MicroCapital Monitor
On Microfinance & Other Forms of Impact Investing

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MICROCAPITAL BRIEFS | TOP STORIES

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Thailand's Group Lease Acquires 30% of Sri Lanka's CCF for $70m

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

Credit Reporting Firm Destacame Raises Equity from Accion to Expand into Mexico

Destacame, a Chilean credit scoring firm, recently closed its seed financing round, which was led by Accion Venture Lab, an investment vehicle of US-based NGO Accion. The new funds, the amount of which remain undisclosed, are slated to allow Destacame to increase its operations in Chile and expand into Mexico. The firm sells credit scores to lenders considering granting "credit and other financial products to thin-file and credit-invisible customers." The company employs 15 people and has processed 10,000 credit files since it was launched in 2015. Founded in 1961, Accion reports total assets of USD 351 million. Its partner microfinance institutions serve 6 million people in 32 countries with an aggregate loan portfolio of USD 7.9 billion. February 17. 2017

Norfund, FMO, Rabobank Launch "Arise" with Purchase of 28% of Ghana's CAL Bank

Arise, an investment company recently launched in South Africa by three European institutions, has paid an undisclosed price to acquire 27.7 percent of the shares of CAL Bank, a publicly traded financial institution in Ghana. Arise bought the stake from Development Partners International, a UK-based, Africa-focused private equity firm managing USD 1 billion in assets. Formerly known as Continental Acceptances Limited, CAL Bank was launched in 1990. As of 2016, it had assets equivalent to USD 695 million, 26 branches and 100 automated teller machines. As of 2015, it reported return on assets of 4.9 percent and return on equity of 32 percent. Arise seeks to acquire "minority stakes in sub-Saharan financial services providers…that serve retail, small and medium enterprises, the rural sector, and clients who have not previously had access to financial services." Its founders are the Norwegian government's Norfund; Dutch development bank Financierings-Maatschappij voor Ontwikkelingslanden; and Netherlands-based cooperative Rabobank. February 16. 2017

AYo Insuring MTN Subscribers in Uganda

AYo, a joint venture of South African insurer MMI Holdings and South Africa's MTN (Mobile Telecommunications Network) Group, recently launched its first two products, both in Uganda: (1) Recharge with Care, which provides MTN subscribers with life and hospitalization insurance when they buy airtime; and (2) Send with Care, which delivers the same when users send money via MTN. Recharge with Care offers 30 days of free coverage with each purchase. The amount of coverage depends on the size of the purchase, and the user can purchase higher coverage levels. Send with Care provides similar coverage, with the payout amount equal to the amount of money transferred. MTN Group has 233 million users in 23 countries in Africa and the Middle East as well as Cyprus. February 9. 2017

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

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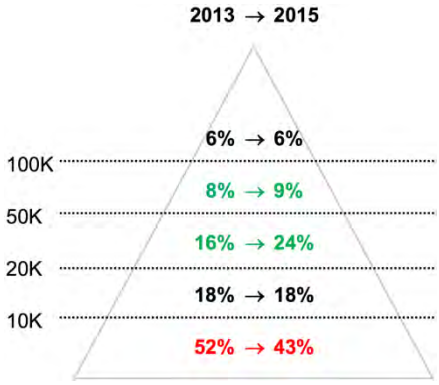
MicroCapital

SUB-SAHARAN AFRICA
Percentage of MFIs in Market by Number of Borrowers



Market Indicators* miX

MICROCAPITAL BRIEFS

MicroFinanza Rating Issues 10 Institutional, Social Ratings

During February 2017, Italy-based MicroFinanza Rating issued "microfinance institutional ratings" to the following institutions, all with stable outlooks: Indonesia's Komida, which was assigned a grade of BB; Albania's NOA, which earned a BBB; Haiti's ACME, which was assigned a BB+; Vietnam's Anh Chi Em, which got a BB-; and two institutions that each received an A-, Cambodia's Amret and Palestine's Faten. As for "creating value for clients," MicroFinanza issued social ratings of A+ to Kazakhstan's KazMicroFinance and BB+ to Komida, Faten and ACME. Under license from the Smart Campaign of US-based Accion's Center for Financial Inclusion, MicroFinanza certified the client protection practices of Georgia's Credo and Morocco's Fondation Attawfiq. February 28. 2017

Ecuador's D-Miro Restructures $80m in Debt After Quake

Alliance Microfinance, an NGO owned by The Mission Alliance of Norway, recently committed USD 2 million in equity to assist Banco D-Miro of Ecuador in renegotiating USD 80 million in loans for "reduced interest expense and extended amortization." The Mission Alliance, a religious organization supporting entrepreneurs, sports programs and other projects, owns Banco D-Miro, which has had difficulties since an earthquake in April 2016 caused a drop in borrower repayments. Banco D-Miro offers microloans and savings products for poor people via 14 branches in Ecuador. It reports total assets of USD 115 million, a gross loan portfolio of USD 99 million and deposits of USD 14 million. Alliance Microfinance, which also has operations in Bolivia and Vietnam, reports a total loan portfolio of USD 221 million and 150,000 active borrowers. The Mission Alliance, which is funded by the Norwegian Agency for Development Cooperation and 26,000 individuals, works in 10 countries in Africa, Asia and South America. February 27. 2017

