 percent per year above an undisclosed benchmark reference rate and set the minimum deposit interest rate at 70 percent of the reference rate. Observers surmise that the benchmark rate would be the Central Bank Rate, which the Central Bank of Kenya has set at 10.5 percent per year as of November. Equity Group CEO James Mwangi reportedly stated that because of the law, "[S]mall lenders will struggle [without] cheap deposits to fund lending." November 7. 2016

EBRD, EU Launch Agribusiness Program in Tajikistan via Arvand

The EU and the UK-based European Bank for Reconstruction and Development (EBRD) recently launched the Enhanced Competitiveness of Tajik Agribusiness Programme (ECTAP), through which they will invest in financial service providers to support agricultural productivity in Tajikistan. The EU is committing the equivalent of USD 9.8 million in the form of "investment grants and a risk-sharing facility" for ECTAP plus an additional USD 870,000 for technical assistance. EBRD will lend USD 21.8 million through the program, and a second, unspecified development bank is expected to commit USD 14 million. Eighty percent of the financing will be disbursed to institutions operating outside of Dushanbe, the capital city. The first ECTAP beneficiary is Arvand, which is based the city of Khujand and offers credit and savings products to micro-, small and medium-sized enterprises. Through the program, Arvand is accessing the local-currency equivalent of USD 2 million to support crop diversification and machinery upgrades. Approximately one-third of Arvand's gross loan portfolio of USD 31 million comprises agribusiness investments. October 29. 2016

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

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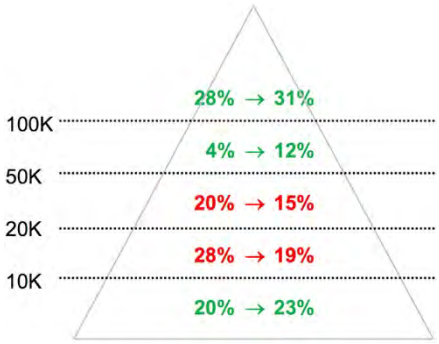
MIDDLE EAST & NORTH AFRICA
Percentage of MFIs in Market by Number of Borrowers
2013 → 2015



Market Indicators*

MICROCAPITAL BRIEFS

Freedom from Hunger Merging into Grameen Foundation

Two US-based nonprofit organizations, the Grameen Foundation and Freedom from Hunger, recently announced they will merge into a single organization, retaining the name of the Grameen Foundation. The new organization will seek to "enable the poor, especially women, to create a world without poverty and hunger" by conducting programs to "expand financial inclusion, enhance health, strengthen resilience and improve livelihoods for people in poor, rural communities around the world." The Grameen Foundation reports annual revenue of USD 18 million, and Freedom from Hunger has a budget of USD 5.6 million. November 29. 2016

ACDI/VOCA's AV Ventures Ghana to Invest in Ag Value Chains

Agricultural Cooperative Development International/Volunteers in Overseas Cooperative Assistance (ACDI/VOCA), a US-based nonprofit that supports entrepreneurs in developing nations, recently registered AV Ventures, a new subsidiary intended to develop "impact" funds that invest in agricultural small and medium-sized enterprises (SMEs) in an effort to promote "more inclusive, responsible supply chains." Its pilot fund, AV Ventures Ghana, is slated to provide investments ranging from USD 100,000 to USD 1 million coupled with technical assistance for SMEs in Ghana's poultry value chain. AV Ventures has arranged for the fund to receive undisclosed amounts of financing from the US Department of Agriculture's Ghana Poultry Program and the US government's Overseas Private Investment Corporation. ACDI/VOCA works in 33 countries and reports total unaudited assets of USD 17 million. November 8. 2016

EFSE, Netherlands, Rabo Support FED's Work in Rural Albania

The European Fund for Southeast Europe, a Luxembourg-based microfinance investment fund; the Netherlands' Ministry of Foreign Affairs; and Rabo International Advisory Services, a subsidiary of the Netherlands-based Rabobank Group, recently partnered to "cover part of the costs of a multi-year capacity building plan" for Albania's FED Invest. The funding is slated for investment in technology and human resources, with the goal of improving the provision of financial services to farmers and small and medium-sized rural enterprises. FED was established in March upon the merger of 70 member organizations of the Albanian Savings and Credit Union. Financial data on FED, which serves 1,080 villages, are unavailable. November 24. 2016

