MicroCapital Monitor
THE MICROFINANCE NEWSPAPER

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MICROCAPITAL BRIEFS | TOP STORIES

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Private Equity Funds Bet $51m on Janalakshmi of India

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

ResponsAbility Loans $20m to UT Bank Ghana for SMEs

ResponsAbility Social Investments, a Swiss investment company with a focus on microfinance, recently notified MicroCapital that it disbursed a loan of USD 20 million to UT Bank Ghana Limited, a commercial bank with 26 branches. The loan will be used to support small and medium-sized enterprises in Ghana. UT reports assets equivalent to USD 499 million. Additional current financials on the bank are unavailable. September 10. 2013

Nepal Requires Insurers to Provide Microinsurance

The Nepalese government recently issued regulations mandating that insurance companies in the country offer microinsurance policies and build up that segment to no less than 15 percent of the policies they sell by 2018. The government has established a set of microinsurance "portfolios" that includes policies covering cattle, self-employment, health, accidents and life. The premium cost per policy owner cannot exceed the equivalent of USD 1,520 per year, and agricultural insurance policyholders receive a government subsidy equal to 50 percent of paid premiums. September 3. 2013

Thirty MFIs Close in Ghana

Consistent with the "huge" level of withdrawals from Ghanaian microbanks that was cited in the July issue of this newspaper, it has been reported that 30 unidentified microfinance institutions in Ghana failed to "sustain their operations" during the first quarter of 2013, causing depositors to lose an unknown sum of money. The Ghana Association of Microfinance Companies has approximately 500 members. August 22. 2013

Incofin, Agora Buy Equity in Cambodia's AMK

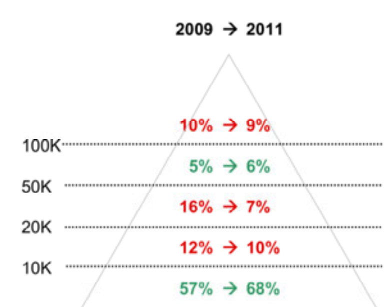
Incofin Investment Management, a Belgium-based microfinance fund manager, and Agora Microfinance NV, an Amsterdam-based microfinance holding company, have acquired minority stakes in Angkor Mikroheranhvatho Kampuchea (AMK), a microlender serving 300,000 Cambodians. Incofin's share of the investment was disbursed by its Rural Impulse Fund II, which makes debt and equity investments in rural microbanks. The sizes of the stakes and the prices paid for them have not been disclosed. AMK reports assets of USD 68 million. August 11. 2013

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

INSIDE Page

MicroCapital

EAST ASIA AND THE PACIFIC
PERCENTAGE OF MFIS IN MARKET BY SIZE



MARKET INDICATORS*

MICROCAPITAL BRIEFS

MicroCapital to Cover European Microfinance Week Onsite

We at MicroCapital are pleased to announce that we have been contracted again to provide onsite reporting from European Microfinance Week, a production of the 140-member European Microfinance Platform. We will publish multiple postings at http://microcapital.org and on Twitter @MicroCapital during the event, which will take place in Luxembourg from November 12 through November 14. For more details, you may refer to the ad on page 4 of this newspaper and http://e-mfp.eu. September 13. 2013

LeapFrog Investments Raises $200m for Second Fund

Mauritius-based LeapFrog Investments has announced that it has raised USD 204 million to launch its second fund, which will invest in companies offering insurance and other financial services to poor people in Africa and Asia. Investors include reinsurer Swiss Re, US-based asset manager TIAA-CREF and Dutch cooperative fund Oikocredit. LeapFrog's first fund, which raised USD 135 million, has supported firms serving 18 million people in 13 countries. September 12. 2013

