MicroCapital Monitor
On Microfinance & Other Forms of Impact Investing

FREE PREVIEW EDITION*

JULY 2017 | VOLUME.12 ISSUE.7

MICROCAPITAL BRIEFS | TOP STORIES

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Jamaica's Access Financial Buys Micro Credit Limited for $630k

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

FMO Lending $5m to First MicroFinance Bank-Afghanistan

The Netherlands Development Finance Company, a government-backed institution also known by its Dutch acronym FMO, recently announced it will loan the local-currency equivalent of USD 5 million to First MicroFinance Bank-Afghanistan (FMFB-A), which is owned by the Aga Khan Agency for Microfinance, a unit of the Switzerland-based Aga Khan Development Network. Established in 2004, FMFB-A seeks to alleviate poverty and promote economic development "through the provision of sustainable financial services to the poor and underserved." FMFB-A reports total assets of USD 158 million, a gross loan portfolio of USD 74 million outstanding to 57,000 borrowers, deposits of USD 93 million held for 131,000 customers, return on assets of 1.1 percent and return on equity of 6.3 percent. FMO is disbursing the loan from the Massif investment vehicle, which is funded by the Dutch government and "focuses on small businesses and micro-entrepreneurs, women and youth entrepreneurs, as well as supporting innovations in inclusive business." July 29. 2017

Cambodian MFIs Refusing to Charge Clients Value-added Tax

The 82-member Cambodian Microfinance Association (CMA) recently announced that its member microfinance institutions are declining to enforce the 10-percent value-added tax (VAT) that the country's Ministry of Economy and Finance recently levied on financial services. CMA Chairman Hout Ieng Tong reportedly criticized the lack of lead time given to adjust to the change, saying, "We are worried that clients will be annoyed when they use our financial services because in the past they have never been informed that they are obligated to pay VAT." Government officials have agreed to meet with CMA representatives to discuss the issue. July 28. 2017

First Merchant Bank Acquiring Malawi's Opportunity

First Merchant Bank, a Malawi-based financial institution, recently announced it will pay an undisclosed price to acquire Opportunity International Bank of Malawi (OIBM), a microbank affiliated with US-based NGO Opportunity International. The sellers are Opportunity International and its British and Canadian affiliates. OIBM provides loan and deposit services to 400,000 customers as of 2017. As of 2015, it reported 690,000 customers, total assets of USD 38 million, deposits of USD 24 million and a gross loan portfolio of USD 9 million. Founded in 1971, Opportunity International provides loans, savings, insurance and training to 14 million individuals - nearly all women - in 24 countries in Africa, Asia, Europe and Latin America. First Merchant, which operates in Botswana, Malawi, Mozambique and Zambia, reports assets equivalent to USD 455 million. Its primary shareholder, Magni Holdings Limited, controls one third of the bank's shares. July 19. 2017

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

INSIDE Page

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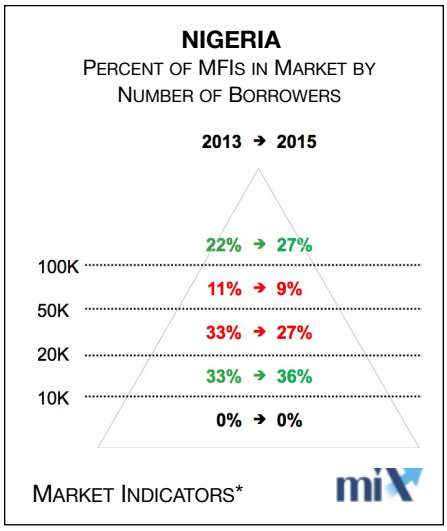

MICROCAPITAL BRIEFS

VisionFund Appoints Michael Mithika as CEO

As of October 2017, Michael Mithika will become the new President and CEO of VisionFund International (VFI), a UK-based affiliate of US-based NGO World Vision. In addition to founding the School of African Microfinance in 2005, Mr Mithika co-founded J M Mantle & Company, a management consulting and financial services firm helping investors, donors and financial institutions deepen financial inclusion in sub-Saharan Africa. He has also served on the VFI board of directors since 2011. VFI provides financial services to poor people with the goal of increasing "economic resilience in communities to help children grow up with improved nutrition, healthcare and access to education," particularly in rural areas. During 2016, VisionFund lent USD 729 million to 1.2 million people, about 75 percent of whom are women. World Vision reports serving 99 countries with 2015 revenues of USD 2.7 billion. July 31. 2017

