MicroCapital Monitor
THE MICROFINANCE NEWSPAPER

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MICROCAPITAL BRIEFS | TOP STORIES

BRAC, LOLC Buy Sri Lanka's Nanda with Eye on Downscaling

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

AG Finance of the Philippines to Raise Up to $3.5m via IPO

AG Finance, a provider of microenterprise and consumer loans to Filipinos at home and in 20 other countries, reportedly has received regulatory approval to raise up to the equivalent of USD 3.5 million via an initial public offering of one quarter of the firm's shares during July and August. USD 850,000 of this amount is slated to repay wholesale loans to China Bank. One third of the funds to be raised are set to be lent overseas by the end of 2014. AG Finance offers unsecured loans of up to USD 1,100 with terms of up to 18 months. Founded in 2011, AG Finance reports USD 7.9 million in assets and 4,000 active borrowers. July 13. 2013

Creation Fund Closes with $75m, Places Equity in Mexico, India

Creation Investments Social Ventures Fund II, a US-based private equity fund managed by Creation Investments Capital Management, has completed its final closing with USD 75 million in committed capital. The fund has placed 35 percent of this amount as equity in Grupo Finclusion, a Mexican microfinance institution (MFI); Sonata Finance Private Limited, an Indian non-banking microfinance company; and Grameen Financial Services Private Limited, an Indian MFI also known as Grameen Koota. The sizes of each investment and the stakes taken in each firm have not been disclosed. Sonata reports total assets of USD 45 million, and Grameen Koota reports total assets of USD 99 million. Financial information for Grupo Finclusion is not available. June 16. 2013

Seeing "No Improvement at All" in AP, Indian MFIs Seek Extension

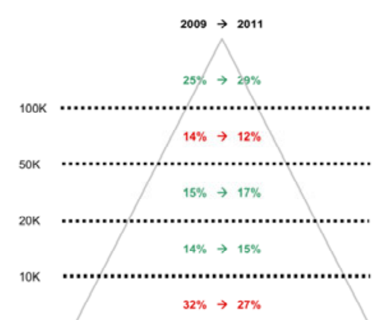
Wholesale loans covering the equivalent of USD 944 million in Indian microloans reportedly are at risk of becoming classified as "non-performing" if microfinance institutions do not begin making payments on the loans by September. Banks must make 100-percent provision for non-performing loans, whereas the loans are now classified as standard assets, carrying a provisioning requirement of 2.75 percent. The funds are owed to approximately 40 banks by Asmitha Microfin, Share Microfin, Spandana Sphoorty Innovative Financial Services and Trident Microfin. According to Kishore Kumar Puli, the managing director of Trident Microfin, "when we opted for a debt restructuring [in 2011], we assumed that there will be some improvement in the collection rate [in Andhra Pradesh]. But there has been no improvement at all." June 13. 2013

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

INSIDE

MicroCapital

SOUTH ASIA
PERCENTAGE OF MFIS IN MARKET BY SIZE



MARKET INDICATORS*

MICROCAPITAL BRIEFS

Bangladeshi Government Proposes Takeover, Split of Grameen

A paper commissioned by the Bangladeshi government proposes a government takeover of Grameen Bank, a Bangladeshi microfinance institution founded by Nobel Laureate Dr Muhammad Yunus, or a split of the institution into 19 entities. The paper recommends that the Bangladeshi government increase its stake from 25 percent to 51 percent of the bank. In a statement attributed to Dr Yunus, the proposal is "unworkable and deserved no consideration." He also argued that "the government takeover of a sound financial institution owned by 8.4 million poor women would be a case of an extreme abuse of government power." July 12. 2013

Profits of Nepal's Microfinance Institutions Deemed "Massive"

Microfinance institutions in Nepal have been criticized recently as their profits have grown 21 percent in one year, while interest rates range up to 25 percent per year and the issuance of multiple loans to the same people has been reported. Bhaskar Mani Gyanwali, a spokesperson for the central Nepal Rastra Bank, reportedly stated that microcredit interest rates are "not sustainable" for borrowers or the lending institutions. July 11. 2013

