MicroCapital Monitor
On Microfinance & Other Forms of Impact Investing

FREE PREVIEW EDITION*

AUGUST 2014 | VOLUME.9 ISSUE.8

MICROCAPITAL BRIEFS | TOP STORIES

***Want More? Subscribe Today**

This month our subscriber edition includes 15 pages brimming with the best impact-investing news available, including many more briefs, event listings and summaries of current research. We invite you to request a free sample via info@microcapital.org.

Dia Vikas, NMI, Oikocredit Invest $7m in Equity in India's RGVN

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

Nigeria Exempts Microfinance Banks from VAT

Nigeria's Federal Inland Revenue Service reportedly has exempted microfinance banks from the 5-percent value-added tax that they had been required to pay on income earned through transactions, investments and other services. The money that would otherwise have been paid in taxes is intended to expand lending to low-income clients. July 31. 2014

AccessBank Azerbaijan Borrows $15m from Green for Growth

AccessBank Azerbaijan, which is associated with Germany's Access Microfinance Holding, has borrowed USD 15 million from the Green for Growth Fund, Southeast Europe (GGF), a European public-private partnership. AccessBank plans to use the loan for on-lending to micro-, small and medium-sized enterprises for "equipment and machinery investment" that is expected to enable energy savings of approximately 43,500 megawatt hours of electricity and the prevention of the emission of 21,000 tons of carbon dioxide. AccessBank reports total assets of USD 834 million, a gross loan portfolio of USD 664 million outstanding to 167,000 borrowers and USD 279 million in 332,000 deposit accounts. In addition to AccessBank Azerbaijan, Access Holding has stakes in microbanks in Tajikistan and four African countries. GGF reports total assets equivalent to USD 326 million. July 25. 2014

IFC to Invest $25m in Proyectos Educativos Integrales del Peru

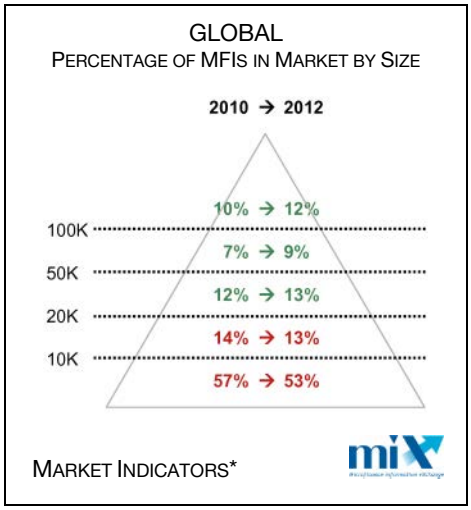
The World Bank Group's International Finance Corporation (IFC) is investing USD 25 million in education firm Proyectos Educativos Integrales del Peru (PEIP) to support the creation of a university and a network of technical, primary and secondary schools for low-income students in Peru. IFC's education portfolio is worth USD 651 million and includes 60 projects in 24 countries. Financial information on PEIP is not available. July 15. 2014

Woori of South Korea to Acquire Cambodian MFI Malis for $5m

South Korea's Woori Bank reportedly has agreed to buy Malis Finance, a Cambodian microfinance institution, for the won-equivalent of USD 4.95 million. According to an unnamed Woori official, "it's difficult to develop a [stable] business model in Cambodia due to its low levels of economic development, so we've decided to first gain more expertise in the market by trying our hand in the microfinancing business and gradually on to banking." The deal is contingent upon approval from Cambodian authorities. While Malis was established in Phnom Penh in 2011, financial information on the institution is unavailable. Woori reports total assets of USD 241 billion. July 15. 2014

