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MicroCapital Monitor

THE MICROFINANCE NEWSPAPER

FREE PREVIEW EDITION*

MICROCAPITAL BRIEFS | TOP STORIES

MBK Ventura of Indonesia Borrows $4m from Standard Chartered

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

Cameroon, UN Seek to Consolidate Microfinance Sector; 63 MFIs Losing Licenses

Cameroon's Ministry of Finance recently announced that it has revoked the licenses of 33 microfinance institutions (MFIs) due to fraud and regulatory noncompliance. As a result of the investigation, which began in 2012, an additional 30 MFIs reportedly are set to lose their licenses. In a related move, the government of Cameroon has partnered with three agencies of the UN in an effort to promote mergers among MFIs. The UN Development Program, the International Fund for Agricultural Development and the UN Capital Development Fund are supporting the strategy to counteract what has been deemed an oversupply of MFIs that has led to looser risk standards and lower profit margins. A similar effort in South Africa during the first decade of the 2000s reduced the number of MFIs in that country from 3,500 to 1,200. An estimated 450 MFIs in Cameroon serve 1.5 million people and hold savings totaling the equivalent of USD 800 million. July 27 and August 2. 2013

India's Bandhan to Go Commercial, Signals Rate Cut

Bandhan Microfinance of India has applied for a license to convert into a commercial bank, a move intended to allow the institution to accept deposits and expand into serving corporate customers. Bandhan will aim to keep 60 percent of its lending placed with unbanked rural people, and lending deposited funds rather than borrowed funds offers Bandhan the potential to reduce retail lending rates from 22 percent per year to as low as 12 percent. Bandhan reports total assets of USD 833 million, 4.4 million active borrowers, return on equity of 38 percent and return on assets of 6.4 percent. July 23. 2013

IFC Loans $1m to BancoSol of Bolivia

The International Finance Corporation, a member of the US-based World Bank Group, recently notified MicroCapital that it will loan up to USD 1 million to Banco Solidario (BancoSol), a Bolivian commercial bank that provides microfinance services, in an effort to improve financial access in rural areas as well as in the cities of La Paz, Oruro and Potosi. BancoSol will also provide technical assistance to farmers and entrepreneurs with the aim of improving their productivity. BancoSol reports total assets of USD 960 million, return on assets of 1.4 percent and return on equity of 18 percent. July 16. 2013

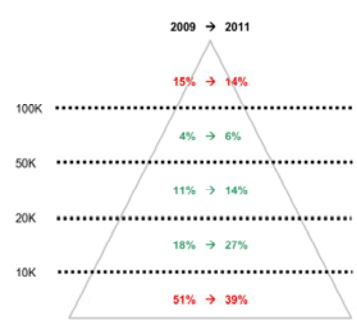
(For more top stories, please refer to the subscriber edition)

INSIDE

MicroCapital

MIDDLE EAST AND NORTH AFRICA

PERCENTAGE OF MFIS IN MARKET BY SIZE



MARKET INDICATORS*

MICROCAPITAL BRIEFS

World Bank Group Gives $20m for Yemeni Financial Infrastructure

The World Bank Group's International Development Association recently agreed to donate USD 20 million to a "Financial Infrastructure Development Project" that aims to improve the transparency and efficiency of Yemen's financial system as well as increase financial inclusion. Elements of the program include capacity building for the Central Bank of Yemen, shifting government payments to electronic means and establishing a credit bureau. August 4. 2013

Kenya's CardPlanet Helps Parents Send Money to Kids in School

Kenyan firm CardPlanet Solutions recently launched an electronic wallet service called "Pesacard" intended to enable parents to transfer money via mobile phones to their children in boarding school. The Pesacards, which are protected by a personal identification number, can be used to withdraw money from point-of-sale terminals located in schools. Financial data on CardPlanet are unavailable. August 2. 2013

Aeon of Japan Launches Consumer Credit Subsidiary in Myanmar

Japan's Aeon Financial Service Company Limited recently announced that it has launched Aeon Microfinance (Myanmar) Company, a consumer-lending subsidiary based in the Myanma state of Yangon. Aeon Microfinance reportedly will offer loans in connection with purchases from 100 appliance and furniture stores. In the future, the company hopes to issue credit cards. Aeon Financial reports total assets equivalent to USD 26 billion and 32 million cardholders. Aeon also has operations in nine other Asian countries. August 1. 2013

Tanzania Postal Bank Launches Branchless Banking

The government-owned Tanzania Postal Bank (TPB), with logistical support from Switzerland's World Savings Banks Institute and an unspecified amount of funding from the US-based Bill and Melinda Gates Foundation, is launching a mobile banking service called "TPB Popote" that aims to increase financial inclusion in rural Tanzania. TPB has total assets equivalent to USD 106 million and 28 branches. August 1. 2013

