MicroCapital Monitor
On Microfinance & Other Forms of Impact Investing

FREE PREVIEW EDITION*

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MICROCAPITAL BRIEFS | TOP STORIES

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DWM Sells 55% of Cambodia's Thaneakea Phum to Sri Lanka's LOLC for $19m

Please see the subscriber edition for coverage of this "Deal of the Month."

Accion Acquires 10% Stake in Peru's Credinka from Diviso

Accion, a US-based nonprofit, recently acquired a 10-percent stake in Credinka, a microfinance institution based in the Peruvian city of Cusco, from Diviso Grupo Financiero, a Peruvian holding company. The investment, which is of unspecified size, is intended to help Credinka reach more clients. Diviso will remain the majority owner of Credinka, which has 48 branches, 43,000 savers, 33,700 borrowers and roughly USD 150 million each in gross loans and deposits held. October 1. 2014

MFIs in Ghana to Charge for Deposits as Central Bank Gets Tough

According to a statement attributed to Collins Amponsah, the board chairman of the 560-member Ghana Association of Microfinance Companies, all of its members will begin charging clients unspecified fees for holding their deposits as of October. Meanwhile the Bank of Ghana, the country's central bank, reportedly is shutting down and canceling the licenses of microfinance institutions (MFIs) that are engaging in practices such as: (1) charging interest rates in excess of government-mandated limits; (2) transferring operating licenses among organizations; or (3) changing their publicly recognized business name repeatedly to mitigate reputation problems. The central bank's Other Financial Institutions Supervision Department, which oversees MFIs in the country, will no longer approve requests for name changes. In addition, capital requirements for those seeking new microfinance licenses have been increased to the equivalent of USD 79,000 for non-deposit-taking firms and USD 240,000 for deposit-taking firms. The capital requirements for existing firms have been increased to USD 26,000, with twice that amount required of institutions with six or more branches. September 29 and September 22. 2014

FMO Invests $20m in Armenia's Ameriabank

The Dutch development bank Nederlandse Financierings-Maatschappijvoor Ontwikkelingslanden (FMO) recently agreed to invest USD 20 million in Ameriabank, a commercial bank in Armenia, "to expand the bank's capital base by means of a partially convertible subordinated loan." Ameriabank reports total assets of USD 777 million, return on average assets of 2 percent and return on average equity of 16 percent. FMO, which is majority-owned by the Dutch government, reports total assets equivalent to USD 8 billion. September 19. 2014

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

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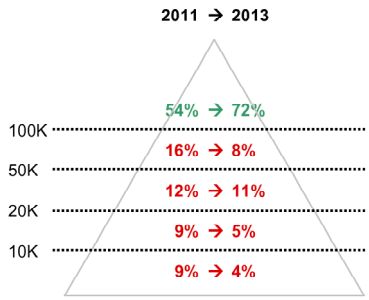
MicroCapital

SUB-SAHARAN AFRICA
PERCENTAGE OF MFIS IN MARKET BY SIZE



MARKET INDICATORS*

MICROCAPITAL BRIEFS

European Investment Fund Loans $2.5m to Vitas of Romania

The European Investment Fund (EIF), a member of the European Investment Bank Group that supports small and medium-sized enterprises, recently loaned the euro-equivalent of USD 2.5 million to Vitas, a Romanian microfinance institution, through European Progress Microfinance, a fund managed by EIF. Vitas General Manager Cristian Jurma said, "this funding will allow us to expand our local-currency lending for the creation and development of micro- and small enterprises in the urban and rural areas of western and central Romania." Vitas Romania has assets totaling USD 9.9 million. October 9. 2014

Grameen Crédit Agricole Invests $1.7m in Middle East, Asia

The Grameen Crédit Agricole Microfinance Foundation, a provider of financial services to social businesses, recently informed MicroCapital that - over three years - it will loan approximately USD 740,000 to Faten, a microlender based in the West Bank; the local-currency equivalent of USD 700,000 to Viator, an Azerbaijani microlender; and the euro-equivalent of USD 240,000, which is convertible to equity, to Grameen Danone Foods, which sells food products in Bangladesh that contain nutrients often lacking from the local diet. Grameen Crédit Agricole holds a 9.5-percent stake in Grameen Danone, which has reached 1 million customers in its eight years of operation. Faten has total assets of USD 50 million and a gross loan portfolio of USD 44 million outstanding to 24,000 active borrowers. Viator has 20,000 clients and a gross loan portfolio of USD 22 million. October 7. 2014