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

INSIDE | Page



MICROCAPITAL BRIEFS

Symbiotics Arranges $30m in Bonds for MFIs in India, China

Symbiotics, a Swiss investment company that focuses on emerging markets, recently completed bond transactions generating USD 20 million for the following Indian microlenders: USD 10 million for Arohan and USD 5 million each for Grameen Financial Services and Annapurna Microfinance. An additional transaction released USD 9.75 million for MicroCred China, an arm of the France-based MicroCred Group, which also has operations in five African countries. MicroCred China has a total loan portfolio of USD 85 million outstanding to 14,000 borrowers. Arohan reports total assets of USD 37.9 million, Grameen Financial Services reports total assets of USD 161 million and Annapurna reports total assets of USD 36 million. August 6. 2014

Pakistan's Bank of Khyber to Loan $10m in Effort to Reach 850k

The government of the Pakistani province of Khyber Pakhtunkhwa reportedly has committed the equivalent of USD 10 million to a microfinance scheme to be implemented through Bank of Khyber, a Pakistani provider of microloans and traditional banking services that comply with Islamic law by using concepts such as profit sharing in lieu of charging interest. The bank is to use the new funds for loans for entrepreneurial endeavors to be undertaken by 850,000 people, most of whom are unemployed. A similar project in 2012 offered interest-free loans for new businesses. Bank of Khyber reports total assets of USD 11 billion. August 6. 2014

Incofin Launches ProPulse Fund for Private Institutional Investors

Incofin Investment Management, a microfinance fund manager based in Belgium, recently launched its ProPulse Fund, which is designed for private institutional investors seeking to enable microfinance institutions in emerging economies to meet their "large demand for local-currency loans." While ProPulse will seek to place investments in developing countries worldwide, Incofin is planning its first investments in the Caucasus region and Central America. While the amount of funds that ProPulse has raised to date is not available, Incofin manages nine facilities with total outstanding investments equivalent to USD 479 million placed in 39 countries. August 5. 2014

EBRD Loans $8m to Mongolia's Khan to Boost MSME Value Chains

The European Bank for Reconstruction and Development, a UK-based multilateral institution, reportedly has issued a local-currency loan equivalent to USD 8 million to Khan Bank, a commercial bank in Mongolia, as the final tranche of a total of USD 25 million being on-lent to suppliers of micro-, small and medium-sized enterprises (MSMEs) in Mongolia. The agreement is intended to enable "the suppliers and distributors of MSMEs with links to big corporations to obtain more competitive financing." Khan has total assets of USD 160 billion and 1.8 million customers. August 5. 2014

Infinity, PATHS2 to Push Health Microinsurance in Nigeria

Nigeria's Infinity Microfinance Bank and the Partnership for Transforming Health Systems 2 (PATHS2), a program funded by the UK government to improve Nigeria's health system, reportedly will collaborate to expand PATHS2's "Micro Health Insurance Scheme" (MHIS). According to a statement attributed to Clara Oloniniyi, Infinity's managing director, the bank will encourage its customers and other members of the public to purchase MHIS because, "microfinance banking faces a high rate of unrecoverable loans because some of the customers become suddenly ill.… With the MHIS, such shortcomings will be eradicated." MHIS offers "full medical healthcare services" through various hospitals at a cost equivalent to USD 21 per six-month period. As of 2011, Infinity reported total assets of USD 1.9 million. August 3. 2014

MicroCapital Deal of the Month

Dia Vikas, NMI, Oikocredit Invest $7m in Equity in India's Rashtriya Gramin Vikas Nidhi

Rashtriya Gramin Vikas Nidhi North East (RGVN), a microlender based in the Indian state of Assam, has raised the equivalent of USD 7 million in equity from Dia Vikas Capital, an India-based firm focused on microfinance; the Norwegian Microfinance Initiative (NMI) Fund III, an investment vehicle managed by NMI that focuses on investing in Africa and Asia; and Oikocredit, a Dutch cooperative. The government-backed Small Industries Development Bank of India also converted a previous investment in RGVN into equity. Information regarding the sizes of the holdings acquired by the investors is unavailable. RGVN reported total assets of USD 24 million, a gross loan portfolio of USD 20 million and 168,000 borrowers as of 2013. As of 2012, it reported return on assets of 3.2 percent and return on equity of 22 percent.

