MicroCapital Monitor
On Microfinance & Other Forms of Impact Investing

FREE PREVIEW EDITION*

JUNE 2017 | VOLUME.12 ISSUE.6

MICROCAPITAL BRIEFS | TOP STORIES

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SEB Raises $164m for 5th Microfinance Fund

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

Solomon Islands' Retirement Fund to Enroll Self-employed

The Solomon Islands National Provident Fund (SINPF), a government-backed retirement trust, recently launched youSave, a savings plan designed to help self-employed islanders establish and contribute to retirement accounts as do "formally employed" citizens. Under the SINPF Act, "every employer is required to pay to the Fund a sum equivalent to 12.5 percent of each employee's total gross salary each month. This pay or contribution comprises 5 percent deducted from a member's gross salary and a further 7.5 percent contributed by the employer on behalf of the employee/member." The plan's 170,000 members have earned an average annual interest rate of 8 percent since 2007. The UN's Pacific Financial Inclusion Programme is subsidizing the plan with technical assistance, 20 tablet computers and USD 177,000 in cash. June 25. 2017

BOPA Raises $8m in Equity to Invest in Asian MFIs

Base of Pyramid Asia (BOPA), a microfinance investment company in Singapore, recently informed MicroCapital that it has raised a total of USD 8 million in equity funding from the Investment Fund for Developing Countries, which is owned by the Danish government; the Finnish Fund for Industrial Cooperation (Finnfund), which is backed by the Finnish government; and a Danish family office. BOPA holds assets of USD 6 million, and its investees have an aggregate loan portfolio of USD 63 million serving 147,000 people in Cambodia, East Timor, Kazakhstan, Kyrgyzstan, Myanmar, Tajikistan and Vietnam. June 22. 2017

Incofin Sells Stakes in Financiera Confianza of Peru, Affiliate of Fundacion BBVA

Belgium's Incofin Investment Management (Incofin IM) recently informed MicroCapital that it has sold all of the equity held by three of its funds, Incofin CVSO, Volksvermogen and Rural Impulse Fund I, in Financiera Confianza, a Peruvian microfinance institution affiliated with Spain's Fundacion BBVA MicroFinanzas. The buyer was an unidentified existing shareholder in the microfinance institution. Although the sizes and prices of the stakes remain confidential, Incofin IM reports that the funds enjoyed "over five times net value increase" on the sales. In addition, over the last 14 years, Incofin IM states that it "played a key role in…the introduction of Social Performance Management practices and firmly establishing the institution's focus on rural outreach." Founded in 1998, Confianza provides microcredit and deposit services to 470,000 clients via 150 branches, with a focus on rural areas of central Peru. It has a loan portfolio of USD 458 million and holds USD 280 million in deposits. Fundacion BBVA holds stakes in six institutions in Chile, Colombia, Panama and Peru. June 6. 2017.

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

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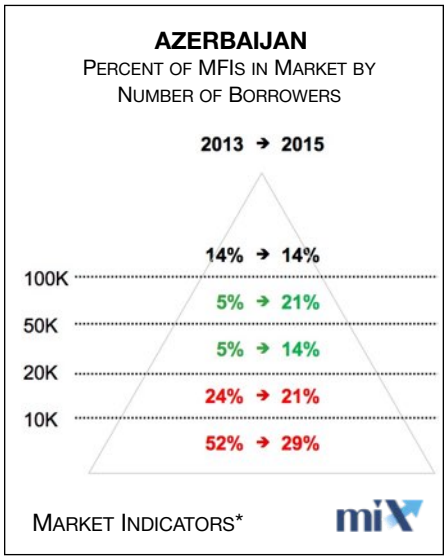
MicroCapital



