MicroCapital Monitor
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MICROCAPITAL BRIEFS | TOP STORIES

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Sagamore Taking 70% Stake in Accion Microfinance China for $22m

Please see page 3 for coverage of this "MicroCapital Deal of the Month"

Fortis Bank Looks to Raise $50m on Nigerian Stock Exchange

Fortis Microfinance Bank has offered shares worth a total equivalent to USD 50 million on the Nigerian Stock Exchange. The firm plans to use the new funds to on-lend for affordable housing, boost internal technology capacity and increase its network from 13 branches to reach 774 municipalities. As of year-end 2011, Fortis reported total assets of USD 30 million. July 12. 2012

Deutsche Bank Secures Private Investments of $64m for EFSE

Germany's Deutsche Bank recently secured the euro-equivalent of USD 64 million from undisclosed private investors for the senior tranche of the European Fund for Southeast Europe (EFSE), a microfinance investment vehicle based in Luxembourg. The investment is intended to finance up to 10,000 loans to micro- and small enterprises in Southeast Europe and the South Caucasus. EFSE has USD 1 billion in outstanding commitments of which 37 percent are held by public-sector investors. July 11. 2012

In Kyrgyzstan, 31% Owe Multiple Loans, 94 MFIs Are Shut Down

While microbanks in Kyrgyzstan reportedly have doubled their aggregate loan portfolio since 2010, the Kyrgyz National Bank recently shut down 94 microfinance lenders, citing unreasonably high interest rates. Annual microloan rates in the country reportedly range up to 70 percent. Many small lenders have sprung up, with the minimum capital level required to launch set at the equivalent of USD 2,175. Cross-indebtedness in Kyrgyzstan, wherein customers are in debt to multiple lenders, reportedly stands at 31 percent and is rising. Nonprofit FINCA Kyrgyzstan, one of 21 microbanks affiliated with US-based nonprofit FINCA International, has taken steps to improve stability, such as raising its minimum capital level, improving reporting, imposing regular audits and restricting its rate of growth. On the other hand, CEO Babur Tolbaev of for-profit microlender Mol Bulak reportedly is confident about how much "room for growth" is available, citing repayment rates of 97 percent. June 27. 2012

Pakistan Allows Microbanks to Accept Non-Bank Funding

The State Bank of Pakistan, Pakistan's central banking authority, recently announced that microfinance institutions are now allowed to raise local-currency funding from capital markets and other non-bank sources under revised guidelines of the Microfinance Credit Guarantee Facility, which has been in operation since 2008 with the goal of brokering "long-term and market-based finance for microfinance institutions." June 27. 2012

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

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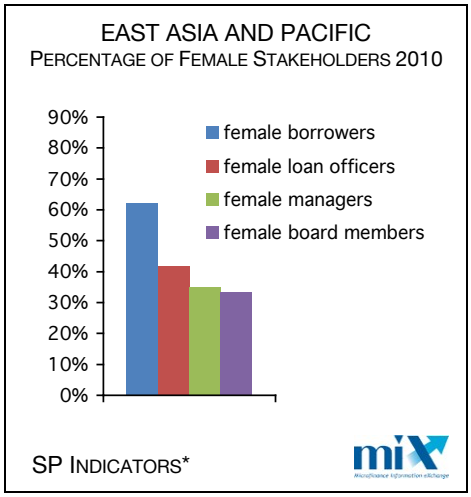

MICROCAPITAL BRIEFS

Al-Amal, Alkuraimi Launch Youth Savings Accounts in Yemen

Yemeni institutions Al-Amal Microfinance Bank and Alkuraimi Islamic Microfinance Bank have launched new savings products targeting people aged 18 to 30 in conjunction with Qatari social enterprise Silatech and German development agency Deutsche Gesellschaft für Internationale Zusammenarbeit. The accounts, which will be marketed through youth organizations and in the media, include an optional time-lock option and a range of participation incentives. The goal is to establish accounts for tens of thousands of youth. July 12. 2012