Gemalto, GSMA Use Mobiles to Support Maternal Health in Africa

Gemalto, a publicly traded digital security firm based in the Netherlands, reportedly will support the Pan-African Mobile Health Initiative (PAMI), which uses mobile phones to address nutrition and maternal and child health in seven African countries. PAMI is run by the UK-based GSM Association, a group of 800 mobile operators and 250 other firms that promotes the Global System for Mobile (GSM) communications protocol. Gemalto will tie up with the following programs, which are to serve 15 million people: (1) the UN Every Woman Every Child Global Strategy, which is intended to "enhance health financing, strengthen policy, and improve service on the ground for the most vulnerable women and children;" and (2) the Global Nutrition for Growth Compact, which aims to fund improved nutrition for children and pregnant women. Gemalto will assist in data collection as well as working "to deliver targeted nutritional and health advice via mobile phones." Gemalto reports revenues equivalent to USD 3.2 billion. July 25. 2014

World Bank Funds Inclusion in Indonesia, Mozambique

The US-based World Bank Group recently approved the disbursal of USD 500 million as a "Financial Sector Reform and Modernization Development Policy Loan" for the government of Indonesia and a package consisting of a loan and a grant of USD 12.5 million each to support the "First Programmatic Financial Sector Development Policy Operation" of the government of Mozambique. An unspecified portion of the funding will support Indonesia's efforts to "stabilize" and diversify the financial system, boost financial literacy and consumer protection, develop microfinance institutions and enhance microinsurance regulations. The funding for Mozambique is intended to: (1) improve risk management and credit reporting; (2) develop branchless and mobile banking products as well as consumer protection practices; and (3) improve debt and capital markets. July 22 and July 25. 2014

EIF to Guarantee 270 Microloans for UniCredit Bulbank in Bulgaria

The European Investment Fund (EIF), a public-private investor in lenders to European micro-, small and medium-sized enterprises (MSMEs), has agreed to guarantee 270 microenterprise loans to be issued by UniCredit Bulbank, the Bulgarian unit of Italy's UniCredit Group. The European Progress Microfinance Facility, which is funded by the EU's European Commission and managed by EIF, will back 56 percent of the losses on the loans. Bulbank reports total assets equivalent to USD 8.8 billion and 230 branches in Bulgaria. UniCredit Group operates in 22 countries and reports assets of USD 1.2 trillion. Progress Microfinance manages assets valued at USD 278 million. July 24. 2014

EBRD Touts External Advice for SMEs in Kyrgyzstan

The UK-based European Bank for Reconstruction and Development (EBRD) has launched a campaign to promote "the value of external advice for small and medium-sized enterprises (SMEs)" in Kyrgyzstan. The aim of the campaign is to nudge SMEs to seek assistance with performance and cash flow management as well as funding sources. Among the funders of the effort are the governments of Switzerland, Japan and the United States. EBRD plans to launch similar information campaigns in 24 additional countries in Eurasia and North Africa. July 24. 2014

Nigeria's ActivEdge, SAP Africa to Launch Mobile Money Service

Nigeria's ActivEdge Technologies and SAP Africa, the South African branch of German software provider Systemanalyse und Programmentwicklung (SAP), reportedly have partnered to offer the following services in Nigeria: SAP Mobile Banking, SAP Mobile Consumer Payment and SAP Mobile Remittance. In addition to Nigeria, ActivEdge has operations in Ghana, Kenya, Uganda and Zimbabwe. SAP reports total assets equivalent to USD 30 billion. July 24. 2014

ADA, AFMIN to Run CGAP Training in French-speaking Africa

CGAP (Consultative Group to Assist the Poor), a US-based NGO, recently delegated management of its "Capacity Building Program for Francophone Africa" to ADA, a Luxembourg-based NGO formerly known as Appui au Développement Autonome, and the African Microfinance Network, an Côte d'Ivoire-based association of 24 networks of African microbanks. The training options, which will be offered in 13 countries, cover the following topics: accounting, business planning and financial projections, delinquency management and setting interest rates, financial analysis, governance, operational risk management and product development. July 24. 2014