MICROCAPITAL BRIEFS

Fund for Rural Prosperity Awards $3m for New Programs in Africa

KPMG, a network of firms providing business services in 155 countries, recently informed MicroCapital that The MasterCard Foundation's Fund for Rural Prosperity has awarded USD 1 million each to the following organizations: Ibero Uganda for the provision of loans, training and related services to coffee farmers; US-based First Access for an agricultural credit scoring mechanism for lenders in Tanzania; and Botswana-based Letshego Financial Services for an agency banking project in Mozambique. Financial service providers serving sub-Saharan Africa may apply for the next round of award funds until August 10. Ann Miles, the Director of Financial Inclusion at The MasterCard Foundation, said, "We hope that other actors in this space are taking note so that they, too, can emulate or support success and bring the benefits of financial inclusion to millions more people." The MasterCard Foundation, which reports USD 9 billion in assets, was established in Canada in 2006 by US-based payment processor Mastercard Worldwide. June 30. 2017

C-Quadrat's Dual Return Vision Funds Enter Myanmar

C-Quadrat Asset Management, an arm of Austrian fund manager C-Quadrat, recently informed MicroCapital that in May it issued a loan through the Dual Return funds in Myanmar for the first time. During the month, the Dual Return Vision Microfinance and Dual Return Vision Microfinance-Local Currency funds loaned a total equivalent to USD 34 million to unidentified providers of financial services in Cambodia, Costa Rica, Mongolia, Kyrgyzstan, Tajikistan and other countries. The microfinance institution (MFI) in Myanmar, which was originally launched by an international NGO, offers deposits and group loans in five regions of the country. C-Quadrat Asset Management states, "The MFI's portfolio quality is very high… [and it has] implemented very good procedures [relating to] social performance." June 30. 2017

MicroFinanza Rating Issues 8 Credentials in Asia, LatAm

During June, Italy's MicroFinanza Rating (MFR) issued four microfinance institutional ratings. Ecuador's Insotec earned a rating of BBB with a stable outlook. Three institutions earned ratings of BB+: VisionFund Honduras, with a stable outlook; Fundacion Pro Mujer Argentina, with a positive outlook; and El Salvador's PADECOMSM-CREDITO, which was formerly known as Patronato para el Desarrollo de las Comunidades de Morazán y San Miguel, with an outlook of "under observation." MFR also certified the client protection efforts of FINCA Nicaragua, Tajikistan's Imon International and Indonesia's Komida under license from the Smart Campaign of US-based Accion's Center for Financial Inclusion. VisionFund Honduras, which also earned a social rating of BB from MFR, is an affiliate of VisionFund International. Pro Mujer Argentina and FINCA Nicaragua likewise are affiliated with international nonprofit networks. June 30. 2017

IFC, FMO, SBI-FMO Invest $22m in Equity in Sri Lanka's Sanasa

The World Bank Group's International Finance Corporation (IFC); Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden (FMO), a Dutch development bank; and Singapore-based SBI-FMO Emerging Asia Financial Sector Fund recently placed equity investments totaling USD 22 million in Sri Lankan-based Sanasa Development Bank (SDB Bank). Although the sizes of the newly purchased stakes have not been released, the transaction brings IFC's equity participation in SDB Bank to 8.9 percent, and FMO and SBI-FMO will hold a total of 12.9 percent of the bank's equity. Established in 1997, SDB Bank offers deposits, loans, pawning, money transfers and foreign currency services. It reports total assets equivalent to USD 430 million and 2016 pre-tax profit of USD 4 million. The SBI-FMO Fund is owned by FMO and the Strategic Business Innovator (SBI) Group, a Japan-based firm with total assets of USD 35 billion. June 27. 2017

IFAD Loaning $36m to Cambodia to Support Farmers

The government of Cambodia recently announced the first phase of a project intended to aid 15,000 small-scale farming families by "building infrastructure to help farmers, and offering special microfinance deals." Of the USD 60 million budgeted for the project, USD 36 million is on loan from the UN's International Fund for Agricultural Development, USD 8 million has been committed by the Cambodian government and the remainder is "coming from the private sector." Among the goals of the six-year program is to reduce the nation's agricultural trade imbalance by boosting "Cambodian farmers' competitiveness, especially internationally." One of the strategies for accomplishing this is facilitating farmers' access to loans from microlenders Amret, Lanka Orix Leasing Company and Prasac. June 27. 2017