EBRD Lending $7m to KICB for MSMEs in Kyrgyzstan

The European Bank for Reconstruction and Development (EBRD), a multilateral institution headquartered in London, England, recently announced that it will provide a local-currency credit line equivalent to USD 7 million for micro-, small and medium-sized enterprises (MSMEs) in Kyrgyzstan through the Kyrgyz Investment and Credit Bank. The facility is guaranteed via an entity funded by the EBRD-managed Early Transition Countries Fund, to which 14 institutional donors have contributed USD 94 million. EBRD's Director for Central Asia, Neil McKain, said, "Kyrgyz businesses are experiencing an acute shortage of local-currency funding after the devaluation of the som, so this credit line is going to help hundreds of MSMEs to avoid exchange risk." The Kyrgyz Investment and Credit Bank, in which EBRD is an equity investor, reports total assets of USD 331 million. October 30. 2016

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

EUROPEAN MICROFINANCE WEEK

From November 16 through November 18, MicroCapital reported live from European Microfinance Week, which is held each year by the European Microfinance Platform (e-MFP), a 124-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. For more details on these sessions and much more, please see http://www.microcapital.org/category/european-microfinance-week/.

Digital Services: "Ladder" from Poverty or "Financial Exclusion"?

Graham Wright, the Managing Director of India-based MicroSave, warned the audience passionately about the risks of digital finance. On the other hand, Vicki Escarra, the CEO of US-based Opportunity International, said, "What we've done over the past five years to get to very rural areas is to use these digital channels.… To focus on women in Africa - not just women, but women living in rural areas - is very, very important." Dave van Niekerk, the CEO of Luxembourg-based MyBucks, said, "We were asking poor people to run the marathon out of poverty on one leg, credit…. It's not just about credit. It's about transparency and customer experience…. It's a whole approach" including savings and insurance. Ms Escarra agreed: "It's not one size fits all. It's that suite of services that provides a ladder for people in poverty." Mr Wright said, "72 percent of electronic payments are person-to-person, and most of the rest are bill-pay…. Let's not pretend it's financial inclusion." He stated that most digital loans are for about a month at annualized rates of 49 percent to over 640 percent and that 400,000 people have been blacklisted in Kenya for unpaid loans of under USD 2. "This is creating financial *ex*clusion."

South-South Exchange: Solar Home Systems in Bangladesh

Tesfaye Befekadu, the general manager of Ethiopia's Harbu Microfinance Institution, visited Bangladesh a year ago to see how low-income families there have financed purchases of home solar systems. Since then, Harbu has delivered solar systems to 254 clients. Chris Karayil Victor, the General Manager of India's ESAF Microfinance and Investments, listed some of the motivations for acquiring solar lighting, such as the high cost of kerosene and elevated rates of snake bites, which he attributed to difficulty seeing the animals by kerosene lamplight. Mr Befekadu commended the World Bank Group's Lighting Africa project for certifying the quality of solar products, as previous sales of shoddy equipment soured some clients' view of green products.

Technology Challenge? Farmers Fear Insurance Causes Drought

At the meeting of e-MFP's Digital Innovations for Financial Empowerment Action Group, Simon Priollaud, a digital financial services consultant with the Inbox Group of France, described how difficult it has been to get farmers in Kenya to register for microinsurance policies that they already have paid for with their seed purchases. Many thought that the card in the seed packet was vouching for the authenticity of the seeds. Jacinta Kamemba, the information technology director of France-based Groupe Microfinance Participative pour l'Afrique (PAMIGA), cited the issue of superstition. Many people in rural Kenya believe that any kind of insurance - particularly health microinsurance - *causes* whatever malady is covered by the policy.