Regional Firms Launching Cardless ATM Services in Rwanda

Mobile Telecommunications Network (MTN) Rwanda, the Rwandan branch of South Africa-based mobile telecommunications company MTN, reportedly will partner with Rwandan electronic payment firm RSwitch, Kenya's I&M Bank and Kenya Commercial Bank (KCB) Group to offer cardless automated teller machine (ATM) services in Rwanda. The system will allow MTN subscribers to access the ATMs of KCB, I&M and RSwitch by entering a 4-digit transaction code that is sent to the customer's mobile device. July 23. 2014

DFID to Donate $2m to 12 Pakistani Lenders for Innovation in Ag

The UK's Department for International Development reportedly will donate the equivalent of USD 2.4 million to be divided among 12 Pakistani financial institutions to support the implementation of innovations in rural and agricultural financing. July 16. 2014

(For more briefs, please refer to the subscriber edition)

EUROPEAN MICROFINANCE PLATFORM

NETWORKING WITH THE SOUTH

SPECIAL REPORT

This description of the work of one of the eight Action Groups of the European Microfinance Platform (e-MFP) is sponsored by e-MFP, a 130-member network located in Luxembourg.

Action Group Proposes Best Practices for Remittances

MicroCapital: Please tell us a bit about the Remittances Action Group.

Gera Voorrips: As you know, e-MFP is a membership organization that promotes members working together on specific topics on which they have a shared interest. In 2011, I took the initiative to engage several members who were working on remittances to launch an Action Group to collaborate on this topic. As one of the requirements of an e-MFP Action Group is to work toward specific results, we decided that we wanted to focus on best practices for microfinance institutions (MFIs) that want to be successful in remittances.

MC: What has surprised you during your time with the Action Group?

GV: There is a lot of talk about remittances being the perfect way to expand financial inclusion. You have had the G20 and others talking about it for 20 years, but if you look at the practitioner level - at the MFI level - not much is happening. My surprise was that so few MFIs are really active in linking remittances to other products.

MC: How does this tie into the "Best Practices Guide for Microfinance Institutions Active in Remittances" that the Action Group just released?

GV: There are many MFIs that are active as payout agents for money-transfer organizations, but really linking remittances to savings or loan payments - linking them to productive investments - that's not happening a lot and definitely not through MFIs. In order to be successful in linking remittances to your products, you really need to have a thorough and multidimensional approach, and I think that is a key finding of the group. MFIs normally start as, and should start as, payout agents. But if you want to go this extra mile and link remittances to your savings accounts or let them be used to facilitate loan payments, then you really have to take into account the six dimensions that we are describing.