Uzbekistan Borrows $500m from ADB to Build 29k Rural Homes

The Asian Development Bank (ADB) recently announced it will issue a loan of USD 500 million to support the building of 29,000 new houses in rural Uzbekistan. The units will reduce the number of people lacking "piped water connections and sanitary facilities in rural areas while… heating and cooking facilities with natural gas will ease the burden faced by women and enable them to avoid harmful solid fuels, which are linked to respiratory diseases." Ipoteka Bank, the National Bank of Uzbekistan and Qishloq Qurilish Bank will arrange mortgages for the home buyers, of whom 30 percent are to be women. Details on the pricing of the houses or loans are not available. June 27. 2017

Chinese Women Leverage Microfinance to Create Agribusinesses

Fushun, a city in northeastern China, spent the equivalent of USD 406 million from 2010 through 2017 to subsidize microcredit for the agricultural endeavors of 57,000 women, primarily those whose husbands live elsewhere due to employment obligations. The women's businesses include greenhouses as well as drying and storage facilities for mushrooms and medicinal herbs. Details such as the terms of the loans have not been released. June 23. 2017.

WaterCredit Investment Fund 3 Targets South, Southeast Asia

WaterEquity, the "social impact investment" subsidiary of US-based NGO Water.org, recently launched the WaterCredit Investment Fund 3 with the goal of raising USD 50 million to "invest in enterprises serving water and sanitation needs" of 4.6 million people in Cambodia, India, Indonesia and the Philippines. So far, it has secured an interest-free loan of USD 5 million from US-based Bank of America. Since the inception of WaterEquity in 2016, it has invested in 69 microfinance institutions and other organizations. Founded in 1990 by Matt Damon and Gary White, Water.org operates in 12 countries with USD 32 million in total assets. June 20. 2017

Telkom Kenya Shutting Down Orange Mobile Money Service

Telkom Kenya, a telecommunications provider in Kenya, recently announced that July 4 will be the last day it will offer the mobile money service Orange Money. Orange Money reportedly has struggled due to "only perform[ing] limited transactions" compared to competitors such as are offered by Safaricom and the local arm of India's Airtel. Telkom Kenya intends to re-launch a different mobile money platform with an emphasis on "interoperability," allowing users to send money to and receive payment from people on competing mobile money systems. Telkom Kenya's Orange Money service facilitated transactions totaling the equivalent of USD 774,000 via 800 agents during the last three months of 2016. The name Orange Money is a remnant of Telkom Kenya's past ownership by French telecommunications provider Orange SA. In 2015, the private equity arm of UK-based Helios Investment Partners bought a controlling stake in Telkom Kenya, which is also affiliated with South Africa-based Telkom. Telkom's reach encompasses 38 African countries. June 13. 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: How has SAM evolved since its launch four years ago?

Laura Foschi: We held the first edition of SAM in 2013 in Arusha, Tanzania. Our goal was to align the annual meetings of three networks of African microfinance institutions: AFMIN, AMT and MAIN. We had conference sessions on the first day, the networks' general assemblies on the second day and an Investor's Fair on the third day. During the week, we realized the potential of SAM to become a major African inclusive finance event.

We decided to move the location each time with the aim of engaging both French-speaking and English-speaking regions and organizations. In 2015, we held the conference in Senegal, expanding it to include two days of conference sessions and a broader range of parallel events. We were pleasantly surprised to have our registrations double to over 500 people! Perhaps for the fourth edition we will move to North Africa or Southern Africa.

MC: How did you select Ethiopia for the 2017 SAM?

LF: In order to maintain Ethiopia's strong economic growth, its large young population will need to achieve what we call "economic inclusion." In order to address this challenge, the government of Ethiopia has prioritized both microfinance and SMEs.

As we looked further into holding SAM in Ethiopia, we entered into a productive dialogue with AEMFI and discovered that it was very interested in the event.

MC: Speaking of SMEs, please tell us about this year's theme, "Creating value for SMEs."