YellowPepper Launches Mobile Payment System in Colombia

YellowPepper, a US-based mobile payments provider, recently partnered with 12 unspecified banks in Colombia to launch a service that will enable users to transfer money, pay bills and withdraw cash from automatic teller machines (ATMs) using any mobile phone service provider in Colombia. Customers can either link their mobile phones to an existing bank account or register for a "Socia" card that was developed in partnership with Credibanco, a Colombian payment processing company. Customers will be able to perform cardless cash withdrawals at 70 percent of Colombian ATMs. Details on this service have not been specified, but other similar services work via a transaction code being sent via short message service (SMS), also known as text messaging, that is then typed into the ATM. YellowPepper provides mobile services to 4 million customers in Latin America and the Caribbean. September 5. 2013

EBRD, TaiwanICDF Lend $3.5m to TBC Kredit of Azerbaijan

The UK-based European Bank for Reconstruction and Development (EBRD) recently reported that it will lend USD 2.5 million to Tbilisi Business Centre (TBC) Kredit LLC, a microlender in Azerbaijan, for on-lending to micro-, small and medium-sized enterprises in the country. The government-backed Taiwan International Cooperation and Development Fund will also lend USD 1 million for the same purpose through an EBRD-managed fund. TBC reports total assets of USD 38 million, a gross loan portfolio of USD 37 million, return on assets of 3.6 percent, return on equity of 9.6 percent and 3,830 borrowers. September 3. 2013

MicroCapital Deal of the Month

Private Equity Funds Bet $51m on Janalakshmi of India

Several private equity funds reportedly have invested a total amount equivalent to USD 51 million to take stakes of undisclosed size in Janalakshmi Financial Services, an Indian microlender that focuses on urban areas. The investors include the private equity fund of Tata Capital, an Indian conglomerate; the PE Asia Fund of Morgan Stanley, a US-based financial services corporation; QRG Enterprises, a unit of electrical components firm Havells India; Citi Venture Capital, an arm of US-based financial services group Citi; the India Financial Inclusion Fund of Mauritius; and Vallabh Bhanshali, an Indian investment banker. The sale is part of an effort by Janalakshmi to double the size of its loan portfolio by December. Janalakshmi reports total assets of USD 196 million, a gross loan portfolio of USD 177 million disbursed to 696,000 active borrowers, return on assets of 1.9 percent and return on equity of 8.6 percent.

Aspekt of Macedonia, Mambu of Germany Land Software Clients

Microcredit Foundation EKI, a microlender in Bosnia and Herzegovina, has agreed to purchase the microfinance software package of Aspekt, a Macedonia-based computer technology company. CrediPeso of Mexico will contract with Mambu of Germany to use its internet-based microfinance management software system. September 3. 2013

ANZ, Fiserv Extend Mobile Money Service to Pacific Islands

The Australia and New Zealand Banking Group (ANZ), which is based in Australia, and Fiserv, a US-based financial services technology provider, reportedly have partnered to provide mobile money services in Papua New Guinea, Samoa, the Solomon Islands and Vanuatu. The new platform will enable customers to send money to individuals, pay bills, purchase airtime credit and view their account history through mobile phones. ANZ reports total assets equivalent to USD 574 billion, and Fiserv reports total assets of USD 8.5 billion. September 2. 2013

FIELD NOTES

Microfinance in Peru: A Love Affair with Market Share

When you come to Peru, take a peek under the blanket of general optimism and look at the financial sector. Microfinance institutions (MFIs), in particular, are afraid of over-indebtedness in their client base, but are not quite willing to tackle it head on.

One cannot help but wonder whether there are parallels between today's microfinance sector in Peru and Nicaragua's in 2008. There are probably some; but Peru is its own case, making it that much more puzzling. First, the government proactively working hard to monitor and control risk and engaging in dialogue around over-indebtedness. Second, most microfinance operations are funded in large part by deposits, making MFIs less vulnerable to the whims of foreign investors, unlike the case in Nicaragua. There are other differences, of course. Some MFIs in Peru have sophisticated loan-monitoring systems that allow them to manage risk more proactively. Some have investors with very deep pockets: Banco de Credito of Peru, Banco Bilbao Vizcaya Argentaria of Spain and Scotia Bank of Canada, to name a few. But as I visited MFIs with seemingly strict loan controls, I was struck by a feeling that many of the supervisors, credit committee members and even risk managers were just going through the motions: "Do you ever reject a loan?" seemed like an absurd question. The answer in many cases was, "We would lose the client to the competition!"