IIX Preparing $8m "Livelihood" Bond for Women in Southeast Asia

Impact Investment Exchange Asia (IIX), a Singapore-based, for-profit facilitator of investment in social enterprises, recently announced that it is seeking to raise USD 8 million via a "Women's Livelihood Bond" issue to support women-owned businesses in Southeast Asia. The funds are to be supplied to microfinance institutions and other organizations supporting women for purposes including financing business equipment and tuition for vocational training. The US government's Agency for International Development is guaranteeing half of the bond principal. IIX is floating the issue on the Singapore Exchange, offering a total return of 5.65 percent over four years. IIX has facilitated investments totaling USD 22 million in 30 enterprises in Asia since its founding in 2009. July 31. 2017

UN Uses Blockchain to Deliver Support to 10k Syrian Refugees

The United Nations' World Food Programme (WFP) is helping Syrian refugees in Jordan's Azraq camp buy food from supermarkets in the camp utilizing blockchain technology from Switzerland's Ethereum Foundation. The identity of the purchaser is established using a retina scan, and the blockchain system is used to record each transaction. "Through blockchain, we aim to cut payment costs, better protect beneficiary data, control financial risks, and respond more rapidly in the wake of emergencies," according to Robert Opp, WFP's Director of Innovation and Change Management. July 31. 2017

Vision Microfinance Funds Lend $10m

During June, the two Vision Microfinance Funds of Austria's C-Quadrat Asset Management extended credit totaling approximately USD 10 million to microfinance institutions (MFIs) in countries including Armenia, Bosnia and Herzegovina, China, Colombia, India and Indonesia. For example, an MFI in El Salvador will borrow funds to increase its lending to micro-, small and medium-sized enterprises, including those in rural areas. The MFI was founded in 1995 and partners with local NGOs to build trust among clients and get more information about their creditworthiness. The MFI also provides financial education to reduce the risk of over-indebtedness. The name of the MFI and the amount C-Quadrat will lend it remain confidential. The Vision funds manage assets with an aggregated value of USD 580 million. July 31. 2017

India's Disha Receives License to Run Fincare Small Finance Bank

Disha Microfin, an Indian microfinance institution (MFI), recently received a license from the Reserve Bank of India to open a "small finance bank" that it is launching under the name Fincare. The license allows Fincare to accept deposits, access international funding, offer debit cards, provide services via automated teller machines and disburse "higher ticket loans to micro- and small enterprises, as well as gold and affordable housing loans." Founded in 2009, Disha reports total assets of USD 46 million as of 2015. July 31. 2017

EIF to Guarantee $6m in CKB Credit Lines in Montenegro

In partnership with the EU's European Commission, the European Investment Fund (EIF), a member of the EU-backed European Investment Bank Group, recently agreed to guarantee financing to "up to 700 Montenegrin micro-borrowers" disbursed by Crnogorska Komercijalna Banka (CKB), a member of Hungary's OTP Group. The plan is to facilitate the delivery of the euro-equivalent of USD 5.9 million over five years via overdraft facilities, which are a new product for CKB. Each account will have a cap of USD 11,800 and will be backed by personal recognizance. The terms also include "a reduction of the fees and the interest margin." The OTP Group serves 13 million clients via 1,400 branches and 4,000 automatic teller machines in nine countries in Southeast Europe. July 30. 2017

Nigeria's Lagos Creates IBILE Microfinance Bank to Serve MSMEs

The government of the Nigerian state of Lagos recently established Ikeja Badagry Ikorodu Lagos Island Epe (IBILE) Microfinance Bank with the aim of boosting economic growth and reducing poverty. The bank, which is to focus on lending to small-scale entrepreneurs, will draw on the equivalent of USD 79 million from the Lagos State Employment Trust Fund over four years as well as access the Central Bank of Nigeria's MSME (Micro, Small and Medium Enterprises) Development Fund, which has a budget of USD 698 million. July 27. 2017