Gray Matters Invests Equity in Unitus Capital

Unitus Capital, an India-based affiliate of US-based NGO Unitus Labs, recently accepted an equity investment of undisclosed size from Gray Matters Capital, a US-based foundation. Between 2008 and 2013, Unitus Capital reports having raised USD 800 million for 40 clients in Asia indirectly impacting 32 million poor people while seeking to earn financial returns. Financial information on Gray Matters is not available. July 11. 2013

MicroCapital Deal of the Month

BRAC, LOLC Buy 90% of Sri Lanka's Nanda with Eye on Downscaling

BRAC, an NGO that serves 11 countries and was formally known as the Bangladesh Rehabilitation Assistance Committee, has bought 57 percent of the shares of Nanda Investments and Finance Public Limited Company, a Sri Lankan firm offering deposits, loans and leasing services, for an undisclosed price. Lanka Orix Leasing Company (LOLC) Micro Investments, an affiliate of Orix, a Japanese conglomerate with the equivalent of USD 8 billion in annual revenue, also acquired a 33-percent stake in Nanda. BRAC and LOLC plan to downscale Nanda from providing traditional financial services to delivering microfinance services to poor people. Nanda reports the equivalent of USD 4 million in assets, and BRAC reports total assets of USD 790 million. LOLC, the member of Orix that owns LOLC Micro Investments, reports total assets of USD 446 million.

FIELD NOTES

Lending to Small Businesses? Are You Sure?

I have spent the last few weeks interviewing the leaders of some prominent microfinance institutions (MFIs) - primarily in Latin America - and have learned that many have been quite aggressively "upscaling" into serving small businesses, and even some medium-sized enterprises. Some readers may ask: Where are the lines between micro-, small and medium-sized enterprises? If I tried to answer this, I could take up all the space for this column. For example, the World Bank defines "small businesses" as those with 10 to 49 employees, with USD 100,000 to USD 3,000,000 in assets and annual sales, or needing loans of USD 10,000 to USD 100,000. But definitions are tricky: in practice, we find many small businesses with fewer than 10 employees borrowing much more than USD 100,000, for example. Thus many MFIs and some regulators stick to a definition bound only by loan size. This is easy, but it limits our ability to learn more about these small businesses.

To better understand the needs of small businesses, we must understand their internal motivations and dynamics. Within the universe of small business, we find that there are differences in the levels of dynamism and growth that can dictate how to best support each business's growth and development. One study I am working on focuses on understanding MFIs upscaling in fast-growing countries, such as Bolivia, Colombia and Peru. When I interview the leaders of MFIs working in the small-business space in these countries, many explain that they moved into the space organically: They did not identify a new segment niche to move into, but were motivated primarily by the needs of their growing "micro" clients, and then increased loan sizes and modified loan methodologies to serve them better. Peru's per capita gross domestic product (GDP) has nearly doubled since 2003. The GDPs of Bolivia and Colombia have grown about 55 percent. Perhaps not coincidentally, these represent some of the region's leading markets for microfinance, characterized by well-developed practices, tough competition and bountiful access to liquidity.

In countries where growth has stalled, small businesses look different. There are many "necessity-based" businesses, with owners apparently struggling to make ends meet rather than riding a wave of increasing prosperity. For example in the US, where my firm, EA Consultants, is currently working on a study of small-business needs, we find that high-school dropouts had the highest rates of business creation in 2011. Additionally, immigrants were twice as likely as native-born Americans to start businesses. Also, the construction industry, which had been hardest hit by the recession, had the highest rate of entrepreneurial activity among all sectors in 2011.

So while Europe and the US are talking about small business as a means to "grow" out of recession, more dynamic markets in South America and some other developing markets have barely felt the hit from the recession, and small business seems to have been a *reaction* to a boom. Understanding these characteristics of small businesses and having clearer definitions of them will be a first step in better understanding their needs as well as the risks and opportunities that MFIs face when adapting to serve them.

Next month, I will be addressing this issue from the perspective of MFIs scaling-up into both small and medium-sized enterprise lending. This story is just as diverse - and the business case just as difficult to define.