FMO Lending $3m to One Puhunan of the Philippines

Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden (FMO), a Dutch development bank, recently announced that it will disburse a loan of USD 3 million from the Dutch government's MASSIF Fund to the Microfinance Philippines Financing Company, which is also known as One Puhunan. The microfinance institution (MFI) plans to use the new funds to expand its loan portfolio in the Bicol Region as well as Mindanao. Founded in 2014, One Puhunan has an outstanding loan portfolio equivalent to USD 6.6 million. It provides group loans to 52,000 women via 110 branches in 18 provinces. One Puhunan is a unit of Credit Access Asia, which is based in the Netherlands and also operates an MFI in Indonesia that serves 175,000 people and another in India that serves 1.35 million people. The network's aggregate gross loan portfolio is valued at USD 377 million. February 24. 2017

Garanti Leasing of Turkey Borrowing $26m from EFSE

The European Fund for Southeast Europe (EFSE), a microfinance investment vehicle domiciled in Luxembourg, is lending the equivalent of USD 26 million to Garanti Leasing, a subsidiary of Turkey-based Garanti Bank, to boost services for micro- and small enterprises in Turkey. Garanti Leasing, which has worked with EFSE since 2012, plans to deploy half of the funds in government-designated "priority development regions." Garanti Leasing assists both small and large enterprises in acquiring investments such as inventory; real estate; and equipment for agriculture, textile production, printing and construction. During 2015, it issued 3,000 contracts worth USD 800 million. Founded in 1990, Garanti Bank reports assets of USD 89 billion and net annual income of USD 1.5 billion. EFSE reports a gross loan portfolio equivalent to USD 1.0 billion. February 20. 2017

Microbank LOLC (Cambodia) Authorized to Offer Leasing Services

LOLC (Cambodia), a microfinance institution (MFI) 60-percent owned by LOLC Micro Investment of Sri Lanka, recently received approval from the National Bank of Cambodia to offer leasing services. It is reportedly the first MFI to receive such permission. Beginning in March, LOLC (Cambodia) expects to offer both businesses and households access to leased vehicles, appliances and equipment. LOLC (Cambodia) is 37-percent owned by US-based Developing World Markets and 3-percent held by staff of the MFI. LOLC (Cambodia) has USD 245 million in total assets, a gross loan portfolio of USD 206 million, USD 275,000 in deposits, return on assets of 5.8 percent and return on equity of 34 percent. LOLC Micro Investment is a unit of Lanka Orix Leasing Company, which is a member of the Japanese conglomerate Orix. February 15. 2017

India's Muthoot Raises $20m in Equity from Creation Investments

Creation Investments Capital Management, a US-based investor in financial inclusion, recently placed USD 20 million in equity in Muthoot Microfin Limited, a unit of Indian conglomerate Muthoot Pappachan Group. Muthoot Microfin, whose focus is serving female entrepreneurs, is planning to open 500 new branches over five years as it expands into Bihar, Chhattisgarh, Haryana, Odisha, Pradesh, Punjab and Uttar. Muthoot Fincorp, another arm of Muthoot Pappachan, is in the process of transferring microloans valued at the equivalent of USD 238 million to Muthoot Microfin. Muthoot Microfin reports an outstanding portfolio of USD 60 million. Creation Investments manages investments of USD 325 million. February 13. 2017

Zimbabwe's Success Microfinance Nets Deposit-taking License

Success Microfinance Bank, a financial institution in Zimbabwe formerly known as Collarhedge Finance, recently received a license from the Reserve Bank of Zimbabwe allowing it to accept deposits. In February 2016, Collarhedge reportedly became the third institution in the country to receive a deposit-taking license. Although financial data are available on neither entity, microfinance banks in the country are required to hold capital of USD 5 million. (The minimum for non-deposit-taking microlenders is USD 20,000.) February 12. 2017

Thos Gieskes to Lead Oikocredit

Oikocredit, a Netherlands-based cooperative, recently announced that Thos Gieskes will serve as its Managing Director beginning in April. David Woods vacated the position in 2016 after having joined Oikocredit in 2012. Mr Gieskes, who has led the operations of Dutch cooperative Rabobank in Chile, Australia and New Zealand, said, "I believe I can contribute to furthering this work based on my...background as a development economist." Oikocredit reports total assets equivalent to USD 1.2 billion and 796 financial inclusion, agriculture and renewable energy investees in 71 countries. February 6. 2017