IFC Planning Credit Bureau, Lending $13.5m to MFIs in Myanmar

The World Bank Group's International Finance Corporation (IFC) recently announced it will loan a total of USD 13.5 million and provide related advisory services to three microfinance institutions in Myanmar. Fullerton Finance and Early Dawn Microfinance are each borrowing USD 6 million, and Maha Agriculture is borrowing USD 1.5 million. In addition, IFC plans to help create a credit bureau in the country. Fullerton Finance, of which IFC owns 15 percent, is affiliated with Fullerton Financial Holdings, which in turn is a unit of Singapore's Temasek Holdings that "invests in and operates financial institutions [with a]… focus on the [small and medium-sized enterprise] and mass market customer segments." Dawn, which lends to women in urban areas, is owned by US-based NGO Accion. Dawn has total assets of USD 9.7 million, and the Accion network holds an aggregate loan portfolio of USD 7.7 billion and USD 5.6 billion in deposits for customers in 40 countries. Maha, which is a subsidiary of agricultural input manufacturer Myanma Awba Group, focuses on digital agri-lending products. Financial data on these two firms are not available. July 27. 2017

Zimbabwe's IPEC Creates Enabling Framework for Microinsurance

The Insurance and Pension Committee (IPEC) of Zimbabwe recently announced it has issued a regulatory framework for microinsurance products to be distributed through "microfinance institutions, mobile network operators, church organisations and burial societies." The framework encompasses products mitigating the financial risk related to "death, injury and illness, loss of property, effects of drought and other contingent events." The intended customers are "low income earners" as well as small and medium-sized enterprises. July 27. 2017

Central Bank of Egypt Sets Standards for Banks' Loans to MFIs

The Central Bank of Egypt (CBE) recently issued a uniform set of standards for banks to use in evaluating requests for funding by microfinance institutions. Banks now also must track retail and microfinance loans separately, as well as monitor the gender of borrowers and the type of economic activity for which each retail loan is intended. In addition, CBE is piloting a project with banks and "civil associations" to leverage digital financial services (DFS). Among its goals is to train field staff in the know-your-customer rules that CBE has established for DFS. July 18. 2017

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

SPECIAL REPORT

This interview launches a sponsored series on the third Semaine Africaine de la Microfinance (SAM), which begins on October 9 in Addis Ababa. It is organized by ADA, an NGO based in Luxembourg, with the support of Luxembourg's Ministry for Development Cooperation and Humanitarian Affairs, in partnership with the Microfinance African Institutions Network (MAIN), the African Rural & Agricultural Credit Association, African Microfinance Transparency (AMT), the Association of Ethiopian Microfinance Institutions (AEMFI) and Kenya's Association for Micro-finance Institutions.

Semaine Africaine de la Microfinance (SAM)

MicroCapital: What is your perspective on SAM's theme this year, "Creating Value for SMEs: A New Frontier for Inclusive Finance"?

Saleh Usman Gashua: Small and medium-sized enterprises (SMEs) in Africa are facing numerous challenges, especially in accessing finance. SMEs, particularly those in the "missing middle," comprise a segment whose growth and development will go a long way in generating jobs for young Africans. With 11 million youth entering Africa's labour market each year, we cannot ignore SMEs. Microfinance institutions (MFIs) and other organizations serving these enterprises therefore have a major role to play in the future of Africa. I hope this edition of SAM will generate a range of concrete solutions for this segment.

MC: AFRACA is one of several networks that collaborated to create SAM.

SUG: Organizing a forum of this magnitude is by no means an easy task! Given the experience of AFRACA organizing similar forums in the past, we know that a partnership approach is necessary. The coordination process so far has been seamless, with the lead institution, ADA, facilitating a well-coordinated, consultative process that has engaged all stakeholders.

MC: Please tell us a bit about AFRACA.

SUG: AFRACA is a regional association of institutions involved in promoting rural and agricultural finance in Africa. It was established with the support of the UN's Food and Agriculture Organization in 1977 alongside similar institutions serving other parts of the globe.

AFRACA's activities hinge on four strategic pillars: (1) Policy Development and Advocacy; (2) Capacity Building; (3) Knowledge Management and Information Sharing Services; and (4) Partnerships and Networking Programmes. One of the key strengths of AFRACA is the diversity of its members, which include MFIs, microfinance networks, commercial banks, NGOs, governmental institutions and research organizations.

MC: What have your members said about past editions of SAM?

SUG: Our members' engagement in SAM has been very positive. They have found the event to be a great opportunity to meet other like-minded individuals to create opportunities for their businesses and drive a sustainable agenda.

MC: What would you say to someone considering attending SAM for the first time?

SUG: SAM is a indeed a unique event. It not only offers conference sessions but also numerous side events offering opportunities for learning and networking. For an investment of EUR 500, participants access a menu more than 20 events to choose from, making it a good value for the money. I would like to single out the Investor's Fair as a key event. This should be of interest to all MFIs that are looking for new investment.