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.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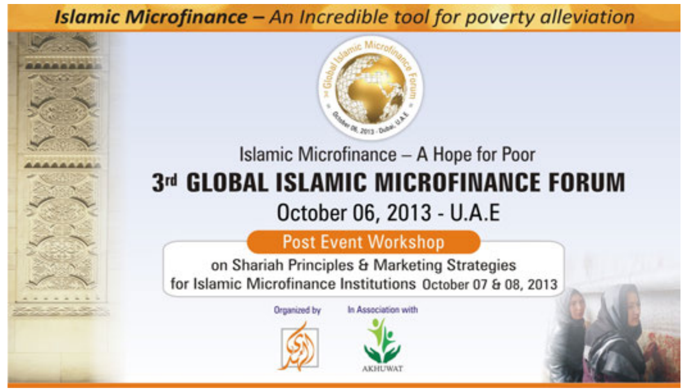
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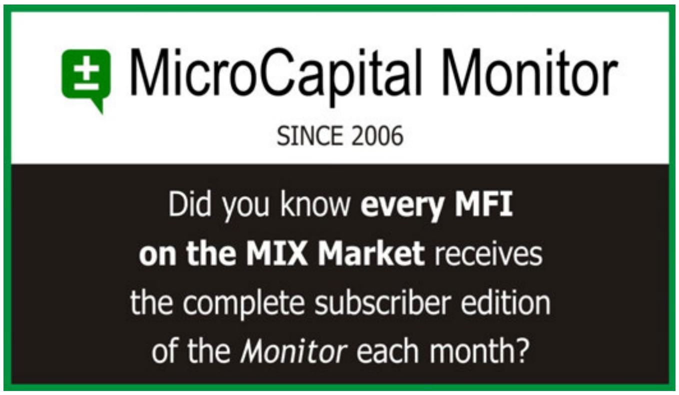
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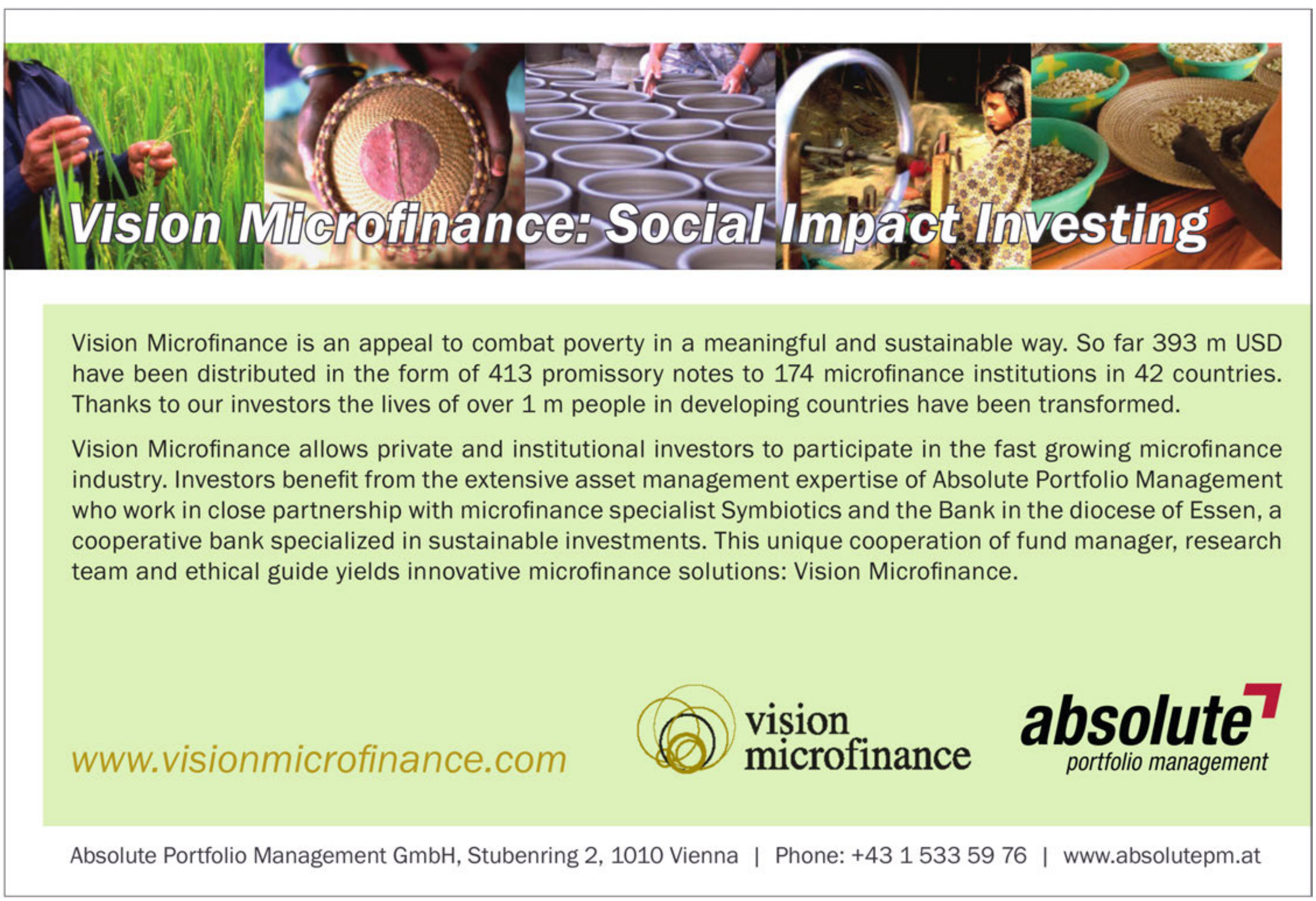
Vision Microfinance: Social Impact Investing
Vision Microfinance is an appeal to combat poverty in a meaningful and sustainable way. So far 393 m USD have been distributed in the form of 413 promissory notes to 174 microfinance institutions in 42 countries. Thanks to our investors the lives of over 1 m people in developing countries have been transformed.
Vision Microfinance allows private and institutional investors to participate in the fast growing microfinance industry. Investors benefit from the extensive asset management expertise of Absolute Portfolio Management who work in close partnership with microfinance specialist Symbiotics and the Bank in the diocese of Essen, a cooperative bank specialized in sustainable investments. This unique cooperation of fund manager, research team and ethical guide yields innovative microfinance solutions: Vision Microfinance.
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PAPER WRAP-UPS

