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FREE PREVIEW EDITION*

MICROCAPITAL BRIEFS | TOP STORIES

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FINCA Microfinance Holding Raises $48m

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

European Microfinance Week

Please see page 4 for special, sponsored coverage of this event.

Fonkoze of Haiti Raises $2m in Equity from Digicel

Sevis Finansye Fonkoze (SFF), a Haitian commercial microbank, has received an equity investment of USD 2 million from Digicel, a Bermuda-based cellular network provider. SFF, which offers microcredit, savings, foreign exchange, insurance and remittances, is affiliated with Fondasyon Kole Zepol, a nonprofit that provides microfinance and other services to poor people in Haiti, and Fonkoze USA, a US-based nonprofit that solicits funds and technical support for its sibling organizations. SFF reports total assets of USD 29 million, a gross loan portfolio of USD 13 million, deposits of USD 26 million, return on assets of -15 percent and return on equity of 387 percent. Digicel is a privately owned company that serves 13 million customers in 30 markets in the Caribbean, Central America and the Pacific. November 23. 2013

Triodos Sells Stake in Mongolia's TenGer to Orix, IFC, Mongolyn Alt Group

Triodos Investment Management, a subsidiary of Triodos Bank of the Netherlands, recently announced that it has sold the majority of its 13.5-percent equity stake in TenGer Financial Group, the Mongolian parent of XacBank and other microfinance providers. The shares, which had been held by the Triodos-Doen and Triodos Fair Share Funds, were sold to Orix Corporation, a Japanese financial group; the World Bank Group's International Finance Corporation; and the Mongolyn Alt Group, a Mongolian mining company. As of 2011, TenGer Financial Group reported assets equivalent to USD 605 million. November 16. 2013

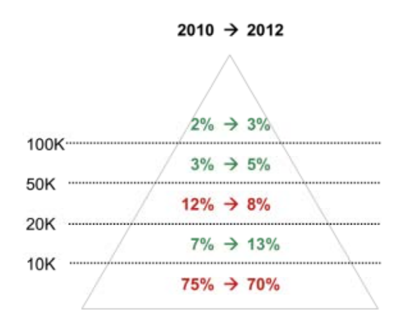
EBRD Loans $12m to Armenia's ACBA-Credit Agricole, Part for Energy Efficiency

The European Bank for Reconstruction and Development (EBRD), a UK-based multilateral institution, has provided two local-currency loans to Agricultural Cooperative Bank of Armenia-Credit Agricole Bank (ACBA), a microfinance bank partially owned by French bank Credit Agricole. The first loan, equivalent to USD 9 million, is intended for on-lending to micro-, small and medium-sized enterprises (MSMEs) in Armenia. The second loan, equivalent to USD 3.5 million, is for on-lending for energy-efficient investments by MSMEs as well as for individuals' homes. As of 2011, ACBA reported a gross loan portfolio of USD 362 million, 121,000 active borrowers, deposits of USD 159 million, 230,000 depositors, return on assets of 3.02 percent and return on equity of 14 percent. November 14. 2013

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

MicroCapital

EASTERN EUROPE & CENTRAL ASIA
PERCENTAGE OF MFIS IN MARKET BY SIZE



MARKET INDICATORS*

MICROCAPITAL BRIEFS

Kenya Commercial Bank, M-Pesa Launch Mobile Banking App

Kenya Commercial Bank (KCB), a publicly-traded institution, has partnered with Safaricom, a Kenyan mobile services provider that operates the mobile money service M-Pesa, to launch a mobile banking application called KCB M-Benki in Burundi, Kenya, Rwanda, South Sudan, Tanzania and Uganda. The application enables M-Pesa subscribers to open KCB accounts and conduct banking transactions such as deposits, withdrawals and fund transfers via mobile phones without visiting bank branches. KCB Group reports total assets equivalent to USD 4.3 billion. M-Pesa serves approximately 17 million clients through 45,500 agent outlets in Kenya. November 15. 2013

DID Loans $1m to Humo & Partners of Tajikistan

Developpement International Desjardins, a nonprofit subsidiary of Canadian cooperative Desjardins Group, has provided a senior loan of USD 1 million to Humo & Partners, a microlender in Tajikistan that reports total assets of USD 19 million, a gross loan portfolio of USD 17 million, 20,000 borrowers, return on assets of 8.2 percent and return on equity of 39 percent. November 8. 2013