Citi Donates $2m to 7 Initiatives in India

The Citi Foundation, an affiliate of US-based financial services provider Citigroup, recently announced that it has issued grants totaling the equivalent of USD 1.95 million to seven NGOs in India for projects intended to enable 580,000 people to access services financial education, savings and entrepreneurship programs. For details on each beneficiary, please refer to http://MicroCapital.org. During 2013, the Citi Foundation disbursed grants totaling USD 78 million. October 7. 2014

Symbiotics Issues $18m in Bonds for Asian MFIs

Symbiotics Group, a Swiss for-profit provider of microfinance-related and other investment services, recently issued bonds in the amount of USD 8.75 million for Satin, a microlender in India; USD 6.78 million for Prasac, a provider of financial services to Cambodians with low incomes; and USD 2.75 million for MicroCred China, a unit of France-based MicroCred Group. The bonds issued for Prasac are the first of three tranches, with the other two expected to bring the total of the issuances to USD 13 million by early 2015. Prasac reports total assets of USD 452 million, a gross loan portfolio of USD 379 million disbursed to 200,000 borrowers, USD 124 million held for 300,000 depositors, return on assets of 4.8 percent and return on equity of 39 percent. Satin has 800,000 borrowers with a gross loan portfolio equivalent to USD 17 million. MicroCred China, which also does not accept deposits, has 17 branches in the province of Sichuan serving 14,000 borrowers with a gross loan portfolio of USD 85 million. MicroCred China is a member of France's MicroCred Group, which reports total assets of USD 287 million. October 3. 2014

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

SPECIAL REPORT I

This sneak preview of European Microfinance Week is sponsored by the European Microfinance Platform (e-MFP), a 130-member network located in Luxembourg.

Regulating via Proportionality in Peru

MicroCapital: Can you tell us a bit about your talk planned for European Microfinance Week on "balancing financial inclusion with market stability"?

Narda Sotomayor: A key element to achieve this balance is the principle of proportionality, under which regulations vary based on the risks associated with the product or service in question. For instance, for microloans for businesses with overall debt below PEN 20,000 (USD 7,000), the required documentation is minimal, and loan provision requirements are based only on the number of days any loans are overdue. The lender has the freedom to establish prices to cover its costs, such that institutional sustainability is guaranteed.

It was determined that anti-money-laundering rules were making it too costly to open deposit accounts for the poor, mainly because of the heavy burden of "know-your-customer" documentation. Thus Peru introduced a tiered system, based on the risk levels of products and customers. The three regimens are reinforced, normal and simplified. Within the simplified regimen, the "basic deposit account" allows a balance of PEN 2,000 (700 USD) and PEN 4,000 (1,400 USD) in accumulated deposits and withdrawals. The only document required for opening a basic account is the National Identification Card, and it can be done through a bank's agent.

MC: What are your thoughts on financial education?

NS: Peru began a financial education program back in 2007, at first in urban areas. The approach is to train teachers in state high schools to transmit the information to their students. Teachers are provided with a wide range of advice, videos, comics and other audiovisual tools. This is done in partnership with the Ministry of Education, which incorporated financial literacy into the National Curriculum of Schools in 2009. In addition, we have prepared education materials and performed training workshops oriented to groups such as youth, women working in community kitchens, microentrepreneurs and retirees.

MC: How does this relate to consumer protection?

NS: A key element of consumer protection is disclosure of information, aimed at protecting people before, during and after contracting. The transparency regulations contain detailed information that needs to be disclosed to consumers by all financial institutions, including the costs of their products and services - not only nominal interest rates, but also other fees and charges. This allows consumers to compare offers from different providers. Also, we have coordinated with financial institutions to design contract templates to prevent unfair contracts. Contracts have to be written in plain Spanish and observe a minimum font size. In addition, any changes in the contract have to be communicated to the customer with 30 days' notice, allowing him or her the opportunity to cancel.

MC: Several traditional banks in Peru have downscaled into microfinance.

NS: Yes, for many years, several traditional banks have been attempting to downscale into microfinance, attracted by the very high returns observed in specialized microfinance institutions. They used different approaches, and it did not go well for some of them, basically because of lack of knowledge of the technologies needed to serve low-income households and microentrepreneurs. However, since microfinance was just a small part of their operations, those institutions did not suffer greatly. Most recently, the approach that is working for banks is to purchase specialized institutions, maintaining their independence of operations.

MC: Please tell us about your country's recent push to promote mobile money.

NS: Peruvian regulators identified payments services as the most basic financial service, one that should be available for all segments of the population. Often, deposit accounts have been used for transactional and payment purposes; however, access to these accounts is very limited. In contrast, there is a high penetration of mobile phones nationwide; there are as many mobiles as Peruvians. This fact was identified as an opportunity to use electronic devices to deliver financial services at a low cost and more conveniently, especially for the unserved and underserved population.