LF: We wanted to focus on job creation and economic inclusion. There is a new class of entrepreneurs that want to develop their businesses in Africa. Thirty years ago, African entrepreneurs often moved to Europe, the US or other places where it was easier to do business. Today, many more of them are staying in Africa. We also have international organizations and investors supporting SMEs, such as AFD, with its accelerator and incubator process in West Africa, and the World Bank, which is focusing on women's entrepreneurship.

We want to encourage debate on how prepared the microfinance industry is to serve SMEs. While some microbanks have a long way to go, ACEP and COFINA are examples of organizations that have been very successful in serving these customers.

MC: Is there something on the SAM agenda that you would like to highlight?

LF: Throughout the week and in particular during the "Voices from the Field" plenary session, entrepreneurs will explain their daily challenges, dreams for their businesses and past failures. We will also get into agro-business, gender issues, digital solutions, incubators and business development service providers. There is a Research Meets Africa session; the Innovation Fair; the Investor's fair; and training sessions organized by Accion, CGAP, FAO, SPTF and others. Lastly, we invite MicroCapital readers to use the code ZSM38C to get a discount of EUR 50 off the registration fee!

Laura Foschi serves as the deputy director of ADA.

EUROPEAN MICROFINANCE PLATFORM

NETWORKING WITH THE SOUTH

SPECIAL REPORT

This feature is part of a sponsored series on European Microfinance Week, which will be held from November 29 through December 1 by the European Microfinance Platform (e-MFP), a 130-member network located in Luxembourg. MicroCapital has been engaged to promote and document the event.

Who Is Responsible in an Equity Exit?

Now that three years have passed since CGAP and the Center for Financial Inclusion (CFI) at Accion published "The Art of the Responsible Exit in Microfinance Equity Sales," this subject deserves a re-visit and perhaps expansion of the paper's general principles into industry guidelines.

As the financial inclusion and impact investment industries mature and grow, so does the issue of how investors committed to advancing financial inclusion can "exit responsibly" from the institutions in which they invest equity. Sometimes an exit will raise no debate, such as when the sale is to another mission-led investor with clear intentions to continue the work of the exiting stakeholder. However, there is increasing concern about mission drift as investments mature, exits become more common and the pool of well-capitalized social investors remains small. What, if anything, does an exiting investor owe to an investee or its clients to ensure the new investor is the right "fit" for helping the investee meet its social goals?

As Alex Silva of Calmeadow and Jeffrey Riecke of CFI note in a recent blog entry, investors exit for many reasons: a market may start to attract fully commercial capital; an investor's strategy might change; a market may become too risky; or an investor may need to raise capital.

The seller and purchaser typically will have a variety of obligations to satisfy. Their fiduciary responsibility to their shareholders may be inconsistent with the needs of end-clients. There may be tradeoffs relating to timing, size of the stake, where the investee is in its life cycle, and the ownership structure and governance arrangements in place. As Mr Silva and Mr Riecke put it, exiting investors "should not sell to the high-priced but questionable offer, and neither should they opt for capital-starved social investors."

This is tricky stuff. Despite the valuable contributions of the CGAP-CFI paper, there is room for expansion, including gathering industry input to create exit guidelines for financial inclusion equity investors.

To this end, e-MFP, the NpM Platform for Inclusive Finance and the Financial Inclusion Equity Council (FIEC) have commissioned a paper to synthesize stakeholder input on the subject. Authored by Daniel Rozas of e-MFP and Sam Mendelson of Arc Finance, the paper will be based on interviews with investors and supplemented by case studies. In addition, the authors welcome your input. They intend to have a draft ready for European Microfinance Week in November.

Briefing papers are mainly valuable if they produce concrete outputs. The goal of this paper is for FIEC members and other equity investors to use it in briefing organizations that assist them in exit trajectories (such as investment banks and consultants) and helping potential buyers better understand their own commitments to determine whether the proposed investment is truly a match. Most of all, the paper is meant to move the industry toward the establishment of best practices that improve the enabling environment for responsible equity exits. To paraphrase the authors of the 2014 paper, exiting responsibly may be an art, but it can also become more of a science.