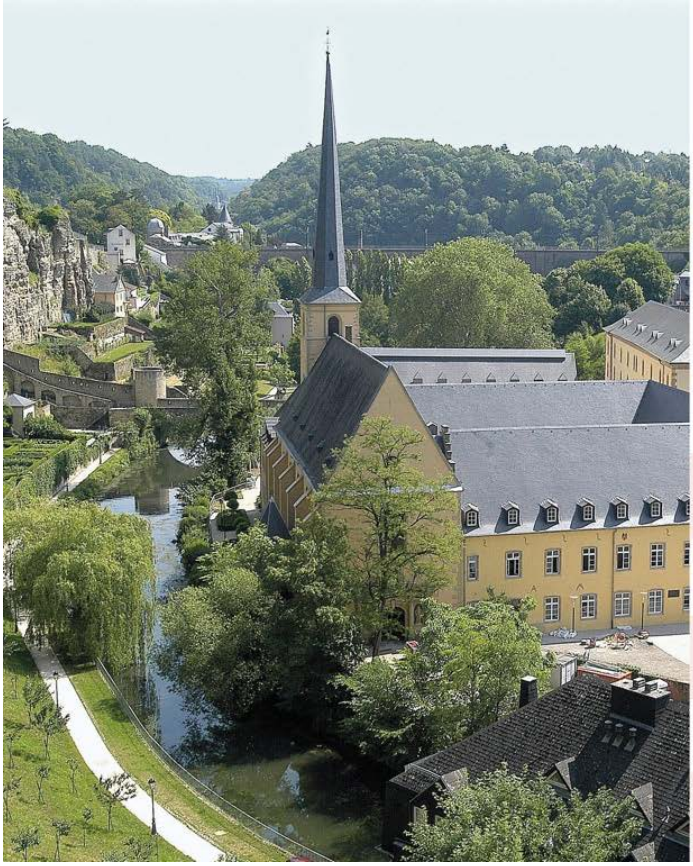
MC: These dimensions are: (1) business models and partnerships; (2) client needs and linked products; (3) marketing; (4) operations; (5) information technology systems; and (6) regulation. Please tell us about one.

GV: I'm thinking of how Banco ADOPEM of the Dominican Republic addressed the needs of its clients. ADOPEM's top people saw they were paying out many remittances to families who weren't their clients, so they started a program to encourage those receivers to start an enterprise instead of just sitting at home and consuming the remittance money. They did many financial literacy trainings, and that's really because ADOPEM sees it as its task to have more financial inclusion in the local economy and to prevent people from becoming dependent on remittances. So that is clearly a social motivation. Now ADOPEM has a product whereby the sender of remittances directly repays a loan disbursed to a local client.

MC: How do you hope others will use the guide that the group created?

GV: Our purpose was to create a practical document targeted at MFIs. MFI managers can use it either for self-study or as a basis for training sessions for staff.

Gera Voorrips of European consultancy PHB Development has served as head of the Remittances Action Group of e-MFP since 2011. The "Best Practices Guide for Microfinance Institutions Active in Remittances" is available in English at http://www.e-mfp.eu/sites/default/files/resources/2014/06/BP_UK_v20-WebLR.pdf and in French at http://www.e-mfp.eu/sites/default/files/resources/2014/06/BP_FR_v4-WebLR.pdf.



FIELD NOTES

Are We Just Selling Pop-Tarts? Reflections from The MasterCard Foundation Symposium on Financial Inclusion

I was privileged to attend the second annual MasterCard Symposium on Financial Inclusion in Turin, Italy, last month. It was an impressive event, convening some big thinkers involved in bringing financial services to low-income markets to discuss how to place clients at the center of their work. This great experience in a friendly and collaborative environment ended abruptly when I went to Turin's central train station to change my ticket to Milan. I spent about 30 minutes in a poorly ventilated room full of sweaty passengers who tentatively "took a number" hoping to catch the attention of a grumpy train employee between his breaks. After a three-day marathon about putting clients at the center, I was both disillusioned and dehydrated. After all, Italy is a country filled with tourists. Shouldn't changing a train ticket be a simple, if not "delightful," experience, as Leslie Witt from US-based for-profit Ideo noted in her keynote speech about human-centered design?

So instead of sharing the many inspiring cases and conversations from the conference, I will reflect on why some institutions, including perhaps the Italian railway Trenitalia, may not yet have bought into the client-centric approach. As David Richardson of the US-based World Council of Credit Unions (WOCCU) wisely suggested, client-centered initiatives were not invented yesterday. Organizations such as WOCCU have been listening to their clients for decades. So why should we have to "re-sell" this approach? It seems it is still a hard sell for a few reasons. The first is the same faced by the state-owned Trenitalia. Many financial service providers (FSPs) work in oligopolistic or monopolistic markets that are only loosely regulated. Thus, some offer fast and easy loans but can still charge 100-percent annualized interest rates - or barge into clients' homes at dinnertime to collect late payments. Another disincentive to providing quality service is that markets are new and large and growing. Some FSPs can still produce healthy sales and profit growth by selling the same (perhaps flawed) thing to new people rather than retaining existing customers. Over time, both these factors should wane.