This is why Peru issued an electronic money law in 2012, restricting the issuance of e-money to supervised institutions and defining e-money as monetary value stored on an electronic device, distinct from deposits. The law allowed a diversity of e-money issuers into the market - not only the existent intermediaries, but also specialized operators acting under a new category of licensure. In this way, low-cost and simple financial products such as prepaid cards and electronic wallets have been encouraged. The regulatory framework supporting the law, similar to that for basic deposit accounts, defines e-money accounts so that the simplified know-your-customer regimen can be applied. An important motivation of this effort is that we believe that e-money schemes have the potential to bring financial services to people leaving in remote rural areas, which are the most difficult segments of the population to reach.

Narda Sotomayor leads the Department of Microfinance Analysis at Peru's Superintendencia de Banca, Seguros y Administradoras Privadas de Fondos de Pensiones.

EUROPEAN MICROFINANCE PLATFORM

NETWORKING WITH THE SOUTH

SPECIAL REPORT II

This sneak preview of European Microfinance Week is sponsored by the European Microfinance Platform (e-MFP), a 130-member network located in Luxembourg.

European Microfinance Week

MicroCapital: Please describe one of the key issues to be covered this year at European Microfinance Week.

Christoph Pausch: The question of over-indebtedness is still the major risk for the sector, as identified in the most recent *Banana Skins* survey. We had a very successful plenary last year exploring the issue from a research perspective. This year, we're taking a very different approach by bringing CEOs of leading microfinance institutions (MFIs) from three countries - Bangladesh, Morocco, and Mexico - to discuss how they've been dealing with the issue. Each of these countries has had a different experience, with Bangladesh having successfully averted a potential crisis by slowing market growth (as described in an excellent paper by Stuart Rutherford and Greg Chen). Morocco was one of the original "microfinance crisis" countries during 2008 and 2009, and the MFIs there have had an interesting experience in resolving the problems from that period. Finally, Mexico is a major market with serious concerns regarding over-indebtedness, and MFIs there are working to avert a potential crisis.

MC: What topics do you find are most in demand by participants?

Anne Contreras: This year with the focus on the prestigious Fifth European Microfinance Award on Microfinance and Environment, there are many sessions dedicated to this area. Also, 2014 is the UN's International Year of Family Farming, which is reflected in our programme with a specific focus on agricultural finance. There is also demand for sessions for microfinance investors, for whom we are offering topics such as managing social responsibility during equity sales.

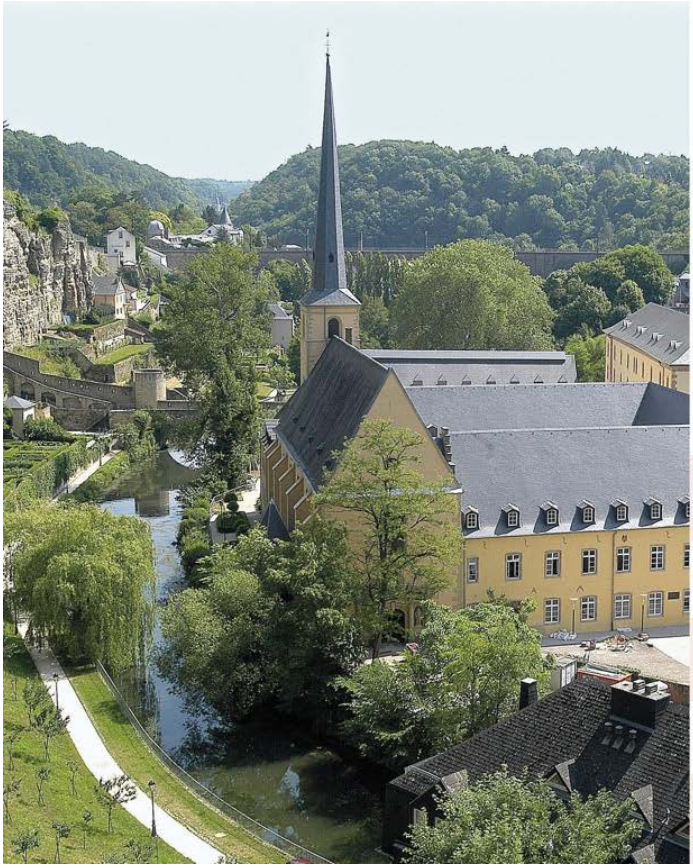
MC: Is there a speaker about whom you are particularly excited?