This is a free, abbreviated preview of a report available by paid subscription at MicroCapital.org

EAR TO THE GROUND

Increasing the Gap: Will Digital Financial Services Leave Women Behind?

Earlier this week, I led a discussion on women and digital financial services with the Digital Frontiers Institute. Digital finance has great potential to help women store and borrow money safely and privately - and close to home. A recent study by Tavneet Suri and William Jack shows that women in Kenya who use mobile money increase consumption enough for 2 percent of them to step out of poverty. It seems that access to a convenient channel to receive remittances, make payments and store money may help women allocate funds more efficiently. This can lead to more savings, which tends to improve household wellbeing.

Of the women in the Kenyan study who saved more, many used multiple channels, including cash, banks and savings clubs in addition to mobile money accounts. So far, digital financial services seem to be complementing more complex services rather than replacing them. Digital services can give women their first experience with formal services or offer them a convenient transactional platform. Yet their depth of engagement is still lackluster as women continue to face constraints to both adoption and usage.

While some transactions - such as receiving remittances - are a strong match with mobile money, others may be cost-prohibitive. Women are generally poorer and thus more price sensitive than men. Even in Kenya, the birthplace of M-Pesa, GSMA reports that women are almost equally likely to have tried mobile money as men, but are less likely to actively use mobile money (52 percent of women vs 60 percent of men used mobile money over a 7-day period). I believe that transaction costs are a critical reason for this.

Poverty is not the only barrier to women's adoption and usage of digital services. Women often are excluded from a range of social and economic spheres due to social and structural gender norms. This can be exacerbated by technology if there isn't a concerted effort to be inclusive. In Pakistan, for example, men's use of traditional bank accounts is twice that of women's. When we include technology in the banking relationship, we find that women's exclusion increases exponentially - women are seven times less likely to have a mobile wallet in Pakistan. In Bangladesh, 90 percent of the 21 million microfinance clients are women. This high-touch financial service clearly works for women, who still only represent 18 percent of mobile money users.

Although technology can increase productivity and efficiency, it can also exacerbate differences between the "haves" and the "have-nots," propelling the incomes of the well-off more than that of those with fewer skills and less capital. While there is plenty of private investment flooding into digital finance, public monies would be well-spent seeking to ensure broader inclusion outcomes in digital finance. Otherwise, small increases in income by poor women may be overshadowed by even greater economic and social divides.

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

Case Study: SolTuna - Tuna Processing, Solomon Islands

Published by the International Finance Corporation, September 2016, 20 pages, available at: http://www.ifc.org/wps/wcm/connect/d4561543-cc39-4a9d-9963-26eb5ab4169c/soltuna_updated_May2017.pdf?MOD=AJPERES

This case study investigates the connections between financial literacy and the reduction of absenteeism and other problems at SolTuna, a tuna processing plant in the Solomon Islands. The reasons cited for staff absenteeism and resignations included lack of childcare, limited access to health facilities and gender-based violence.

After SolTuna partnered with the World Bank to train employees in financial literacy, 31 percent of those participating reported having money left at the end of the month, up from 14 percent before the training. SolTuna also brought in staff of Papua New Guinea-based Bank South Pacific to… *(Continued in the subscriber edition)*

Impact of Savings Groups on the Lives of the Poor

By Dean Karlan, Beniamino Savonitto, Bram Thuysbaert and Christopher Udry; published in the Proceedings of the National Academy of Sciences of the USA; February 10, 2017; 6 pages; available at: http://www.pnas.org/content/114/12/3079.full

Based on an analysis of savings-led micro-finance programs in rural Ghana, Malawi and Uganda, the authors find no evidence that people increased consumption as a result of… *(Continued in the subscriber-only edition)*

Financial Services Demand Side Survey Vanuatu

Published by the Pacific Financial Inclusion Programme, 2016, 52 pages, available at: http://www.pfip.org/wp-content/uploads/2017/05/VANUATU-DSS.pdf

Almost one third of the people surveyed on the island nation of Vanuatu are financially excluded. Many workers use informal services such as savings clubs and borrow from employers, family, shopkeepers and… *(Continued in the subscriber-only edition)*