EBRD Lends $11m to Tunisia's CIL for Leasing to MSMEs

The UK-based European Bank for Reconstruction and Development (EBRD) recently announced that it is providing a senior, unsecured loan equivalent to USD 11 million to Compagnie Internationale de Leasing (CIL), a Tunisian company that rents and leases industrial equipment and goods, to expand the number of micro-, small and medium-sized enterprises it serves. This transaction was disbursed from an entity EBRD recently established to offer funding in Tunisian dinars. CIL reports gross 2015 revenue of USD 18 million. February 6. 2017

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

SPECIAL REPORT

This sponsored content was written by Ed Higenbottam, the Managing Director of Verdant Capital, a corporate finance firm with offices in Johannesburg, Mauritius and Accra that specializes in advisory services and capital raising for mid-market financial institutions across Africa.

The M&A Market in Africa's Alternative Finance Sector

Headlines in the M&A market in Africa in recent years seem to have been dominated by the to-ing and fro-ing of Anglo-South African giants such as Barclays Africa/ABSA and Old Mutual. However, financial institutions in the middle market perhaps have been more active. The M&A market in the alternative finance sector (non-bank or "specialty" lenders) has seen at least 30 transactions (excluding minority stakes) completed over the last five years, and activity levels have remained robust over the last 18 months notwithstanding the slow-down of the M&A market overall.

The alternative finance sector covers a range of credit institutions that are not part of the traditional banking sector, for example, micro (enterprise) finance, consumer finance, leasing or invoice discounting, vehicle lending, housing finance, student finance, fintech, and specialist banks. Awareness of this sector recently has become much more nuanced: in the past, all these types of institutions might have been lumped under the microfinance umbrella.

We have seen a number of critical drivers in play in the consolidation of alternative finance recently. Specialist private equity funds that target the sector are growing in size and number, including several managed by groups that are now on their second or third funds. Many of the limited partner commitments for these funds have been sourced from development finance institutions, and many are targeting measurable social impact in addition to financial return. As well as bidding for new assets (we had eight private equity funds in due diligence for a recent transaction in the sector), many of these funds are now in "exit mode," looking to sell their stakes in portfolio companies. In some cases, we have seen private equity shareholders act as catalysts for their portfolio companies to sell non-core subsidiaries or even to sell the entire company outright.

Cross-border consolidation by regional leaders is another important factor. Many of the largest players have been active acquirers. For example, Letshego, which is listed on the Botswana Stock Exchange and reports USD 710 million in total assets from operations in 11 countries, has bought two businesses in West Africa. The larger of these is afb Ghana, which Letshego bought from JUMO World in a transaction managed by Verdant Capital as advisor to JUMO. Pan-African fintech lender MyBucks recently acquired those subsidiaries of Opportunity Bank, a traditional bricks-and-mortar microenterprise lender, that operate in six African countries.

To date, the leading South African consumer lender - and now full-fledged bank - Capitec has not elected to expand outside its home country. Although opportunities represented by single-country operators in the continent generally benefit from lower levels of public indebtedness, their scale is much more limited.

Horizontal consolidation also is an important factor, as specialist lenders look to broaden their product mix. Often the motivation is acquiring deposit-taking licences or capacity, which is seen as a source of cheaper local-currency funding. In 2014, Namibia's JSE-listed financial services conglomerate Trustco Group Holdings acquired FIDES Bank, thereby bringing a deposit-taking licence into the group, as well as adding SME lending and mortgages to a product mix including student loans, life insurance and short-term insurance. In Zambia in 2012, the Pan African Building Society, which is owned by the Mukwa Fund, merged with the Industrial Credit Company, thereby combining a deposit-taking mortgage lender with a leasing and SME-lending portfolio largely funded by development finance institutions. We see the trend of domestic consolidation continuing and perhaps accelerating. At least half the bids for the single-country operators we have sold came from other domestic lenders.

Finally, financial services technology has become a happy hunting ground for deal makers in the region. Providers of development equity in the sector have included tech funds and specialist fintech funds, both from Africa as well as the West Coast of the US. Traditional private equity funds also have participated in fintech investments; however, many have been scared off by the very high valuations attributed even to relatively early-stage companies in the sector.

"We see the trend of domestic consolidation continuing and perhaps accelerating. At least half the bids for the single-country operators we have sold came from other domestic lenders."

- Ed Higenbottam
Verdant Capital

A number of fintech players are specialty lenders who use proprietary technology to originate, secure or collect loans issued from their own balance sheets. Fintech lenders are arguably the most capital-intensive of fintech businesses, because in addition to their broader development costs, they also have to raise funding to lend through the channels they are creating. For example, take the "merchant credit advance" model, a business model that originated in the US, whereby the financial institution advances money to forward-purchase retailers' point-of-sale collections, effectively advancing a short-term SME loan. Verdant Capital is currently raising funding for Retail Capital, the leading merchant credit advance provider in South Africa. Although the business is expected to remain independent, we have seen smaller players in the sector be partially consolidated into banking groups. In the medium term, we expect to see further consolidation between bricks-and-mortar lenders (whether banks or non-banks) and fintech lenders.