IFC to Loan $100m to 400 Suppliers to Comercial Shops Mexicana

The World Bank Group's International Finance Corporation has opened credit lines totaling USD 100 million to 400 small and medium-sized enterprises that sell products to Mexican supermarket chain Comercial Shops Mexicana (TCM). The funds, which are guaranteed by TCM, will be disbursed through PrimeRevenue, a US-based provider of supply-chain finance, and E-Factor Network, a Mexican online community for entrepreneurs. June 27. 2012

India's Grameen Koota Raises $5m in NCDs from responsAbility

Grameen Financial Services Private Limited, an Indian microfinance institution also known as Grameen Koota, recently raised the rupee-equivalent of USD 5 million in debt funding through the issuance of secured, redeemable, non-convertible debentures to unspecified funds advised by Switzerland's responsAbility Social Investments. Unitus Capital, an advisory firm based in India, served as advisor to Grameen Koota in the transaction. Grameen Koota, which offers microloans and educational services, reports total assets of USD 65 million, a gross loan portfolio of USD 56 million and 321,000 active borrowers. June 22. 2012

MicroCapital Deal of the Month

Sagamore Taking 70% Stake in Accion Microfinance China for $22m

Accion, a US-based nonprofit organization, recently announced a local-currency equity investment equivalent to USD 21.9 million placed by China-based Sagamore Investments in Accion Microfinance China (AMC). The initial transfer is of USD 6.25 million, while the remaining funds will be disbursed over the course of two years. Sagamore Investments will take a 70-percent stake in the company, and Accion, the operating partner, will retain 30 percent. AMC is a microfinance institution that was established in 2009 to deliver financial services to microentrepreneurs in Chifeng, Inner Mongolia. These services include working capital and fixed-asset loans for small and medium-sized enterprises starting at USD 150. AMC reports assets of USD 7 million, a gross loan portfolio of USD 6 million and 778 active borrowers. Sagamore has approximately USD 250 million invested in international venture capital and private equity funds plus USD 150 million placed in Chinese funds and firms.

FIELD NOTES

Mexico's SOFOMs: Seductive Sirens of Microfinance

Last year, I ran into Gonzalo Puente, a Bolivian microfinance expert who has spent the past 10 years in Mexico, first with CAME, then FINCA and more recently with a new venture, SOFOM Fortaleza a Mi Futuro. He explained that this was one a few microfinance institutions (MFIs) in Mexico that is trying to do things well.

Mexico's microfinance industry covers only about 5 percent of Mexico's 112 million people. With a relatively high GDP per capita of USD 15,000, Mexico's average microfinance loan size is very low at about USD 320. Compare this with Bolivia, which has a per capita GDP of just USD 4,800 and an average microfinance loan near USD 3,000. Surely many small businesses in Mexico could use more than USD 320 to grow. It is common for clients to attend various village bank meetings from multiple MFIs to meet their credit needs. They often send others to make payments on their behalf to ease the burden of attending all these meetings, increasing the risk of the loan for the MFIs, which lose touch with their clients. MFIs share this risk among themselves, enabling them to spend more resources on growth, but few seem to work on improving their credit analysis. It's no wonder that consumer lending through retail stores, pawn shops and co-ops is still strong. Interest rates are high at these outlets, but the hassle is less. My colleague Derek Poulton brought me a brochure from Mexico for a "vacation" loan with a 168 percent annual interest rate that's "fast, easy and safe."

Gonzalo noted that the high profitability of "SOFOMs," Mexico's regulated non-deposit-taking financial institutions, have "*seduced*" new investors into the market, many of whom are not socially driven. SOFOMs can indeed be *seductive*. They are easy to start up (requiring no preapproval from regulators), easy to finance (foreign capital is allowed) and relatively easy to run (SOFOMs can live off of one basic loan product). According to the *Oxford English Dictionary*, the word *seduce* has a dark side. It means: *attract (someone) to a belief or into a course of action that is inadvisable or foolhardy.*

Foolhardy! Are these MFIs and investors taking inadvisable courses of action? If so, when will the ball drop? Already delinquencies are inching up, suggesting that the time for MFIs to improve is now. I asked Gonzalo what "trying to do things well" might mean in the context of such a complicated market environment. He notes that it means having a long-term approach. Fortaleza a Mi Futuro believes that loan sizes can be increased, improving returns and allowing for gradual declines in interest rates if rigor is maintained in the loan process. Its strategy is to begin in hard-to-reach rural areas, "using" gains from loans in more thickly populated areas to reduce costs. It is also seeking ways to ensure that a social mission is accomplished. It is in the market for a "socially oriented" investor to sit on its board to make sure social discipline is sustained along with financial discipline.