Another critical problem is that there are scant data to back the business case for client-centered approaches. Leslie showed some creative examples of client-centric innovations, but little data on their impact on the bottom line. I loved the "Next Door" centers Ideo designed for US-based State Farm Insurance, for example. These financial resource and coaching hubs in cool coffeehouse spaces are meant to attract millennials. Yet they seem costly, and not scalable.

A few speakers did offer more meat around the business case. Lorenzo Chan from Pioneer Insurance of the Philippines noted that flexibility and speed in claims payments keep clients happy and buying more insurance. Others suggested that SMS (text-message) "nudges" could push passive customers into becoming more active users of mobile money services. However, they were asked, "Are we just selling them Pop-Tarts?" That is, are we nudging clients into buying products that are not contributing to their long-term well-being? I left my career on Wall Street not just to push more supply-side financial solutions, but to work in the service of low-income people and communicate their needs to institutions that may not be listening. It is not an easy sell to FSPs, and it requires recognizing and balancing the need to make money with the drive to improve livelihoods.

About the Author: Ms Barbara Magnoni is President of EA Consultants, a development consulting firm based in New York. She has over 20 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[at]eac-global.com, or you may follow her on Twitter at BarbaraatEA.

PAPER WRAP-UPS

The Promise of Microfinance and Women's Empowerment: What Does the Evidence Say?

By Dina Pomeranz, published by EY (Ernst & Young Global Limited), February 2014, 24 pages, available at http://www.ey.com/Publication/vwLUAssets/EY_-_Microfinance_and_womens_empowerment/$FILE/EY-The%20promise-of-microfinance-and-womens-empowerment.pdf

In this paper, Dr Pomeranz cites data from the US-based World Bank indicating that "only 37 percent" of women worldwide have access to formal financial services. She argues that this constrains women's ability to participate in self-employment, particularly in the Middle East, North Africa and South Asia. The paper also refers to data from the US-based Micro-credit Summit Campaign indicating that "80 percent of the microfinance industry's poorest clients are women," suggesting that micro-finance partially offsets the imbalance in women's access to financial services.

Dr Pomeranz argues that women's access to financial services has several benefits, including increasing women's "business opportunities, [ability to] cope with shocks, bargaining power…and overall independence." Also, women's financial access may help decrease poverty and contribute to gender equality, although further research is required to understand these dynamics.

The paper discusses the results of several research projects on microcredit, microsavings and microinsurance, with particular focus on the impact of these services on women. Several randomized evaluations indicate that microcredit may be a "useful financial tool." However, there is no evidence that access to microcredit generally contributes to increased income. Microsavings is deemed promising as a tool to help smooth consumption patterns and protect against economic downturns. Nonetheless, the collection of tiny amounts of cash remains unattractive to many microfinance institutions (MFIs). Also, banking regulations in many countries prevent MFIs from taking deposits. Further research is needed to understand whether microsavings would have a greater impact if subsidized by government. Dr Pomeranz states that microinsurance faces… *(Continued in the subscriber edition)*

The Microfinance Sector in Morocco: Investment Opportunities After the Crisis

Published by MicroFinanza Rating, May 2014, 4 pages, available at http://microfinanzarating.com/images/Insight_Morocco_March_2014.pdf

As of 2013, Morocco had 12 licensed microfinance institutions (MFIs), three of which accounted for 90 percent of the market. MFIs may not accept deposits in Morocco, and the authors deem product differentiation "limited."

Following a period of rapid growth in the country's microfinance sector, over-indebtedness and repayment problems led to a "crisis" in 2007. A lack of robust institutional frameworks including weak risk-management practices contributed to the trouble, with portfolio quality and ratios of profitability and… *(Continued in the subscriber edition)*