ENVEST MICROFINANCE COOPERATIVE

FALL ISSUE   OCTOBER 2014

Envest Highlights

- **Envest Annual Meeting 2014**
- **Loan from Home Savings Bank**
- **Loans to Arariwa in Peru and EMPRENDER in Bolivia**
- **New Intern**

INSIDE THIS ISSUE:

Highlights of the 2014 Annual Meeting

By Laura Dreese

A core group of committed people came together on a September evening for Envest's 2014 annual membership meeting. The meeting included an election for the Envest Co-op Board of Directors and a short presentation of Envest's financial statements, highlights of the current year and vision for the coming year.

Georgette Frazer, Kathy Hankard and Francisco Aguilar were all reelected to the Board of Directors for another two-year term. All three are tremendous assets to the Envest team, and they regularly provide consultation and support above and beyond their duties as board members. We are thrilled that all three are committed to an additional term with Envest.

The presentation focused on the highlights from 2014 including our steady growth in both assets under management and in lending partnerships with MFIs. We also outlined our vision for the coming year.

Steady Growth: Envest LLC grew from around \$1.9 million in assets at the end of 2013 to around \$2.5 million as of mid-September 2014. The majority of this growth came through the work of a core group of socially conscious wealth managers who directed clients into Envest. The remaining growth came through a loan from Home Savings Bank, which was also the location of Envest's meeting.

New Lending Partnerships: Envest added four new partners in 2014, bringing our total partner base up to 10 partners. The addition of SARPARAST and HUMO in Tajikistan along with Pana Pana and Mi Credito in Nicaragua represent relationships in two countries that Envest was not lending in at the beginning of the year. The Tajikistani MFIs represent Envest's first partners outside of Latin America.

Jon Bishop presents at the 2014 Envest Annual Membership Meeting in Madison, WI

Vision for 2015: Our vision for 2015 includes continuing to maintain and strengthen the relationships that support Envest, diversifying our portfolio by adding up to five additional partner institutions, and exploring possibilities of bringing Envest to scale.

We would like to thank everyone who made it out to our annual meeting this year. We look forward to another exciting year at Envest as we continue to increase the access to financial services in the developing world.

Envest Receives a Loan from Home Savings Bank

By Jon Bishop

Home Savings Bank, a community bank in Madison, Wisconsin, has re-established a lending relationship with Envest. The two organizations closed a loan on September 3, 2014. We hope that this is the first step in a long and productive relationship.

Envest and Home Savings Bank enjoyed a lending relationship between 2008 and 2012, before the regulatory environment made such a relationship too difficult to maintain. Home's loans were crucial in allowing Envest to grow to the point of being viable and attractive to investors. Envest is now in the position to convert from being simply viable to being able to flourish. This renewed lending relationship will be very helpful in the effort to make Envest a thriving organization.

When Home Savings Bank first provided a loan to Envest in 2008, it was truly a unique transaction. Domestic banks were not considered a viable source of credit for the microfinance industry, which continues to be the case today. The leadership shown by Home Savings Bank is remarkable. We are delighted that Home Savings Bank has engaged in a transaction that has the very realistic possibility of demonstrating that microfinance is a viable and profitable option for the banking sector.

VISIT TO PROCAJA IN PANAMA

By Jon Bishop

I visited the home office of PROCAJA, Envest's only Panamanian MFI partner, in Santiago, in the province of Veraguas, Panama on July 15, 2014. My wife is from Panama, and we have kept the house that we bought when we lived there in the 90s. We travel to Panama at least once a year, which means that I get annual visits to PROCAJA.