Much as it did for the mythological Odysseus, it will take great strength for investors in Mexico to resist the temptation of attractive short-term returns. High delinquencies, poor product design and weak management are only some of the risks that lie on the rocky shores ahead. While comfortable margins on the back of high interest rates have cushioned some of this risk, these can't last forever. Those who focus on doing things well stand a chance of conquering the temptation to squeeze as much profit from the business as possible. Just in case, it wouldn't hurt to have a strong social investor in the picture to keep the institution tied to its mission as Odysseus had to be tied to the mast.

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PAPER WRAP-UPS

Microfinance Banana Skins 2012: The CSFI Survey of Microfinance Risk

By David Lascelles and Sam Mendelson, published by the Centre for the Study of Financial Innovation, July 2012, 50 pages, available at: http://citigroup.com/citi/microfinance/data/news120628.pdf

This survey, the fourth in the Banana Skins series since its launch in 2008, addresses the theme of "staying relevant" by identifying the most pressing risks to the microfinance industry as determined by approximately 360 sector practitioners, investors, regulators and observers in 79 countries. The survey asked respondents to explain their concerns for microfinance over the next few years, rate a list of "banana skins" - or potential risks - and assess the preparedness of microfinance institutions (MFIs) to deal with these risks. The survey results identify 20 risks to the sector, and the authors compare the changes in risk perception since 2008 as well as examining responses by region and type.

The greatest risk as perceived by survey respondents is borrower over-indebtedness, and many respondents separately cited the potential… *(Continued in the subscriber edition)*

Financial Access 2011: An Overview of the Supply-Side Data Landscape

By Oya Pinar Ardic et al, published by CGAP (Consultative Group to Assist the Poor) and the International Finance Corporation, May 2012, 26 pages, available at: http://www.cgap.org/gm/document-1.9.57980/Forum5.pdf

This discussion of financial inclusion focuses on supply-side data. It examines data related to: (1) access to financial services and the reach of financial infrastructure; (2) usage of financial services; and (3) quality of financial products and service delivery. The authors compare financial data providers and identify the following challenges to collecting data: human and other resources required to track financial inclusion indicators are usually limited; some data are not publicly available; lack of institutional identity weakens the reliability of supply-side data; and lack of standardized definitions and data. The authors recommend: (1) building country-level data capacity; (2) using standardized definitions and methodologies; (3) seeking data from a range of providers; (4) monitoring financial activities, enabling access to financial services and complying with… *(Continued in the subscriber edition)*

Gateways to Impact: Industry Survey of Financial Advisors on Sustainable and Impact Investing

Published by the Calvert Foundation, June 2012, 14 pages, available at: http://gatewaystoimpact.org/images/gatewaystoimpact.pdf

This report offers the results of a survey of approximately 1,000 financial advisors in the US regarding "sustainable" investment, which is defined as aiming to generate a financial return while also creating social or environmental benefits. The survey examines: (1) investor interest levels; (2) barriers to recommending such investment and solutions to these barriers; and (3) market potential. The survey found that 21 percent of advisors showed high interest and engagement in sustainable investment, 16 percent showed interest and were relatively engaged and 25 percent were interested but not significantly engaged. Advisors saw four major barriers to sustainable investing: (1) perceptions of insufficient track records and weak financial performance; (2) perceptions of low client demand; (3) lack of access to information; and (4) lack of comfort in advising clients on such investment. One estimate of the potential market for sustainable investing is USD 650 billion.