

Envest

Microfinance Cooperative

Spring Issue

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Envest Highlights

- First loan to ASTI in Tajikistan
- First loan to Pana Pana in Nicaragua
- Laura Dreese started working full-time with Envest on April, 1st
- Envest portfolio now over 2 Million

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Envest Disburses Loan to ASTI – Tajikistan By Jon Bishop

Envest disbursed a loan to a new partner microfinance institution (MFI) in Tajikistan called ASTI (Association of Scientific and Technical Intelligentsia) on April 1, 2014. This represents Envest's first loan outside of Latin America.

ASTI is a small MFI with total assets of \$353,000 and a portfolio of \$324,000 headquartered in Khujand, which is in the Sughd Region in northern Tajikistan. The organization was established in 1995 as a non-governmental organization (NGO) offering various development services including health and education programs. It began providing microfinance services in 2000, and in 2005 the microfinance program split off to become a separate entity. The NGO and MFI continue to share an office and coordinate development services to the extent possible. The majority of the credit portfolio is rural, however, there are a few urban



ASTI is headquartered in Khujand in Northern Tajikistan

borrowers in the city of Khujand. The vision is to continue working with rural clients because that is where the economic need is greatest. ASTI's lending portfolio is currently 54% in agriculture, 33% in trade, 10% in services, 2% in manufacturing, and 1% in consumer lending.

Envest was introduced to ASTI by Envest advisory board member, David Szakonyi, who worked at ASTI for six months in 2006 during a two year period after college in

which he lived and worked in several former Soviet republics in Eastern Europe and Central Asia. Upon his return to the US in 2008, he sought sources of financing for ASTI. Envest was not in a position to consider a partner in Central Asia when David contacted me in the fall of 2008, but we agreed to work together to build Envest to the point that it would have the organizational competence to lend in Central Asia. David has worked with us over the years to give us an understanding of ASTI continued on Page 2

Envest Disburses Loan to Pana Pana -Nicaragua By Laura Dreese

On April 1st, 2014 Envest disbursed its first loan to Pana Pana, a small, non-profit MFI headquartered in Puerto Cabezas, a town along Nicaragua's Atlantic Coast. Pana Pana was founded in 1991 to provide financial and non-financial services to people living in the Region Autonoma del Atlántico Norte (RAAN), a semi-

autonomous region of Nicaragua, which was heavily affected by the Nicaraguan civil war. This area along the Atlantic coast has a primarily Miskito, indigenous population, so Pana Pana does the majority of its transactions in the local Miskito language. Pana Pana itself comes from the Miskito words for "mutual help."

Envest Country Representative in Nicaragua, Francis Soza Huete, visited Pana Pana to meet the management team and Pana Pana borrowers. Although Francis is based in Nicaragua, a country the size of Wisconsin, she took a plane to reach Puerto Cabezas. The poor infrastructure in the RAAN

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Female members of a fruit growing cooperative meet with a lawyer in ASTI's main office

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the political economy of Central Asian countries, particularly Tajikistan, necessary to consider lending in the region. David's ongoing commitment to Envest is tremendously appreciated by the Envest community. His fluency in Russian and knowledge of the region are wonderful assets to Envest.

Tajikistan is located in Central Asia and is bordered on the north by Kyrgyzstan, on the west by Uzbekistan, on the south by Afghanistan, and on the east by China. It has been ruled in succession by the Persians, the Arabs, the Uzbeks, and the Afghans, and was brought under Russian rule in the 1860s. In 1924 Tajikistan was consolidated into the Tajik Autonomous Soviet Socialist Republic. Following the disintegration of the Soviet Union, Tajikistan proclaimed independence in 1991, but quickly fell into a devastating civil war. The war ended in 1997 with the signing of peace accords in Moscow by the Tajikistani government and the United Tajik

Opposition after an estimated 60,000 lives were lost. There have been lingering tensions and periodic skirmishes, but the peace accord has held. The tensions are primarily in the south and east of the country, whereas the capital, Dushanbe, and the northern city of Khujand, which is where ASTI is headquartered, feel little effect from the low-level tensions. In a country characterized by political oppression and flawed elections, several transparent, well-governed MFIs offer access to credit.