I met with the director, Jacoba Rodriguez, and the head accountant, Samuel Henriquez. We discussed the factors that have resulted in PROCAJA's strong financial performance over the last couple of years. There were three new factors contributing to the strong performance since my visit in August 2013. The first is that they have implemented a computer program that allows the team to graph every aspect of financial performance. Consequently, they are able to identify inefficiencies and maximize the number of loans made. Second, PROCAJA has worked with the Inter-American Development Bank to draft and implement a strategic plan. Jacoba emphasized that the strategic plan has been used extensively to guide the activities of the organization's 45 employees. Third, non-financial

PROCAJA continued on page 4

My Visit to MFIs in Bangalore, India

By Shweta Wahal

Bangalore is a bustling city of over ten million people in southern India. It is one of the major economic hubs of the country and dubbed the "Silicon Valley of India" due to its heavy presence of information technology. However, directly alongside this high-tech culture exists extreme poverty. Thus, Bangalore is also a hub for many microfinance institutions (MFIs) in the country.

While visiting family in Bangalore this summer, I had the exciting opportunity to visit two of these Bangalore-based MFIs in person to do some field research. Before I made my trip, Jon Bishop, Laura Dreese, and I worked to identify small MFIs in the city that were similar in size to Envest's partners.

My visit was an educational one and a special opportunity as a college student interested in the subject. I contacted the managing directors of two of the MFIs before I left and was warmly invited to meet with each of them during the week I was there.

During the meetings that followed, I asked both directors questions about their respective organizations. I asked specifically about the source of their money and what they saw as the future of their organizations. Their answers were very similar. In fact, the two directors knew each other. I also learned a lot about the internal structures of the MFIs and the directors' respective philosophies. However, what I discovered from both meetings were three key "facts" that, in my opinion, are integral to understanding the operation of MFIs in India:

1. <u>The Andhra Pradesh Microfinance Ordinance, October 2010:</u> The "Andhra Pradesh Crisis" altered the Indian microfinance sector forever after a progressive build up and explosion of MFI controversy in 2010. Due to high investment and high demand, Indian microfinance institutions were skyrocketing in size, but with size came decreased quality and lending malpractice.

Reports emerged of suicides in the eastern state of Andhra Pradesh linked to microfinance over-indebtedness. Furthermore, in August 2010, the powerhouse SKS

Indian MFIs continued on page 3

Indian MFIs continued from page 2

Despite being called the "Silicon Valley of India," Bangalore's high-tech start-ups exist side by side with crippling poverty. For this reason, Bangalore is also home to many of the country's MFIs.

Microfinance held the first initial public offering (IPO) for a microfinance institution in India, (Mexico's Compartamos was the first ever in 2007) raising 347 million USD, and drew attention to the profitability of the microfinance sector. The IPO stirred significant controversy. Critics accosted the founder and then chairperson of SKS, Vikram Akula, (an Indian-American, like me, as one MFI director pointed out,) for taking advantage of the poor to make profit. This uproar, matched with more reports of microfinance-related suicides in Andhra Pradesh, culminated in the passing of the Andhra Pradesh Microfinance Ordinance in October 2010. It required MFIs that operated in the state to register with the state government of Andhra Pradesh, and it gave the government the power, suo moto, to shut down MFI activity if it suspected malpractice.

As a result, loan repayments dropped rapidly due to lack of confidence in Andhra Pradesh's MFIs, and SKS's shares also tumbled. However, the effect rippled throughout India. Banks stopped lending to MFIs, which created a crisis since MFIs received, and still do, most of their funding from the Indian banking system

The Reserve Bank of India (RBI) intervened to regulate this sector that now stood at a standstill. It created the classification of NBFC-MFI, (explained further below) and with it a mass of regulations that focused on protecting clients from over-indebtedness. The lasting effects of the Crisis that define Indian MFIs are the high regulation of MFIs who receive money from banks, a new consciousness of the profitability of the sector, and heightened awareness of over-indebtedness of borrowers.

2. Non-Banking Finance Company-MFI (NBFC-MFI): Many MFIs in India, including the two that I visited, have sought and now hold the status of NBFC-MFI, created by the RBI to restore confidence in the sector after the Andhra Crisis. As a consequence, rather than being characterized as an NGO within India, the MFI is considered a for-profit entity that is highly regulated by the RBI. As an NBFC, a microfinance institution is granted wide access to funding including bank finance.