CP: The panel on microfinance in conflict zones is new to us. We're excited not only to welcome MFIs that are working in some of the most difficult environments, such as Syria and Afghanistan, but also Major David Beskow of the US Army, who will share how the military has been using microgrants to strengthen links with local communities and improve the lives of the most needy during some of today's most difficult conflicts.

MC: What else is new this year for e-MFP?

AC: I would like to highlight our developing partnership with the Microfinance CEO Working Group, which represents the leading microfinance networks: Accion, FINCA International, Freedom from Hunger, Grameen Foundation, Opportunity International, Pro Mujer, VisionFund International and Women's World Banking. Since most of these organizations are based in the US, we think it's a great opportunity to increase collaboration among e-MFP's European members and our colleagues across the Atlantic. During our Action Group day, we're hosting a working session co-organized by the Microfinance CEO Working Group and the Financial Inclusion Equity Council. It will explore the future of some of the core data infrastructure in the microfinance sector, including the MIX Market, Microfinance Transparency and other initiatives that are of critical importance not only to e-MFP members, but also to countless microfinance practitioners.

Anne Contreras, who works in investment management law at Luxembourg-based law firm Arendt & Medernach, serves as the Chair of the Board of Directors of e-MFP. Christoph Pausch is the Executive Secretary of e-MFP.



FIELD NOTES

Mobile Money and Convenience: A Theory of Relativity

Last month, I was excited to make my first trip to Kenya. Entrepreneurial, innovative and unburdened by the regulatory constraints of some of its counterparts in regions such as Latin America, Kenya has become a financial inclusion Petri dish. In particular, the incredible popularity and ubiquity of mobile money in Kenya has stimulated enthusiasm for its replication worldwide, sparking action even among some of the more lugubrious banking sectors in Latin America.

I will try not to repeat the information that most readers already know about Kenya. One excellent blog piece for some background is: "10 Things You Thought You Knew about M-Pesa" by Claire Alexandre, a senior program officer with the Financial Services for the Poor initiative of the US-based Bill and Melinda Gates Foundation. Instead, I will share something that surprised me, in hopes that it may surprise others. It is about convenience.

The benefit to clients of forgoing the personal interaction of "high-touch" financial transactions (be they deposits, withdrawals, utility payments, loan payments, etc.) for a "low-touch" mobile solution should be lower costs and greater convenience. Mobile payments generally are not free for customers in Kenya, so the big selling point should be convenience. Indeed, I interviewed a woman who explained that M-Pesa's mobile platform is just that; but I was surprised to find that her definition of convenience was quite different from mine. In the US, I can typically deposit a few checks, view my account balance and pay bills in minutes online without leaving my desk. Meanwhile, the woman I interviewed in Nairobi explained how she made a mobile payment for her health insurance premium: She first walked to an automated teller machine to withdraw money from her current account. Then she walked with cash in hand to an M-Pesa outlet, where she deposited the money into her mobile wallet. After she left the outlet, she opened an application on her mobile phone to make the payment. How can this three-step process, which takes place in three different locations, be convenient?

Of course, the answer is that convenience is relative, and solutions that may be convenient in one country may seem burdensome in another. Kenya was reclassified as a lower middle-income country this month (by virtue of its per-capita gross domestic product rising above the World Bank's benchmark of USD 1,036), but it is still challenged with inefficiencies and inconveniences, particularly relative to some of the more mature middle-income economies. In Kenya, only 19 percent of the population has access to piped water, compared with 74 percent in Peru, for example. Kenya's banks have innovated little to serve low- and middle-income customers, while Peru's formal financial sector covers a growing range of its population. As part of this trend, Peru's banks are now seeking to develop a mobile strategy to reduce the cost of serving low-income clients. Many poor Peruvians already have access to transactional convenience that Kenyans had not seen before the dawn of M-Pesa. Many are banked and make wire transfers and bill payments directly through their accounts. The success of mobile money in Peru likely will depend on whether it can innovate to offer even greater value and convenience than the highly touted M-Pesa.

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 Road to Inclusion: A Look at the Financially Excluded and Underserved

Published by MasterCard, May 2014, 18 pages, available at http://newsroom.mastercard.com/asia-pacific/documents/the-road-to-inclusion-a-look-at-the-financially-excluded-and-underserved

This report seeks to shed light on how people manage with limited financial services in Egypt, India, Indonesia, Nigeria, the Philippines and Vietnam. The study surveyed 604 people across the six markets to gain insight into the financially excluded - those without any access to formal banking services - and the financially underserved - those who may have a bank account, but lack access to electronic transactions or debit cards.