Kashf Wins $106k European Microfinance Award for Education

The Kashf Foundation, a Pakistani provider of microfinance and advocacy on social issues, won the seventh European Microfinance Award for its support of private schools that serve low-income students. In addition to financing the schools, Kashf provides training in areas ranging from classroom management to human resources. The organization also assists with hygiene strategies, as most schools in the country lack water and toilets. Kashf has disbursed 850 loans to schools serving 150,000 students, 75 percent of whom were female. The annual European Microfinance Award, which includes a cash prize of EUR 100,000, is jointly organized by the Luxembourg Ministry of Foreign and European Affairs - Directorate for Development Cooperation, e-MFP and the Inclusive Finance Network Luxembourg, with the support of the European Investment Bank. The eighth European Microfinance Award, which is to be presented in 2017, will be on the theme of housing.

MIVs Setting "Green" Targets; Looking to Asia, Latin America

Hatem Mahbouli, an investment officer with Dutch development bank Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden (FMO), said FMO is focusing on Asia and Latin America to meet its goal of placing 20 percent of its investments in environmental efforts. Hoa Le, representing Switzerland-based "impact" investor BlueOrchard Finance, argued that Africa has "too much low-interest and donated liquidity, so the return is often insufficient to balance the risks and expectations of commercial investors." On a positive note, Mr Mahbouli pointed out that some solar companies are willing to pay for access to microfinance institutions' (MFIs') clients. Sonja Ooms, the manager of programs - with a special focus on the environment - for Dutch social investor Oikocredit, explained that organizing open-ended meetings of financial services providers, consultants and environmental products providers can act as a catalyst: "From those lunches, there was a lot of spinoff of businesses talking together… It started out with us helping MFIs earn certification that they were carbon-neutral and realizing that this was both mutually beneficial and inspiring."

Evolving Regulations Obscure the Future in Myanmar

Paul Luchtenburg, who serves as coordinator for the UN Capital Development Fund in Myanmar, explained that to accept deposits in Myanmar, institutions must pay at least 10 percent annual interest and be deemed "sustainable" by the government. However, lending rates are capped at 2.5 percent per month, a level that all of the panelists agreed was too low, especially for serving rural areas. Rommel Caringal, the CEO of the local unit of US-based VisionFund, said, "The inconsistency is causing big problems, but the government is making adjustments." Mr Luchtenburg said, "I've never seen a government work so hard. You go to a meeting, and the results go up the leadership chain that night…." Regarding staffing, Mr Caringal said, "We need very heavy investment in capacity building." He added that bringing his staff to visit microfinance institutions in other countries "made people say, 'Wow, this is how it's done!' And now they are pushing for more learning."

Uniting Refugees, Locals via Lending Groups

Lene Hansen, a consultant to the US-based Social Performance Task Force, offered evidence to counter some of the misconceptions discouraging microlenders and their funders from serving refugees. For example, she said the majority of refugees have been in the same location for over 10 years, and two thirds of refugees are self-settled rather than living in refugee camps. Alia Farhat, the business development manager for Lebanese microlender Al Majmoua, said her organization has USD 1.7 million in loans outstanding to 2,200 refugee clients with a portfolio-at-risk ratio of 0.5 percent. The refugees generally borrow in groups that mix Syrian newcomers with Lebanese residents, which reduces friction between the communities. And to help the refugees access services back home, Al Majmoua is building a credit-sharing channel with an undisclosed lender in Syria.

EAR TO THE GROUND

Doomed to Go Digital? The Customer Will Decide

Technology was a big topic at this month's European Microfinance Week in Luxembourg, which I fittingly followed on Twitter and through livestream from rural Peru. The closing session was particularly interesting as CGAP's (Consultative Group to Assist the Poor's) CEO, Greta Bull, asked the audience whether microfinance institutions (MFIs) were doomed for extinction because of fintech companies. When you are sitting in a fancy forum in Luxembourg, the appeal of fintech is likely as exhilarating as the thought of USD 19 billion invested in the micro-finance sector during 2015. Compared with traditional microfinance, "low-touch" fintech services have lower costs, less emphasis on debt and the potential to scale up more quickly. But many fintech solutions are supply-driven innovations developed by young entrepreneurs looking to solve the problems of people far from their own offices and realities. The better ones are customer driven, like Safaricom's M-Pesa, whose "genius" was formalizing something poor people were already doing: using mobile phone airtime as currency.

