MicroCapital Monitor

THE MICROFINANCE NEWSPAPER

APRIL 2013 | VOLUME.8 ISSUE.4

FREE PREVIEW EDITION*

MICROCAPITAL BRIEFS | TOP STORIES

INSIDE Page

Lok Exits Satin Creditcare; Danish Microfinance, Microvest, Shorecap Buy In

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

Goal: 50m Savings Group Members by 2020

A group of government and nonprofit organizations recently launched "50 by 2020" with the goal of increasing the number of savings group members worldwide from 7.5 million to 50 million by 2020. The participating organizations are the US Agency for International Development and the following NGOs: the Aga Khan Foundation and CARE (Cooperative for Assistance and Relief Everywhere) of Switzerland; UK-based Plan International; and five US-based organizations: Catholic Relief Services, CGAP (Consultative Group to Assist the Poor), Freedom from Hunger, Oxfam America and the Small Enterprise Education and Promotion Network. Savings groups are self-led groups through which members - mostly African women - save, lend and share in the profits. April 7. 2013

India's Andhra Pradesh State Challenging Interim Supreme Court Order Favoring SKS

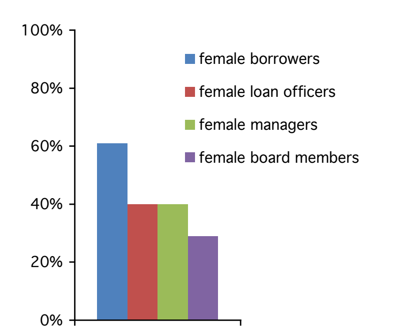
The government of the Indian state of Andhra Pradesh is challenging a recent interim order from the country's Supreme Court that suspends aspects of the Andhra Pradesh Microfinance Institutions (Regulation of Money Lending) Ordinance of 2010. The order, which applies only to SKS Microfinance because it filed the petition with the Supreme Court, allows the microlender to recover loans on a weekly rather than a monthly basis and permits SKS to disburse new microloans without obtaining a no-objection certificate from the state for each microloan. The Supreme Court issued the order in response to a petition challenging the recent dismissal of complaints against the 2010 ordinance by the state High Court. Many microlenders stopped operating in Andhra Pradesh because they judged that the 2010 law would prevent them from doing so profitably. SKS reports total assets of USD 354 million, return on assets of -46 percent and return on equity of -111 percent. March 26 and April 2. 2013

IFC Invests $28m in Equity in Bhutan National Bank for MSMEs

The World Bank Group's International Finance Corporation (IFC) recently invested USD 28 million in equity in the publicly owned Bhutan National Bank in an effort to increase the bank's lending to micro-, small and medium-sized enterprises, with a particular focus on serving low-income people and rural areas. IFC also will advise the bank, which reports assets equivalent to USD 474 million, on risk management and governance. March 27. 2013

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

LATIN AMERICA AND THE CARIBBEAN
PERCENTAGE OF FEMALE STAKEHOLDERS 2011



SOCIAL PERFORMANCE INDICATORS*

MICROCAPITAL BRIEFS

Absolute Loans $9m in Asia, Africa, South America

Absolute Portfolio Management of Austria recently informed MicroCapital that during March it issued the equivalent of USD 9 million, including USD 2 million in local currency, to microfinance institutions in Armenia, Benin, Cambodia, Georgia, Mongolia, Paraguay, Peru and Tajikistan. Absolute manages the Dual Return Fund - Vision Microfinance and Dual Return Fund - Vision Microfinance Local Currency funds, which report combined assets of USD 175 million. April 8. 2013

IIMA Report: Bandhan Clients Increased Wealth

The Indian Institute of Management - Ahmedabad, a public business school, recently completed a study on Bandhan Financial Services Private Limited, an Indian microfinance institution. Among a sample of 1,050 households in the state of West Bengal - including Bandhan customers as well as control households - clients of Bandhan boosted "non-farm business assets by an average of [USD 290]" between 2010 and 2013. Further, the study indicated that such households were able to "generate on average 35.82 man-days per month of full-time employment for family members." The report is not available online. April 6. 2013

EBRD Loans $19m to UniCredit Serbia for Leasing to SMEs

The UK-based European Bank for Reconstruction and Development has loaned the equivalent of USD 19.2 million to UniCredit Serbia, a subsidiary of Italian financial services company UniCredit, to expand lease financing to small and medium-sized enterprises in Serbia. The funds are expected to boost long-term leasing of machinery and equipment in the manufacturing and renewable energy industries. UniCredit Serbia reports total assets of USD 2.8 billion, and UniCredit Group reports total assets of USD 1.19 trillion from its operations in 22 European countries. April 5. 2013

MicroCapital Deal of the Month

Equity Purchases Value Satin at $37m, Lok Exits

To raise the equivalent of USD 7.5 million, Indian microlender Satin Creditcare Network Limited recently sold a share of approximately 20 percent to three microfinance investment funds in undisclosed portions: Danish Microfinance Partners K/S, US-managed MicroVest II and US-managed ShoreCap II. At the same time, MicroVest II bought the stake that Satin sold in 2008 to Lok Capital, a Mauritius-based company that invests in Indian microfinance. Lok Capital reportedly doubled its investment to the equivalent of USD 1.8 million. According to a press release from Unitus Capital, the advisor on the transactions, "The exit of Lok Capital is the first complete exit of this scale in the Indian microfinance sector and underlines the buoyancy and growth potential of the sector despite having gone through testing times recently." As of December 2012, Satin reported total assets of USD 100 million, a gross loan portfolio of USD 77 million and 377,000 active borrowers. As of March 2012, the institution reported return on assets of 0.52 percent and return on equity of 1.8 percent.