There are two key regulations set by the RBI for NBFC-MFIs. Firstly, they must charge their borrowers a specific interest rate. Until this past February, the rate was 26% but is now linked to the cost of funds, which provides greater leeway. Secondly, the most an NBFC-MFI can lend to a client in a cycle is 50,000 Indian Rupees (~USD $818.) From feedback from my two visits it seemed as if the NBFC status at times feels too regulated, especially that the loan limit can be too constraining to support growth of MFIs.

3. MFIs & Indian Banks = Priority Sector: As referenced before, NBFC-MFIs in India receive significant support from the banking system. To encourage investment, the RBI classifies them as part of a priority sector. The RBI requires banks in India to invest at least 40% of net bank credit to specified priority sectors at a reduced interest rate. This sector specifically includes agriculture, micro and small enterprises, education, housing, export credit, and more. An MFI must be an NBFC-MFI to qualify for priority sector lending in India. MFIs are actually supported by the banking system in India, and therefore may not be in as much need of foreign investment as MFIs in other countries.

I learned much more about Indian microfinance in general from these two meetings in Bangalore than I had expected to, and returned excited to share my findings with the Envest team. I hope that the governments of other countries can assess the Indian model of mandatory bank support for MFIs, and decide whether such a model could work for them. MFIs have the capability to be useful tools to alleviate poverty and when they are supported, they can flourish.

Envest Microfinance Cooperative
222 S Hamilton St. Suite 13
Madison, WI 53703

608-216-9898
info@envestmicrofinance.org
www.envestmicrofinance.org

PROCAJA *continued from page 2*

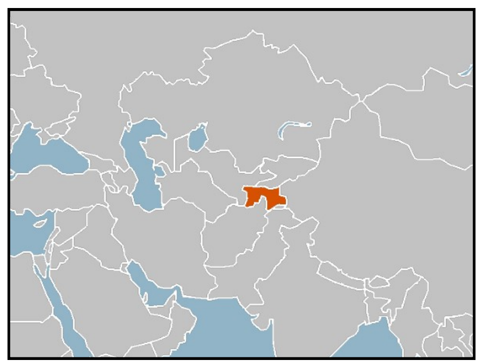
services such as financial literacy training and gender equality programs are now being offered to borrowers. This has become possible as PROCAJA has improved its cost efficiency of providing credit. This holistic approach to providing credit ultimately increases both the social impact of the loans and the credit quality of the loan portfolio.

PPROCAJA has grown from a portfolio of just over $700,000, when we first began considering a loan in 2008, to a present portfolio of $3.7M. PROCAJA, under the leadership of Jacoba Rodriguez, has shifted from being a donation-dependent loan program to a financially sustainable lending institution with nine branches in four provinces of Panama. Envest is one of two international lenders that lend to PROCAJA (Inter-American Development Bank is the other). At present, PROCAJA has $500,000 in active loans from Envest, which is the largest active loan amount of any of our partners. We anticipate that this lending relationship will continue for the long term.

A group meeting of PROCAJA borrowers in 2014. PROCAJA lends exclusively to people living in rural communities in Panama

Envest Partner MFIs

Mi Credito (Nicaragua)
Pana Pana (Nicaragua)
PROCAJA (Panama)
CEPESIU (Ecuador)
Alternativa Microfinanzas (Peru)
EDAPROSPO (Peru)
Microfinanzas Arariwa (Peru)
EMPRENDER (Bolivia)
SARPARAST (Tajikistan)
MDO Humo (Tajikistan)



New Envest Intern

Shweta Wahal is a junior at Georgetown University in Washington, D.C. majoring in International Political Economy in the School of Foreign Service. She is currently spending the semester studying at the University of Buenos Aires in Argentina and is enjoying improving her Spanish while learning about the economic history of the country. Shweta hopes to use her education in economics to promote the private sector's involvement in alleviating poverty, specifically by creating access to capital for those who do not have it.