EAR TO THE GROUND

The Paradox of Scale and Financial Inclusion: Seeking that Human Touch in Jakarta's Busy Streets

Last week, I was in Indonesia, a country with a population of over 240 million. The sheer size of the country and its tight population density made it difficult to avoid a conversation about the scale of financial services. As I reflect upon my trip to Jakarta's busy streets, I am starting to consider whether reaching scale can sometimes hold back financial inclusion.

Inclusion should involve the delivery of financial services to benefit all segments of a population. The key word here is *benefit*. Just reaching people isn't enough; they need useful products and services that actually improve their lives. This is why I was so amazed with one Indonesian bank's no-fee transactional savings accounts. These accounts reach many millions of people, often through direct-deposit relationships with employers. The accounts are used frequently, typically for transactions such as utility bill payment, remitting school fees and consumer borrowing, as well as transfers, business sales and supplier purchases. These accounts are useful, and so I consider them to be furthering financial inclusion.

Yet servicing these liquid accounts can be costly, as many clients still go to branches to make transactions. Moving folks out of branches to ATMs can contribute to cost savings, making room for increased scale. In fact, Indonesia's ATMs are widespread and well trusted, but even ATM transactions are costly. Banks in Indonesia are starting to experiment with lower-cost online and mobile services, as well as plastic. As a test, I purchased a "Flazz" pre-paid card (with a snazzy Batman motif) that works with POS terminals, but not many retailers had the required devices in place. With the rapid growth of online shopping websites, many banks and fintechs are rolling out mobile money apps that interface with these sites. While adoption is slow in some segments, these apps are starting to gain some traction.

As banks shift to low-cost touch points, the promise of financial inclusion seems less straightforward. We spoke to clients of financial institutions in low- and low-middle-income segments and found that there is not much trust of digital channels beyond shopping and information gathering. Although ATMs have gained momentum, most clients we spoke with prefer or require face-to-face interaction before they agree to use a new financial service. This poses a problem for institutions seeking to offer an array of financial services to low-income folks while simultaneously reducing face-to-face sales. In theory, banks can deliver their sales pitches through traditional advertising, phone calls, SMS, etc., but that will require winning people's trust, which, according to those I met, still requires some good old-fashioned human touch.

About the Author: Ms Barbara Magnoni is President of EA Consultants, a development-consulting firm based in New York. She has 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[at]eac-global.com, or you may follow her on Twitter at BarbaraatEA.

PAPER WRAP-UPS

The Landscape of Microinsurance in Sri Lanka

By Basix Consulting, published by the Microinsurance Network and the Munich Re Foundation, 2016, 24 pages, available at http://www.microinsurancenetwork.org/groups/landscape-microinsurance-sri-lanka/

From 2013 to 2015, microinsurance in Sri Lanka expanded from primarily protecting microloans against default to include health insurance for low-income individuals. As of 2015, 1.5 million microinsurance policies covered 6.9 percent of Sri Lanka's population.

The authors discuss premium levels, claims ratios, delivery channels and technologies used for sales and premium collection. They argue that health and property risks are the major risk factors for low-income households in the country. Despite the potential of the microinsurance sector in the country, the authors deem it "experimental," facing obstacles such as "high administrative costs," "low capacity of poor households to pay premiums," inflexible... *(Continued in the subscriber edition)*

A Buck Short – What Financial Diaries Tell Us About Building Financial Services That Matter to Low-Income women

By Julie Zollmann and Caitlin Sanford, published by Bankable Frontier Associates and Omidyar Network, July 2016, 32 pages, available at https://www.omidyar.com/sites/default/files/file_archive/Pdfs/16-07-01_A_Buck_Short_Report_Digital_FINAL.pdf/

Based on a sample of financial diaries that women maintained between 2012 and 2015 in India, Kenya and Mexico, the authors suggest developing: (1) services with lower costs; (2) better tools to manage finances and risks; (3) ways to... *(Continued in the subscriber edition)*

The Long-run Poverty and Gender Impacts of Mobile Money

By Tavneet Suri and William Jack; published in Science; December 8, 2016; 4 pages; available at http://science.sciencemag.org/content/354/6317/1288.full/

The authors of this paper estimate that access to the M-Pesa mobile payment service has lifted 194,000 Kenyan households above the official poverty line since its launch in 2007. The impact appears to be greater for households that are headed by women due to factors including that many low-income women have... *(Continued in the subscriber edition)*