FIELD NOTES

Microfinance in Latin America: Time to Try on a Bigger Shirt?

My friend, colleague and EA Consultants Advisory Board member Elvis Alva was in Bogota last week talking to microfinance institutions about the state of the sector. Upon his return, we spent some time debating the issue of scale: why some institutions have been able to reach scale and others haven't. I asked him to offer some insight from his perspective as a consultant with over 20 years of experience helping institutions tackle questions of scale. The following are his words:

Returning from Colombia, I began to compare the situation in the microfinance sector to that of my native Peru. Specifically, I have been interested in the differences in the ability and effectiveness of various microfinance institutions (MFIs) in reaching scale. One impressive example in Colombia is Bancamia, the result of a merger of two institutions and a subsequent acquisition by the BBVA Foundation, an affiliate of Spanish bank BBVA. Bancamia currently leads Colombia's microfinance sector in both scope and scale. But interestingly, the BBVA Foundation's experience in Peru has been less impressive of late: Caja Nuestra Gente, also the result of a merger and acquisition by the BBVA Foundation, has been performing well, but without the growth I have observed in Colombia over the past three to four years. While Bancamia boasts a portfolio of 450,000 loans as of 2010, up from 285,000 three years prior, Caja Nuestra Gente has experienced a more modest 36-percent growth over that period.

I consider a successful business model to reflect strong commercial, risk and operating models. These need to be flexible, scalable and replicable. Flexibility is key. A common mistake is to think that these models are static, but business models must develop with the changes in the market. It's like wearing the same shirt after you gain weight: it will be too small. Knowing when to buy a bigger shirt is critical. So why has the BBVA Foundation been unable to do in Peru what is has done in Colombia? I believe it is primarily because of the two very different business models of these institutions. In Peru, Caja Nuestra Gente's commercial model is wearing an old shirt. It is still based on branches, with all of the costs and inefficiencies related to them. In Colombia, there has been a much greater evolution, with the use of non-bank correspondents, for example, making convenience a critical piece for reaching low-income clients. Identifying, replicating and scaling successful business models in Latin America is not easy. Those that have been able to achieve scale such as Mibanco of Peru and Compartamos of Mexico don't share the same "recipe" for success. The models vary and are specific to the country context and competitive environment. In some cases, commercial models matter most (Peru and Colombia); in others, the risk model is still the key driver for success (Mexico).

The expansion of behemoths like Mibanco and Compartamos, much like that of the BBVA Foundation's institutions across the region, will certainly be challenged, catching them between the temptation to stick to their successful formulas and the necessity to adapt to the conditions and needs of each market. Yet not one of these institutions can afford to rest on its laurels. As my friend and colleague Barbara Magnoni has been saying in this column, the landscape for financial services for low-income people in the region will be changing quickly in the next five years; those financial institutions that can't come up with business models that can compete and grow effectively will be faced with some tough competition from non-bank players. Already, retailers have become important players in the space; over time, phone companies, pharmacies and others will join. MFIs will have to innovate to stay relevant if they are to survive.

About the Author: Ms Barbara Magnoni is President of EA Consultants, a development consulting firm based in New York. She has 18 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@eac-global.com, or you may follow her on Twitter at BarbaraatEA.


PERFECT POINT PARTNERS
Consultants for Microfinance and Microenterprise
www.perfectpointpartners.com


Agribusiness • Green affordable housing • Micro/SMEs
Treetopscapital
investing with impact
IA 50
2012
MANAGER
Over $100 million of impact investments
under management and growing
www.treetopscapital.com / info@treetopscapital.com


www.kazansummit.ru www.kazansummit.com www.kazansummit.ru www.kazansummit.com
October 2-3, 2013, Kazan, Russia
KAZANSUMMIT
V International Summit on Economic Cooperation
of the Russian Federation and OIC countries
The Council of the Federation of the Federal Assembly of the Russian Federation,
The Government of the Republic of Tatarstan of the Russian Federation


alfi
association of the
luxembourg fund industry
responsible investing
conference
From niche to mainstream:
mission
structure
distribution
transparency
in association with
LUXFLAG
luxembourg chamber of commerce
may 15th, 2013