Tajikistan remains the poorest country of the former Soviet republics with a GDP per capita adjusted for purchasing power parity of \$2,300 in 2013. Tajikistan ranks 189th out of 228 countries for GDP per capita according to the CIA World Factbook. For context, Cameroon is ranked 188th, and Sao Tome and Principe is ranked 190th. Economic growth has been hampered by corruption and weak infrastructure. Due to lack of em-

ployment opportunities in Tajikistan, many work abroad, mostly in Russia, and support their families through remittances.

This loan to ASTI marks Envest's first loan outside of Latin America. It gives Envest the opportunity to get experience in Tajikistan lending to an MFI with which we have a personal relationship via David Szakonyi's experience working there. There are MFIs working in other parts of Tajikistan that appear to have the social focus and financial strength that Envest seeks in a partner. There are MFIs in other countries in the region, particularly Kyrgyzstan, that also appear promising. This new lending relationship with ASTI gives Envest a vantage point from which to assess possibilities in region of the world with significant poverty and much more demand than supply of credit.

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Microfinance: The Basics

By Lisa Fillingame

Microfinance programs have been around for about four decades now, but within the last fifteen years, the idealistic poverty alleviation programs have transformed into a worldwide, prospering industry of an estimated \$60-100 billion, according to the *International Finance Corporation (IFC)*. As the sector has expanded over the years, microfinance has provided hope and opportunity for millions of the world's low-income population, allowing them access to credit that otherwise would not be viable.

In many developing countries, low-income entrepreneurs and individuals could

benefit from access to a \$200 loan, however a bank would never provide this loan due to the high administrative cost relative to the loan size. Microfinance institutions fill in where banks cannot, providing small loans to individuals or groups in order to pursue income-generating activities, invest in education and health, and create sustainable livelihoods for themselves, their families, and their communities.

Microfinance is proven to be successful in economic development because its goal is to be sustainable and self-propelling, lasting beyond charitable donations. Rather than relying on foreign aid and

debt relief, microfinance takes a bottom-up approach. It is built upon a foundation of economic empowerment, allowing people with entrepreneurial ideas and a strong work ethic to achieve financial stability. As low-income individuals gain access to financial services, they invest more, consume more, and contribute to a more effective and prosperous local economy.

Critics of microfinance may point to the high interest rates charged to the poor and ask whether loans at such high interest rates may actually be more predatory than socially motivated. It is true that microfinance institutions (MFIs) typically charge Microfinance: The Basics continued on page 4

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makes reaching it by road difficult in the dry season and impossible in the wet season.

Francis spent two days in Puerto Cabezas where she met with Luis Wilson, Sub-executive Director, and Mario Bolaños, Credit Manager, at their main office. Francis found the office to be well organized and the institution to be very transparent.

Francis interviewed borrowers during her visit. These interviews revealed the extent of the need for credit in the region, and that Pana Pana effectively and positively impacts the communities that it reaches.

Pana Pana not only provides credit, but also administers development projects with money it receives through grants. These projects include the clean water and sanitation projects, while the credit pro-

gram finances solar panels, home improvements, and business loans. Organizations like Pana Pana are necessary in areas like the RAAN where the government does not provide adequate infrastructure or social services.

Pana Pana does not discriminate against people who apply for loans. This often makes Pana Pana the only viable source of credit in the community because the only other MFI is strongly linked to a certain political party.

Envest is thrilled to have entered into a partnership with an organization that shares Envest's values of building a socially and environmentally just economy. Envest looks forward to a long lending relationship between the two organizations.

Pangea's Trip to Kenya By Laura Dreese

During the second week of January, a team of two MBA students who are members of the Pangea student group at the Columbia University Business School flew halfway around the world to Nairobi, Kenya to conduct due diligence visits with a couple of microfinance institutions (MFIs) that Envest had singled out as possible lending partners.