Proposed Microinsurance Tax Moves Forward in Brazil

The lower house of the National Congress of Brazil recently approved a new tax of approximately 1 percent on microinsurance sales. Microinsurers would also be eligible for a "special tax regime" unifying the payment of corporate income and social welfare taxes at a reduced rate. The upper house has not yet decided when it will consider the act. The microinsurance industry in Brazil covers 100 million people and is estimated to be worth the equivalent of USD 3 billion. August 1. 2013

KfW Takes 30% Stake in Invest India Micro Pension for $3.3m

Kreditanstalt fur Wiederaufbau Entwicklungsbank (KfW), a German development bank, recently paid USD 3.3 million to take a 30-percent stake in Invest India Micro Pension Services (IIMPS), a New Delhi-based provider of micropension and long-term microsavings products. Also as part of the firm's Series-B funding round, IIMPS raised USD 450,000 from the US-based Michael & Susan Dell Foundation and an undisclosed amount from Indian journalist Swaminathan Anklesaria Aiyar. IIMPS intends to use the funding from KfW to expand its services to reach 5 million low-income households over the next three years. Financial information on IIMPS is unavailable. July 31. 2013

African Insurance Organization Launches Microinsurance Group

The African Insurance Organization (AIO), which is based in Cameroon, recently inaugurated a Microinsurance Committee chaired by Nelson Kuria, CEO of Kenyan microinsurance provider Cooperative Insurance Company (CIC), with the goal of stimulating market interest in microinsurance and sharing knowledge of the market segment. AIO's 356 private- and public-sector members hail from 53 countries, including 46 in Africa. July 31. 2013

MicroCapital Deal of the Month

MBK Ventura of Indonesia, ASA Philippines Foundation Borrow $6m from Standard Chartered

UK-based Standard Chartered Bank recently informed MicroCapital that it disbursed local-currency funds for on-lending to microborrowers of Mitra Bisnis Keluarga (MBK) Ventura of Indonesia and ASA Philippines Foundation. MBK Ventura, which Standard Chartered has worked with since 2010, borrowed the equivalent of USD 3.9 million, and ASA, which Standard Chartered is working with for the first time, borrowed the equivalent of USD 1.8 million. MBK Ventura, which does not accept deposits, reports total assets of USD 33 million, a gross loan portfolio of USD 29 million, 342,000 borrowers, return on assets (ROA) of 1.6 percent and return on equity (ROE) of 10 percent. ASA reports total assets of USD 57 million, a gross loan portfolio of USD 55 million, deposits of USD 32 million, 601,000 customers, ROA of 5.3 percent and ROE of 29 percent.

"Mobile Money School Fees Payment Service" Offered in Liberia

Ecobank Transnational Incorporated, a Togo-based company with operations in 33 African countries, and Lonestar Cell Mobile Telecommunications Network (MTN), a member of the South Africa-based telecommunications company MTN Group, reportedly have launched a service in Liberia intended to allow mobile phones and the internet to be used to pay school fees, which are often paid in person by waiting in line for hours. The service also allows for funds to be uploaded, withdrawn, transferred or spent on retail purchases. July 30. 2013

Three-tier Regulatory System Proposed *Again* in Sri Lanka

A proposal first floated in 2011 has been reintroduced by the government of Sri Lanka whereby a three-tier regulatory and supervisory framework would apply to microfinance institutions (MFIs) that accept deposits. The Central Bank of Sri Lanka would oversee MFIs exceeding an unspecified first tier threshold. Audit firms would supervise smaller scale MFIs in a second tier. The third tier would encompass various exempt community-based organizations. The act would ban entities that do not fall into any of the above categories from accepting deposits. July 30. 2013

ADB Loans $50m to AccessBank of Azerbaijan for Rural MSMEs

AccessBank, a for-profit microfinance institution (MFI) in Azerbaijan, recently notified MicroCapital that the Asian Development Bank will provide a five-year senior loan of USD 50 million to support micro-, small and medium-sized enterprises in rural areas. AccessBank, which reports total assets of USD 704 million, is one-sixth owned by Access Microfinance Holding, a German joint stock company that also has stakes in MFIs in Tajikistan and four African countries. July 29. 2013

FIELD NOTES

A Call for a New Wave of Better - Not Just Cheaper - Financial Services

Recently in this space, I have been discussing the need for microfinance institutions to innovate. For decades, there has been a consensus that competition among microfinance institutions (MFIs) would stimulate better financial access and more sophisticated options for poor people. Yet despite growing competition, subsidies for new projects and the support of many smart people, innovation in microfinance has been slow, especially in terms of improving products and services so they better meet clients' needs.