IFC Places $3m in Equity to Support Indonesia's MBK Ventura

Bina Usaha Keluarga (BUK), the Indonesia-based majority shareholder of Mitra Bisnis Keluarga (MBK) Ventura, a microfinance institution in the same country, recently accepted an equity infusion equivalent to USD 3 million from the World Bank Group's International Finance Corporation with the aim of tripling the number of female clients MBK Ventura serves. Grameen Capital India, a social business based in India, served as advisor on the transaction. MBK Ventura reports total assets of USD 39 million, a gross loan portfolio of USD 34 million, 322,000 clients, return on assets of 1.9 percent and return on equity of 12 percent. November 7. 2013

MicroCapital Deal of the Month

FINCA Microfinance Holding Raises $48m

FINCA Microfinance Holding Company, a for-profit investment vehicle launched in 2011 by the US-based Foundation for International Community Assistance (FINCA International), has raised a total of USD 48 million in unspecified portions from the World Bank Group's International Finance Corporation, Germany's KfW Development Bank, the Netherlands Development Finance Company (known as FMO in Dutch), the Global Microfinance Fund of Switzerland's responsAbility Investments and two funds managed by Triodos Investment Management, an arm of the Netherlands' Triodos Bank. The Triodos funds, the Triodos Microfinance and Triodos Fair Share Funds, are the only new investors in FINCA Microfinance. With total investments of USD 122 million, FINCA Microfinance is in the process of converting FINCA International's subsidiaries into commercial entities. These subsidiaries serve 1 million customers in 22 countries.

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EUROPEAN MICROFINANCE WEEK 2013

SPECIAL REPORT

This content, which was produced by MicroCapital on-site at European Microfinance Week, is sponsored by the European Microfinance Platform (e-MFP), a 140-member network based in Luxembourg.

"Disrupt this Old Model to Unlock the Potential"

At the opening plenary of European Microfinance Week on November 13, Michael Chu of the US-based Harvard Business School and the Mexico-based venture capital fund Ignia, argued that microfinance generally is implemented using a 20-year-old model that is inefficient and "ripe for disruption" through technology. While lamenting that more funding is not available for early-stage ideas, Mr Chu cited the example of a concept Ignia is supporting whereby a potential borrower can apply by telephone to receive an instant, automated decision on a loan of up to USD 1,000. Suresh Krishna, the managing director of Indian microlender Grameen Financial Services Private Limited (often referred to by the name of its subsidiary Grameen Koota), argued that such "no-touch" services would not be as successful as "high-touch" services, those that involve regular personal contact with borrowers. Mr Krishna added that high-touch models also are a better match for bringing in partner organizations to offer corollary services such as solar power, biogas and rain-water harvesting. Her Royal Highness The Grand Duchess of Luxembourg also spoke at the plenary, arguing that working with a person to get her or him out of poverty benefits more than just that person: "Whoever is taken out of poverty is going to have an impact on the political situation of that country and its democracy."

Why MFIs Offer Unprofitable Housing Loans

Wilson Twamuhabwa, CEO of Uganda's Ugafode Microfinance Limited, explained that his organization began to offer housing loan products partly because its clients were using 30 percent of their loans for housing anyway. Suresh Krishna, the managing director of Indian microlender Grameen Financial Services Private Limited, said that, "Once clients trust you with a service; they ask for more things. This has often been [related to] housing: a roof, a toilet, wall repair." While Mr Twamuhabwa and Mr Krishna noted that their housing loans carry annual interest rates of 24 percent and 22 percent, respectively, Renan Marquez of Cooperativa de Ahorro y Crédito Intibucana (CACIL) of Honduras jolted the crowd by disclosing CACIL's rate: 8 percent. This steeply lower interest rate is possible because CACIL lends from its customers' deposits rather than wholesale commercial loans. CACIL pays interest of 2.2 percent on deposits denominated in US dollars.

All of the presenters stated that their housing loans are not directly profitable. Mr Twamuhabwa said that his institution considers offering housing loans to be part of its social mission. Mr Krishna argued that improving his clients' housing situations improved the odds that the clients would be able to repay their enterprise and other loans, due to factors such as improved health.