Audiovisual Mass Media Campaigns for Insurance Education: Stages and Lessons

By Sarah Bel and Mariana Pinzon Caicedo, published by the Microinsurance Innovation Facility and the International Labour Organization, 2013, 55 pages, available at: http://www.ilo.org/public/english/employment/mifacility/download/mpaper21.pdf

This paper presents an analysis of the potential role of mass media campaigns in allowing microinsurance sellers to provide cost-efficient programs offering information about insurance products and services to low-income households. Traditionally, efforts to provide such "financial education" have centered on face-to-face meetings and group workshops; however, the authors argue that mass media campaigns can be effective in supplementing these methods. The growth of the micro-insurance industry and the diversification of risk carriers have created a need for financial education programs to expand in scale and scope in order to reach a growing audience in a more cost-effective manner. The authors argue that mass media platforms, such as comic books and radio and video programs, can help meet this need.

In order to implement mass media campaigns, the authors suggest that microinsurance providers follow five steps: campaign planning, design, management, monitoring and evaluation. Planning involves establishing campaign goals, understanding the target audience, selecting media channels, determining and allocating necessary resources, and assessing risks. Designing mass media campaigns involves creating content, format and style; helping the audience identify with the campaign topic; creating an element of interactivity; and piloting the content and format of the campaign. Effective designs generally cater to the target audience and seek to personalize the material presented. Managing the campaign entails disseminating the program and connecting the campaign to the sales process. This requires that the campaign present audiences with a clear connection… *(Continued in the subscriber edition)*

Final Impact Evaluation of the "Saving for Change" Program in Mali, 2009-2012

By the Bureau of Applied Research in Anthropology at the University of Arizona and Innovations for Poverty Action, published by Oxfam America and Freedom from Hunger, April 2013, 216 pages, available at: https://www.freedomfromhunger.org/sites/default/files/SavingforChangeMaliResearchFullReportMay2013.pdf

This study evaluated the impacts of Saving for Change (SfC), a savings-group (SG) program that was created in 2005 by Freedom from Hunger, Oxfam America and the Stromme Foundation. SGs are community-based savings programs that allow members to deposit small amounts of money on a predetermined payment schedule and to earn money by making loans from the shared pool of… *(Continued in the subscriber edition)*