The famed economist Joseph Schumpeter, who coined the phrase "destructive innovation," theorized that rather than competition, it is the promise of monopoly that spurs innovation: the potential profits from being a first mover and market leader may attract the most investment. I have seen this take place in many microfinance markets, especially where large institutions dominate. These MFIs have often made the greatest investment in new technologies, new market segments and new products while smaller institutions have lagged. Although few of these large MFIs have true monopolies, many have some monopolistic qualities, and some benefit from what Schumpeter calls "waves," during which they dominate the market for some time, then lose traction when competitors enter the market, before innovating again to attempt to regain a dominant position.

Where is there space now for a first mover to innovate and secure a foothold? Penetrating new market segments is one interesting area. In a recent exercise that EA Consultants worked on with US-based nonprofit CGAP (Consultative Group to Assist the Poor), we interviewed some market leaders that offer savings for youth clients in developing and developed countries. Throughout our research, we found that innovators were often leaders in their industries. They were typically large players and often started out with a stronghold in the youth market relative to their competition. Some leaders, such as Sparkassen in Germany, have been able to hold this first-mover advantage for decades.

We have also been looking at lending to small businesses - those one step larger than microenterprises - and asking if this may be another segment where first movers can reap some benefits. One MFI leader that I interviewed in Bolivia noted that the first-mover advantage was critical to establishing a foothold in this market. But that advantage has been declining as more competition comes into the market offering larger loans. Additionally, MFIs are not developing *new* products for this segment, so innovation has stagnated somewhat. Why? Competition may be the reason, not the solution. Microfinance practitioners often note that products can be easily and quickly copied by competitors, eroding the first-mover advantage from new products. Perhaps it is time for a new Schumpeterian wave of creative destruction and innovation that considers the specific product and service needs of small businesses. If clients are to be served by more appropriate - not just cheaper - products, we may need such a wave in many countries. I, myself, would put money on large and leading microfinance players driving this change in hopes of gaining a monopolistic advantage.

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.

MFTransparency Celebrating 5 Years

mftransparency.org

PROMOTING TRANSPARENT PRICING IN THE MICROFINANCE INDUSTRY

Since the launch of MFTransparency on July 28th 2008 we have collected, analyzed, and disclosed microloan pricing data from over 500 microfinance institutions across the world on loans going to more than 48 million clients. We have produced a wide range of education materials and tools on transparent pricing and trained hundreds on the calculation of prices.

MFTransparency would like to thank all of its partners, donors, and MFIs who have supported the organization over the past 5 years and helped make microfinance the first industry to practice global voluntary pricing disclosure. We look forward to continuing our work with stakeholders to further industry discussion on transparency and client protection. Together, we hope that our collective efforts will move us closer towards *a microfinance industry that operates with healthy market conditions where consumers and other stakeholders can make informed decisions.*

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PAPER WRAP-UPS

Symbiotics 2013 MIV Survey Report: Market Data and Peer Group Analysis

Published by Symbiotics Research and Advisory; 2013; 31 pages; available at: http://www.microfinancegateway.org/p/site/m//template.rc/1.9.62223

Symbiotics SA of Switzerland recently released the report from its seventh annual survey of microfinance investment vehicles (MIVs), drawing on responses from 84 MIVs, which together manage an estimated 93 percent of global MIV assets as of December 2012. The report includes analyses of both financial and social performance.

According to the survey, the MIV market recorded a 19-percent increase in total assets from 2011 to 2012, the third consecutive year of positive growth. The market is described as concentrated, with 44 percent of assets owned by the largest five MIVs and 15 percent held by the next five. Investments are also regionally concentrated, with 72 percent of funds being invested in Latin America, Eastern Europe and Central Asia. The fastest growth… *(Continued in the subscriber edition)*

Islamic Finance Manual: Operating Policies and Procedures

Published by the World Council of Credit Unions, June 2013, 305 pages, available at: http://www.woccu.org/documents/WORLD_COUNCIL_Islamic_Finance_Manual

This guide is intended to assist bankers with establishing Shariah-compliant credit unions in developing countries. As the Shariah, or Islamic law, prohibits interest payments and fees, Islamic banking is centered on the concept of joint venture and profit sharing. The manual was developed by Australia's… *(Continued in the subscriber edition)*

From Blueprint to Scale: The Case for Philanthropy in Impact Investing

By Harvey Koh, Ashish Karamchandani and Robert Katz; published by Monitor Group and the Acumen Fund; April 2012; 68 pages; available at: http://www.mim.monitor.com/downloads/Blueprint_To_Scale/From%20Blueprint%20to%20Scale%20-%20Case%20for%20Philanthropy%20in%20Impact%20Investing_Full%20report.pdf

This paper summarizes the findings of research into 700 impact-oriented businesses in Africa and India and a three-month study of companies invested in by the US-based Acumen… *(Continued in the subscriber edition)*