The student team visited three MFIs: one in Nairobi, one in Embu, and one in the coastal city of Mombasa. Each MFI received the team warmly and took time out of their schedules to answer all of the questions the team had prepared before leaving the US. Ultimately the Pangea team identified two possible candidates for lending relationships with Envest, but also identified challenges on both sides that

would come with the relationships. Right now, Envest does not have immediate plans to lend to the organizations that the Pangea team visited in Kenya, but is keeping them in mind as possible future partners. Envest is very grateful for the opportunity to work with this team in an area that would be prohibitively expensive for Envest to visit this year.

Going forward, a second MBA team from the student group Pangea has agreed to do another due diligence visit for Envest, this time in Trujillo, Peru. Envest has tried twice to visit a potential partner in Trujillo, but last minute logistical complications precluded both visits. The Pangea team will visit both this MFI and an additional MFI that may be a good fit for Envest.

Pana Pana Borrower Profiles

Ms. Juliana Mariana Pablo González



Juliana is a single mother with five children. She belongs to a lending group to support her business of selling fish and fishing supplies. She has been borrowing from Pana Pana for three years and has increased the amount of her loan over time to her current loan size of \$135. Pana Pana supported her when other banks turned her down. This has enabled her to provide for her children, but it has not yet been enough for her to improve her home. Two of her children are now in secondary school and hope to go on to college.

Ms. Elisa Madgali Wilson



Elisa is a single mother who lives with her child and aging mother. Elisa has a small store in which she sells sweets and bakery items on one side of the store and clothing on the other. Elisa is now on her second loan from Pana Pana having paid her first loan on time and in full. Her current loan is for \$300. With the loan she has been able to remodel the interior of her shop and her home.

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Nicaragua
Pana Pana

Tajikistan
ASTI

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very high interest rates by United States standards to end borrowers (30-40% is common in Latin America.) They charge this much for two reasons: the high administrative cost of lending in small amounts and the other services the MFI may provide. Administrative costs are huge in microfinance because to make loan of \$500, an MFI has to do the same underwriting and monitoring as it would on a loan of many times that amount. MFIs that charge high interest rates often offer some form of extra service to borrowers. Many MFIs offer health services, business development services or classes in civic participation. These services increase the overall cost of borrowing for the borrower, but provide key services that help the borrower and the community be more successful.

Critics may further question the ability of the poor borrowers to pay back their loans with interest in a timely manner. However, microfinance institutions only suffer from loan losses of 1-3% across the industry, according to *The Economist*. Such low rates of loan loss imply that microfinance institutions may bear less risk than large banks in developed countries, and substantially lower risk than big credit card companies. Consequently, we can determine that the commonly held assumption that poor populations are not reliable borrowers is far from the truth. This is not to say that the microfinance industry is perfect and risk-free, but when looked at from a broad, statistical perspective one can see that microfinance is more than just an idealistic program

to aid the poor; it is an effective and economically-sustainable solution that can benefit both the investors and the borrowers.

Microfinance brings optimism to emerging markets around the world, but still has room for progress and improvements to amplify its success. Unfortunately, microfinance programs reach less than 20% of the potential market of the estimated 3 billion of the world's low-income population. The need for microfinance is evident, but the challenge remains of how to better expand the microfinance industry to reach the other 80% of the financially excluded and underserved populations in emerging economies around the world.



New Intern Joins the Envest Team

Evan Vorpahl joined the Envest intern team in February, 2014. A Junior studying Economics and Latin American Studies at the University of Wisconsin-Madison, Evan's fascination with Latin America began after spending time in Guatemala learning Spanish and volunteering at an orphanage. Envest is the perfect opportunity for Evan to work in a field which would align his interest in the region with his goals to alleviate poverty. Evan hopes to attend graduate school in the future and study the effects economic development has on the welfare of farmers in Latin America.

Envest Team

Jon Bishop, *CEO & Founder*
Laura Dreese, *Portfolio Manager*
Francis Soza Huete, *Country Representative - Nicaragua*
Haluna Zenko, *Webmaster*
Lisa Fillingame, *Intern*
Evan Vorpahl, *Intern*