This leads me to my first concern: Peru's MFIs seem obsessed with market share. Competition is tough, and losing market share is viewed as a death warrant for an MFI. Hiring and incentive practices for loan officers are also at fault. Loan officers face tough competition for their clients from colleagues in banks (that offer lower interest rates) and at other MFIs (that chase after their best clients). They are driven by incentives and can beg - and perhaps even lie to their supervisors - to get their clients' loans approved and avoid losing them to another institution. One solution is to continue to push for consolidation in the market. This would gradually reduce the "gain market share or die" mindset as well as reduce the number of institutions that lack sufficient capital to buffer themselves from a market slowdown.

A second concern of mine is that Peru's liquidity-fueled housing market has all the makings of a bubble. Not least because property values in Peru's major cities seem to exceed those of many large US cities, yet infrastructure, education and health services are lagging. Why is this important? Many of the MFI loan clients I spoke to have some type of real estate exposure. They rent out rooms or apartments; they use loans to buy property, build workshops or add on to their homes. All these investments make sense in a booming economy. But if growth were to slow down, what would they do to pay off real estate investments that may be worth less than their purchase price?

Finally, the lack of infrastructure and investment I mentioned above are likely to continue to feed discontent among lower-income classes. Already, news articles highlight concerns about consumer indebtedness; and, recently, the public has taken to the streets to protest government indifference to the needs of the population. Peru is not Nicaragua, but there are some red lights that should be addressed before it's too late. Microfinance investors, in particular, are wary. Perhaps some of these will move their offices from cloudy Lima - where the risk/return outlook for microfinance is more uncertain - to sunny Nicaragua.

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.

EUROPEAN MICROFINANCE WEEK 2013

12th - 14th November 2013

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With online coverage of the proceedings by : MicroCapital

PAPER WRAP-UPS

Microfinance in Africa: Opportunities for Social Entrepreneurs

By Daniel Schriber, published by The African Business Review, May-June 2013, 3 pages, available at: http://theafricanbusinessreview.com/

wp-content/uploads/2013/06/TABR_May-June2013_55-57.pdf

In this paper, Daniel Schriber, the director of the research and advisory arm of Switzerland-based Symbiotics, states that Africa has experienced stronger growth than other continents over the last decade, buttressed by its movement toward democracy, reduced armed conflict and improving infrastructure and education systems. In terms of financial inclusion, sub-Saharan Africa is the only major region in the world to have more savers than borrowers.

While Mr Schriber does not view microfinance as a "panacea" for poverty, he claims that it does spur economic development by providing opportunities to owners of small and medium-sized enterprises (SMEs) to grow their businesses, contributing to their communities in terms of economics as well as social progress.

Mr Schriber argues that the most advanced economies in Africa also have the largest growth in microfinance. However, despite this growth, most microfinance is still confined to urban areas, and market penetration is still very low compared with its potential. Thus the benefits that microfinance can bring to rural areas in particular are still latent.

Mr Schriber points to the low usage of credit bureaux and advocates for their mandatory use in evaluating the repayment capacity of borrowers. Other risks include the persistent gaps between rich and poor and between cities and rural areas. The lack of regulation and supervision is also exacerbated by micro-lenders' weak governance. Among other factors, poor transportation infrastructure leads to high operating costs, making it difficult to expand microlending in rural areas.

Although few banks are offering loans to SMEs, Mr Schriber argues that the growth of SMEs is vital to creating jobs and strengthening local economies. Mr Schriber states that "micro-businesses are often the best option for families to survive and slightly improve their quality of life." He is optimistic about the slowly developing trend of microbanks up-scaling to meet the needs of SMEs. Mr Schriber argues that this bright spot creates opportunities for social investors.