Despite some fintech successes, poor households still value "high-touch" services. For example, 54 percent of M-Pesa transactions occur through agents. My trip to Peru was quite high touch, as well. We taught loan officers to change how they talk to customers, explained a complex crop insurance product to farmers and reminded insurance companies that short message service (SMS) text reminders would not reach many farmers due to low literacy levels.

Fintech is not a black-and-white value proposition. Almost everyone at European Microfinance Week agreed that "hybrid" financial service models were still needed. Excluded customers often are slow to trust or understand new products, and a face-to-face relationship can keep customers engaged. Even for less excluded customers, sometimes a higher touch makes sense. In the US, for example, online retailer Amazon has copied the model of computer-maker Apple, opening retail stores to allow potential customers to experience its e-readers in person. Unlike buying a book that costs USD 9, not everyone is willing to plunk down USD 99 for an e-reader without taking a closer look. My experience indicates that as financial service providers - fintech or otherwise - target higher revenues per customer, they have to invest in talking to customers a bit more.

So over the next five years, either fintechs can learn to talk to customers, or MFIs and banks will have to become more technologically savvy. My money's on the latter for now, especially those institutions that are already offering a full suite of savings, payments, credit and other services.

As MFIs get on the efficiency bandwagon, however, those that can't leverage their competitive advantage of close contact with customers will find their days are numbered. In Peru, most microloan officers see their client only once, at the time of his or her first loan approval. Subsequent loans are renewed "automatically," and visits aren't required unless payments are past due. This low-touch strategy limits opportunities to cross-sell and otherwise increase the value of the customer relationship. Figuring out just where to bring in technology and where to keep touch high will be critical. Otherwise, we will be reading their tombstones: "RIP MFIs: they knew how to grow, but forgot their customers along the way."

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

Doing Business 2017: Equal Opportunity for All

Published by the World Bank Group, October 2016, 356 pages, available at: http://www.doingbusiness.org/~/media/WBG/DoingBusiness/Documents/Annual-Reports/English/DB17-Report.pdf

Based on data on business regulation and enforcement in 190 economies, the authors score New Zealand, Singapore and Denmark the highest and Libya, Eritrea and Somalia the lowest. Since 2004, Europe and Central Asia have undertaken the greatest number of reforms per economy, including Armenia, Belarus, Georgia, Kazakhstan, Macedonia and Russia, each of which implemented 30 such changes.

Although the sub-Saharan African economies surveyed had the lowest average "ease of doing business," 37 of these implemented 80 liberalizing reforms in just the last year. These are concentrated in reconciling insolvency and starting businesses. For example, Nigeria, Rwanda and South Africa now allow online business registrations. Across Sub-Saharan Africa, the time it takes to start a business has dropped from 37 days to 27 days since 2011.

The authors argue that better regulation, in addition to reducing the diversion of "the energies of entrepreneurs away from…" *(Continued in the subscriber edition)*

Entreprenante Afrique

By Jean-Michel Severino and Jérémy Hajdenberg, published by Odile Jacob, September 2016, 288 pages, available for purchase at: https://play.google.com/store/books/details?id=_vslDQAAQBAJ&rdid=book-_vslDQAAQBAJ

The authors of this book argue that the 5-percent average annual growth rate in sub-Saharan Africa since 2000 is being driven significantly by the region's small and medium-sized enterprises, which have been able to capitalize on: (1) a "booming domestic market," in which population increases, urbanization and middle-class growth are driving up demand; (2) an "improved macroeconomic environment" that has allowed Africans to start and grow small businesses more easily; and (3) "trade between African countries and international partners" becoming... *(Continued in the subscriber edition)*

Investing in Development in Africa: How Impact Investment Can Contribute to Meeting the Sustainable Development Goals in Africa

By Samuel Monteiro, published by Investisseurs & Partenaires and the Foundation for International Development Study and Research, October 2016, 37 pages; available at: http://www.ietp.com/sites/default/files/Study-SDGs-GB.pdf

This report examines the potential role of "impact investors" in helping to achieve the UN Sustainable Development Goals in Africa. Mr Monteiro assesses the status of efforts to achieve the goals, estimates the resources required and outlines opportunities through which impact investors can participate. For example, he estimates that an additional USD 40 billion is necessary... *(Continued in the subscriber edition)*