The Business Case for Serving Women

Eschewing the idea that lenders have a moral obligation to serve a greater proportion of women, Anne-Marie Chidzero of South Africa and Anna Gincherman of the US-based Women's World Banking (WWB) network both argued that lenders are leaving money on the table by failing to reach out to women. Ms Chidzero is the chairperson of the African women's network New Faces New Voices and the CEO of Johannesburg-managed AfriCap Microfinance Investment Company. Ms Gincherman cited data from microfinance institutions (MFIs) in 18 countries indicating that those with at least 60 percent female clients earn 53 percent higher returns on investment. The panelists cited well-known barriers to women's usage of financial services, such as collateral being in the name of a male relative, low financial literacy, poor self-confidence and pressure from husbands. Ms Gincherman and Lisa Peterlechner of German development agency Deutsche Gesellschaft für Internationale Zusammenarbeit, both reported success with radio campaigns to help men adjust to the idea of women using financial services. Ms Chidzero argued, "This is building our economies. The contribution of women to gross domestic product is highly underestimated and under-documented."

Ms Gincherman cited the example of Interfisa Financiera, an MFI in Paraguay, that had a policy of allowing one loan per household. Commonly the male head of household took out an agricultural loan, precluding the woman of the family from borrowing for her enterprise - perhaps a small store or the raising of animals. When Interfisa Financiera adjusted its policy to allow two loans per household, it was able to serve many more women. Ms Gincherman also cited the rollout of a mobile banking product by Nigeria's Diamond Bank. At first, the product attracted mostly men; but, over time, women used the product more, and their total savings level surpassed that of men.

Overcoming Barriers to Agricultural Microfinance

Daniela Röttger, a consultant to German development finance institution Deutsche Investitions-und Entwicklungsgesellschaft (DEG), spoke about her study of the agricultural lending products offered by several African banks and microlenders. While agricultural loans are often structured to allow for bulk repayment at the time of harvest, Ms Röttger noted that some institutions do collect interest payments on a regular schedule before harvest. In response to difficulty with repayment, some of the institutions developed relationships with third parties. For example, one lender arranged a voucher system with a supplier of agricultural products so that loan proceeds can be used only at that vendor, such as to purchase seeds and fertilizer. Another lender made an arrangement with a wholesaler that purchases crops to deposit the proceeds of crop sales into an account with the lender, so the lender gets paid before the farmer receives his or her profits.

Regarding the promotion of agricultural finance by investors, Philippe Guichandut of the Luxembourg-based Grameen Credit Agricole Microfinance Foundation reported that his agency has had difficulty supporting the sub-sector because so few microfinance institutions (MFIs) are offering farm loans. Although over 80 percent of those served by MFIs supported by Grameen Credit Agricole live in rural areas, perhaps less than half of those are accessing agricultural loans. Lisa Peterlechner of German development agency Gesellschaft für Internationale Zusammenarbeit argued that bringing knowledge to MFIs that do not offer agricultural loans is important to increase their comfort level with the product type. In response to a question from the audience, Patrick van Damme of Belgium's Universiteit Ghent stated that an enabling environment for agricultural lending can be promoted through a range of avenues such as financial training or small infrastructure projects.

FIELD NOTES

Getting Distribution Right: The Next Conundrum for Inclusion

This month, the World Bank released the annual update of its Financial Development Report, which focused on financial inclusion, boldly asserting that only half the world's population has a bank account. In low-income countries, only 11 percent do. Is informal finance more prevalent because people prefer it or because it is more easily available? Preferences matter, but demand is also closely linked to distribution. After all, I don't love Girl Scout cookies, but I buy them because the young salespeople literally come knocking at my door.

Distributing low-margin "micro" products such as savings and insurance at a high volume is an especially daunting challenge - dreams of SMS (text message) sales aside. Delivery can be expensive (pricing clients out), or restrictive (available only at times or places at which clients are less interested). It may be opaque (thus eroding clients' trust), often to mask coercive sales tactics (like brushing through key details of an insurance policy like exemptions for preexisting conditions or making a voluntary product seem like a requirement to qualify for credit).