2.7 billion
people in the developing world lack
access to basic financial services.
DEVELOPING
WORLD
MARKETS
We invest in the solution.
Developing World Markets is a leading
investment management firm linking inclusive
financial institutions in the developing world to
the international capital markets. As of
December 31, 2012, DWM manages $765 million
in assets for institutional investors and has:
▪ 10+ years experience structuring and
advising creative microfinance transactions
▪ Financed 150+ financial institutions in
40+ countries
▪ 35 professionals speaking over 20 languages
Developing World Markets offers tailor-
made financial solutions to its clients to
meet their capital needs, including:
Senior & Subordinated Debt
Convertibles • Equity
Syndications • Bond Issues
USD • EUR • Local Currencies
Investing for Impact
DWM Asset Management LLC
750 Washington Boulevard | Stamford, CT, 06901, USA | Tel: +1.203.655.5453 | info@dwmarkets.com | www.dwmarkets.com

PAPER WRAP-UPS

Unlocking the Potential: Women and Mobile Financial Services in Emerging Markets

Published by the Global System for Mobile Communications Association's mWomen Global Development Alliance, Visa and Bankable Frontier Associates; 2013; 40 pages; available at: http://www.gsma.com/mobilefordevelopment/wp-content/uploads/2013/02/GSMA-mWomen-Visa_Unlocking-the-Potential_Feb-2013.pdf

This report analyzes connections between mobile financial services and women's financial inclusion in developing countries based on the experience of women in the following countries, which were selected for having varying stages of mobile finance market development: Indonesia, Kenya, Pakistan, Papua New Guinea and Tanzania. The authors of the report argue that, "MFS [mobile financial services] providers who choose to offer women relevant products will have the opportunity to improve both their core and mobile financial service businesses, as well as to impact women's lives at scale."

While this can lead providers to achieving greater scale, market penetration and stability, MFS providers contacted as part of this study are critical of their ability to meet women's wants and needs at this time.

Women constitute an important potential customer base for MFS providers in developing markets because women often serve as the most active financial managers within households in developing countries. While men bring in a greater share of household income on average, women often bring in supplemental income and are often responsible for paying bills, making purchases, setting aside savings and sending money to distant friends and relatives. These women generally seek convenience, reliability, security and privacy in prospective financial tools.

The barriers to higher use of MFS range from simple lack of phones - as was cited by 34 percent of those in Tanzania who expressed interest in trying MFS - to a "lack of perceived value," as was indicated by previous research by the mWomen Global Development Alliance of the Global System for Mobile Communications Association, a UK-based trade group.

The study identifies the following barriers to wider adoption of MFS products by women: (1) MFS advertising generally is targeted toward male audiences; (2) low awareness of the… *(Continued in the subscriber edition)*

Perspectives on Progress: The Impact Investor Survey

By Yasemin Saltuk, published by JP Morgan and the Global Impact Investing Network, January 2013, 28 pages, available at: http://www.thegiin.org/cgi-bin/iowa/download?row=489&field=gated_download_1

This is the third iteration of this effort to shed light on the condition and future prospects of the impact investment market. The authors define impact investments as those made with the intent of producing positive social or environmental impact in addition to financial returns.

The 99 respondents reported that their organizations had invested a cumulative total of USD 36 billion since they began making impact investments, USD 8 billion of which was disbursed in 2012. Approximately 83 percent of the investors were headquartered in developed countries, and the region in which the largest number of investors was active was sub-Saharan Africa, with 34 percent of respondents investing in that region. Thirty-two percent were active in Latin America and the Caribbean, and the same portion was active in the US and Canada.

Despite the focus on sub-Saharan Africa, the pipeline of investment opportunities there appears to be… *(Continued in the subscriber edition)*

Pathways Towards Greater Impact: Better Microinsurance Models, Products and Processes for MFIs

By Craig Churchill, Aparna Dalal and Josh Ling; published by the Microinsurance Innovation Facility at the International Labour Office; 2013; 8 pages; available at: http://www.ilo.org/public/english/employment/mifacility/download/brnote15_en.pdf

This paper examines challenges faced by microfinance institutions (MFIs) that provide microinsurance products to low-income individuals and businesses. The authors explore the evolution of microinsurance products, the spectrum of current products and services, and how MFIs may improve their products.

MFIs can be effective channels for the distribution of microinsurance to poor people. Many MFIs have begun to offer micro-insurance products as part of their product portfolio, as these services have the potential to boost the profitability of the MFI as well as its social agenda. Of the 451 MFIs that report social performance data to the US-based nonprofit Microfinance Information Exchange (MIX), 70 percent offer some form of… *(Continued in the subscriber edition)*

2013 Human Development Report – The Rise of the South: Human Progress in a Diverse World

Published by the United Nations Development Program, March 2013, 216 pages, available at: http://hdr.undp.org/en/

This report presents an analysis of the advancement of human development in developing countries as measured by the Human Development Index, which incorporates life expectancy, educational attainment and command over the resources to procure a "decent living." The authors state that a large… *(Continued in the subscriber edition)*

Microfinance and Patriarchy: A Drift Away from Serving Women

Published by Knowledge @ Wharton, 2013, 3 pages, available at: http://knowledge.wharton.upenn.edu/createpdf.cfm?articleid=3169

This report highlights the importance of gender equality in the provision of microfinance and focuses on the negative impacts of patriarchal attitudes on lending practices. The report suggests that it is easier for female loan officers than for male loan officers to interact optimally with women borrowers. "Because up to 70% of loans are made to… *(Continued in the subscriber edition)*