Saleh Usman Gashua serves as the Secretary General of AFRACA.

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EAR TO THE GROUND

Growth Through Partnerships: The Real Sharing Economy

If financial services providers are going to do a better job of serving low-income households, we need innovation. And with fintechs dominating the attention of both investors and donors, it can be tempting to equate innovation with technology. But what if our greatest innovations are not about technology at all? Indeed, many are about partnerships. Sure, some of these partnerships involve technology, but there is much more to a successful partnership model.

Of course, there are some big players that can develop a business model and capture significant market share without partnerships. Kenya's Safaricom is one that purposely builds out its own services, and its 66-percent share of the telecom market offers a fertile platform from which those services can flourish. Gentera, through its microfinance bank, Compartamos, has over 3.3 million microcredit customers in Mexico, Peru and Guatemala. Compartamos' market share of nearly 25 percent in Mexico offers a similar business dynamic to that of Safaricom. For example, Gentera has incubated the insurance broker Aterna in-house and acquired remittance operator Intermex and the agent network Yastás. Why partner when you can incubate or acquire?

Alas, not every company is positioned with the capital and captive market to expand like Safaricom or Gentera. For most "little guys," partnerships are the only way to go. In microinsurance, for example, I have seen insurers looking to enter revenue-sharing deals with MFIs that allow both partners to have "skin in the game," incentivizing innovation to improve client value. One of my most gratifying consultancies involved a complex partnership among an insurer, an MFI, a reproductive health NGO, a chain of funeral homes and a large supermarket. To understand why it works, we have to understand the business interests of each partner. The NGO needed a new revenue stream, the supermarket wanted to build goodwill in the low-income segment and the funeral home wanted to reduce its default risk. Meanwhile, the insurer needed to offer value-added services to convince the MFI that it was looking out for clients' best interests. In the end, everyone won, especially the clients.

Of course partnerships aren't easy. In June, I was in Santo Domingo, assessing a partnership between a provider of construction-related technical assistance (TA) and an MFI providing housing loans. The logistics of timing the TA so it didn't slow down the loan process were complex. The TA often got sidelined, sometimes to the detriment of the client and her construction plan.

A lot of thinking and implementing still needs to go into improving partnerships if financial services providers are going to deliver products that better meet the needs of low-income households. The innovation that is needed may include an app or other technology solution, but it also requires new models for revenue sharing, training partners' staff members and distributing services.

Some of the bigger players in the sharing economy have been in the spotlight recently, most famously Uber and its less than collaborative approach. If these companies are turning out to be more valuable to venture capitalists than to their users and staff, then perhaps we should reconsider the definition of a sharing economy. Perhaps the "real" sharing economy is about sharing revenue to meet the needs of users and staff through mutually beneficial partnerships.

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.

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PAPER WRAP-UPS

The Social Dilemma of Microinsurance: Free-riding in a Framed Field Experiment

By Wendy Janssens and Berber Kramer, published by Elsevier, March 2016, 15 pages, available at http://www.sciencedirect.com/science/article/pii/S0167268116300166

This paper analyzes the incentives for individuals to buy health microinsurance while active in borrowing groups. Health issues are consistently among the top reasons people become unable to repay loans. However, when borrowing as part of a solidarity group, the burden to repay falls on the group if the individual cannot do so. After conducting a field experiment with credit groups in Tanzania, the authors found that group insurance is a potential remedy for this "free-riding."

Those deemed more risk averse usually chose to buy insurance whether it was individual or group insurance. Among those deemed… *(Continued in the subscriber edition)*

Responsible Pricing: Field Evidence

Published by MicroFinanza Rating, June 2017, 3 pages, available at http://www.microfinanzarating.com/images/MFRInsight_ResponsiblePricing_June2017_Final.pdfs

When pricing their products, financial service providers (FSPs) have to balance profitability with keeping prices affordable to their customers. One way FSPs can reduce this pressure is by increasing operational… *(Continued in the subscriber-only edition)*

The State of Microinsurance: The Insider's Guide to Understanding the Sector

Edited by Jenny Glaesener Nasr et al, published by the Microinsurance Network, 2017, 68 pages, available at http://www.microinsurancenetwork.org/sites/default/files/State%20of%20Microinsurance%202017_Microinsurance%20Network.pdf

The theme of this report is climate change and how climate risks can be mitigated in developing countries. Among the examples… *(Continued in the subscriber-only edition)*

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