We recently interviewed microentrepreneurs in Suriname, for example, who save through informal groups more than through formal banks - not out of preference but because no one has offered them bank accounts. This resonated when I sat down with some women farmers in rural Colombia last week. Armed with the World Bank data - hot off the presses - indicating that 72 percent of Colombians have no formal savings, I asked about this issue. They explained that they saved at home for emergencies. One woman, who helps manage her husband's farm, tucks away "spare" money she earns selling eggs from her chickens. Recently, a relative was sick, and she dipped in. "I had over USD 150 in that box. Can you imagine!", she said proudly. But informal savings is not all they need or want. Interestingly, most of these women had "secret" formal bank accounts as well. Accessing the account through local shops acting as bank correspondents makes deposits easy, which is critical since traveling alone into the city is out of the question.

Delivering insurance to low-income people is also tough. Many programs that have reached scale started with mandatory or "free" schemes, as was pointed out at last month's Ninth Annual Munich Re Microinsurance Conference in Jakarta. In many of these programs, even after buying insurance, few customers really know what coverage they have. Opaque distribution - often combined with mandatory schemes - is common. But if we want clients to buy products voluntarily (and with a lighter touch), we should strive for transparency. In a study we implemented for the Microinsurance Learning and Knowledge Project with Jonathan Bauchet, we found strong evidence at Compartamos Banco in Mexico that a clear and compelling sales pitch combined with distribution that clients trust can lead to high levels of voluntary enrollment in microinsurance.

It is no surprise that many insurers go the route of mandatory policies (tied to other services) or that many deposit-taking institutions have steered away from reaching the very poor because of high delivery costs. But financial inclusion will depend on overcoming some of these challenges and balancing low-cost distribution with responsible practices. We can reduce costs by introducing new technology and loosening regulation, but this must be paired with transparent and responsible delivery. After all, inclusion is not enough of an outcome in my book - we should strive to support higher incomes, asset building and asset protection.

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.

PAPER WRAP-UPS

The State of Microfinance Investment 2013

Published by MicroRate, October 2013, 16 pages, available at http://www.microrate.com/media/downloads/2013/11/MicroRate-The-State-of-Microfinance-Investment-2013.pdf

This eighth annual survey of international microfinance investment vehicles (MIVs) includes information from 92 MIVs, which held total assets of USD 8.1 billion as of 2012, an estimated 95 percent of the global share. USD 438 million in MIV investments were redeemed during that year, a decrease from USD 467 million redeemed during 2011.

According to the report, MIVs grew between 11 percent and 17 percent per year during 2009 though 2013, with growth and liquidity rates becoming increasingly stable. The liquidity rate was 8.2 percent in 2012, down from 15 percent in 2009.

In 2012, Latin America and East Asia-Pacific had the highest growth (24 and 23 percent, respectively). In India, MIVs resumed growth after a decline in recent years. In South America, Peru holds an MIV market share of 10 percent with opportunities for growth still available through investments in smaller, rural microbanks. Despite growth in Africa, that continent's market share decreased from 8 percent to 7 percent in 2012. On a per-country basis, investments grew fastest in Georgia, Azerbaijan, Bosnia and Mongolia with 78, 45, 43 and 38 percent growth rates, respectively.

In 2012, the median MIV size was USD 35 million, six times higher than in 2006. Although the largest MIVs still issue the most loans, market share for the five largest decreased from 46 percent in 2006 to 42 percent.

Industry trends include increases in the following areas: local-currency lending, microfinance fund sizes, investor demand for specialties such as impact investing, and diversification into subsectors such as agricultural finance and fair trade. In closing, the authors argue that investors should remain vigilant regarding potential.... *(Continued in the subscriber edition)*

Microfinance Pricing Reports

Published by Microfinance Transparency, October 2013, 15-19 pages, available at http://www.mftransparency.org/resources/

These reports provide an analysis of data from Ghana, Malawi, Rwanda, Tanzania and Uganda, detailing the prices paid by microborrowers in each country and statistics by lender, such as average loan size, interest rates, number of clients served, market share and number of products offered. The reports also include information on the transparency of pricing practices including whether the lender calculates interest based on declining balances, charges multiple fees or requires compulsory insurance or deposits. No more than 25.... *(Continued in the subscriber edition)*