The average age of respondents in each country ranged from 28 years (Nigeria) to 41 years (Philippines). A minimum of two-thirds of each group has received a secondary education. The groups reported employment rates above 50 percent, excluding India and the Philippines. With average monthly incomes ranging from USD 200 (in India, Indonesia and Nigeria) to USD 500 (in Vietnam), those surveyed cited a lack of money as one of the most significant reasons for not having a bank account. However, the authors cite Vietnam as having the greatest market potential due to its relatively high income.

The authors also seek to understand the attitudes of the financially underserved/excluded toward banking, credit cards and financial transactions. Trust levels in local banks were relatively high - ranging from above 80 percent in Egypt and Nigeria to above 60 percent in India and Vietnam. Trust levels in multinational financial vendors, however, were mixed.

While large majorities of those surveyed were aware of and understood the function of prepaid credit cards, there was widespread concern of the possibility of losing one's card, lack of transparency and high fees. Nonetheless, a majority of consumers in Egypt, India and Nigeria expressed receptiveness to prepaid cards.

The standard mobile phone is still the dominant method used by respondents to access technology, and the authors deem usage of mobile banking across the six markets "low."

The report also includes a special segment on women, whose primary barrier to financial inclusion is identified as a low rate of regular income flow relative to men.

Microinsurance Distribution Channels: Insights for Insurers

By Alice Merry, Pranav Prashad and Tobias Hoffarth; published by the Microinsurance Innovation Facility; June 2014; 25 pages; available at http://www.microinsurancefacility.org/sites/default/files/MP33.pdf

Based on the experiences of 60 institutions, this analysis of distribution channels is intended to assist insurance providers in finding "low-cost channels that can reach clients in large numbers." The channels reviewed include financial institutions, community-based organizations, retailers, mobile network operators, employers and direct sales.

The authors recommend insurers distribute their products using incentives for individual sales agents based on criteria such as the number policy renewals and/or amount of revenue generated. In addition, the authors recommend that insurers seek other incentives for their distribution partners to build "long-term partnerships" with distributors and clients. Finally, insurers are encouraged to deploy distribution channels that are suitable to the "maturity of their target market," by sequencing "mandatory, group and individual products" and offering free products in certain cases.

PAPER WRAP-UPS

Does Good Client Protection Impact Financial Performance?

By B. Perez-Rocha, A.G.F. Hoepner, L. Spaggiari, C. Lapenu and B. Brusky in collaboration with the European Microfinance Platform (e-MFP) Making Microfinance Responsible Action Group; May 2014; 28 pages; available at http://www.e-mfp.eu/sites/default/files/resources/2014/05/Brief_No_4_2014_web.pdf

This paper explores the relationship between the financial performance of microfinance institutions (MFIs) and the Client Protection Principles (CPP) that are promoted by the Smart Campaign, a US-based consumer protection initiative targeting microfinance clients worldwide. To evaluate the financial performance of the MFIs, the authors considered: return on equity (ROE), return on assets (ROA), operating expense ratio (OER) and portfolio at risk after 30 days (PAR 30). The six CPPs used in the study were: prevention of over-indebtedness, transparency, debt collection, ethics, privacy and complaints resolution.

The authors' statistical analysis of the two sets of variables - the CPPs and the financial indicators - indicates an overall positive relationship between client protection and financial returns. In particular, transparency, appropriate collection practices and privacy of client data were correlated with higher ROA. Ethical staff behavior and good complaint resolution procedures were correlated with higher ROE.

The analysis of CPPs against OER, an indicator of operational costs and efficiency, and PAR 30, which indicates portfolio quality, yielded both synergies as well as "trade-offs." Good complaint resolution mechanisms were associated with lower OER that, the authors surmise, could be the result of higher client retention due to high client satisfaction. Preventing over-indebtedness was correlated with higher OER, which could be due to cost of conducting sound analyses of lending decisions. Transparency was correlated with lower portfolio quality, which could be due to the MFIs not being able to "mask" poor portfolio quality with… *(Continued in the subscriber edition)*

Digital Financial Services Risk Assessment For Microfinance Institutions – A Pocket Guide

By Tom Shaw, Marcella Willis, Daryl Skoog, Sonia Arenaza, Sudha Garg, Susan Salerno, Eve Hamilton and Shailee Adnolfi; published by The Digital Financial Services Working Group; September 2014; 15 pages; available at https://lextonblog.files.wordpress.com/2014/09/dfs_risk_guide_sept_2014_final.pdf

The authors of this guide argue for the importance of Digital Financial Services (DFS) to reach low-income individuals who do not have access to traditional banking solutions. The authors base their findings partly on the statistic that 1.9 billion of 2.5 billion unbanked individuals worldwide own a mobile phone. The authors encourage more… *(Continued in the subscriber edition)*