January 2015

Winter Issue

Envest Microfinance Cooperative

Envest Adds New Mexican Partner

Envest Highlights

- Envest adds new partner MFI, APROS in Mexico
- New Envest Interns

An APROS borrower poses with her banana stall.

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Envest established its first lending relationship in Mexico on October 27, 2014 when it disbursed a loan of $100,000 for 30 months to Ambito Productivo, S.A. (APROS), a microfinance institution (MFI) that provides loans to borrowers who have inadequate access to credit from formal financial institutions. APROS is now Envest's second largest partner with total assets of $21 million and a portfolio of $15 million. (MDO HUMO in Tajikistan with a portfolio of $36 million is the largest.)

The home office of APROS is in Mexico City , and there are 10 branches distributed among Mexico City and the states of Veracruz, Oaxaca, San Luis Potosi, and Hidalgo.

APROS was a technical assistance NGO that began a lending program in 2001, which evolved into the non-regulated financial institution that it is today. It is allowed to make loans but not to take client savings. The ultimate goal is to become regulated so that it can accept savings.

About two-thirds of the loans made are to microentrepreneurs who have their own businesses. APROS is heavily dependent on very short-term financing (typically 16 weeks) from the Mexican government. The few foreign lenders that work with APROS tend to provide short-term financing as well. As a result, APROS has to focus its lending on businesses with very short business cycles. There is a strong desire on the part of the management to provide longer term loans if longer term financing can be secured. The 30 month loan from Envest represents a small step in that direction.

The other third of the portfolio is dedicated to home improvement loans, which typically go for very basic items such as a floor, indoor plumbing, or an extra room. The home improvement loans are made possible by subsidized loans from the Mexican government. Most foreign lenders forbid the use of their funds for non-business loans. The management would like to lend for health and titling of property while increasing lending for education, but the various restrictions on their financing make this difficult. The loan from Envest does not have restrictions on how it can be used. We embrace APROS's vision and leave its implementation to the management's expertise.

Mexican Background

Mexico is a middle income country with a population of 120 million and a GDP per capita of $15,600 (2013 est. PPP – CIA World Factbook). Nonetheless, Mexico suffers from high income inequality, and most estimates place poverty at approximately 45% of the population.

Drug-related violence in Mexico receives a great deal of media attention. The violence is most acute along the northern border with the United States and along the coasts where the drug trafficking routes are concentrated. Mexican MFIs tend not to open branches in areas with high levels of drug-related violence.

Mexican Microfinance Sector

Prior to 2007, the Mexican microfinance sector was very small and dominated by Compartamos, a very large MFI that was converted into a regulated financial institution.

The Mexican microfinance sector received a great deal of international attention in 2007 when Compartamos had its initial public offering (IPO), and initial investors made a 160-fold return on their investments. There was considerable outcry, particularly from the international development community, when it was revealed that the typical effective interest rate that Com-

Mexican Partner continued on Page 4

2014 Expansion

When Envest started the year, it had six partners in four countries and a portfolio of $1.6M. Through the tireless work of many involved, we were able to grow the portfolio by 50% in 2014. This allowed us to bring on five new partners in three different countries. These new partners add diversity and strength to our overall portfolio and demonstrate that Envest's vision is to be a global microfinance investment vehicle (MIV).

April 1, 2014 - **Pana Pana**, a small MFI located on Nicaragua's Atlantic coast, became our first Nicaraguan partner after exiting the country in 2013. The name Pana Pana means "mutual help" in the indigenous language, Miskitu. Its name is indicative of both who Pana Pana serves and how it serves them. The Miskito people of Nicaragua are some of the most geographically and economically isolated people in the country and face significantly higher unemployment rates than non-indigenous Nicaraguans, leaving Miskitos in greater need of microfinance. Pana Pana's loan officers conduct nearly all of their transactions in Misquitu, because many of the borrowers do not speak Spanish. It also administers a job training and sanitation program. In turn, Pana Pana's borrowers have strong loyalty to the organization and continue borrowing from it.

June 10, 2014 - **MDO Humo**, a mid-sized MFI headquartered in Dushanbe, Tajikistan, became our biggest partner with assets over $40M (2014, Q3), and our second partner in Tajikistan. MDO Humo is unique among our partners in that it is licensed to take client savings. Access to savings is arguably as important as a tool to low-income entrepreneurs as credit. When people don't have access to savings accounts they typically store their money in their homes either as cash, jewelry, or livestock, all of which can be stolen. Cash does not keep up with inflation and livestock can fall ill. Savings accounts provide the ability to save money safely in a way that can keep up with inflation. Jon Bishop and David Szakonyi plan to visit Humo in May of 2015.

2014 — **2015**

April 1, 2014 - **SARPARAST** (formerly ASTI), a small MFI with assets of $470,000 located in Khujand, Tajikistan, became Envest's first partner outside of Latin America. It seeks to provide economic opportunities for rural Tajikistanis through the credit services it offers. SARPARAST is the microfinance arm of its parent NGO, ASTI, which administers extensive social programs such as job skills training for women and outreach to deter youth from radicalism. Advisory Board member, David Szakonyi, worked at SARPARAST for six months after college, after which he joined the Envest advisory board in the hopes that he could help Envest expand into Central Asia. Six years later we were able to add SARPARAST as our first Tajikistani partner. Jon Bishop and David Szakonyi are planning a visit to SARPARAST in May of 2015.

April 15, 2014 - **Mi Credito**, an MFI headquartered in Managua, Nicaragua, became our third new partner addition for the year. Mi Credito is an innovative institution that partners with third-party organizations to offer a wider range of services to its borrowers. In 2013 it opened a health care clinic in partnership with the AMOS Foundation that offers low-cost health care to its borrowers. Mi Credito partners with Nicaraguan solar panel providers to provide the financing for people in remote villages to acquire electricity. Mi Credito's strong social mission, including its financing of sustainable technology, combined with its solid financial performance make it a great fit for Envest.

October 27, 2014 - **APROS**, an MFI headquartered in Mexico City, became our first Mexican partner and our last new partner added in 2014. Mexican MFIs are particularly in need of long-term debt, which Envest is able to provide. Many Mexican MFIs receive the majority of their funding from the Mexican government. While this is ostensibly a good thing, the Mexican government only provides very short-term financing (typically 16 week loans with no grace period and weekly principal payments.) This prevents the MFIs from making long-term loans to end borrowers. The loan from Envest, which has a term of 30 months and an 18 month grace period, will allow APROS to loan to its borrowers for longer terms.

2014 Retention

"Make new friends but keep the old; Those are silver, these are gold." - Joseph Perry

While we are excited to have brought on new partners and new Envest stakeholders in 2014, we are equally proud that we continue working with all of our partners, board members, advisory board members, and staff with whom we started the year.

2008 — 2011

July 3, 2008 - CEPESIU, a small Ecuadorian MFI, received a loan from a brand new MIV called Envest. CEPESIU was Envest's third-ever partner and continues to be a thriving partner for Envest in 2015. CEPESIU serves the very lowest end of the Ecuadorian market, and has an average loan size of $462 (Q2 2014) compared to $3,080 (Q3 2014, MixMarket), the average loan size across all Ecuadorian MFIs. It is able to do this profitably because it has its borrowers form their own lending groups and then it makes loans to the groups, which lend to the individuals in the group. This reduces administrative costs and allows CEPESIU to reach very poor borrowers without charging high interest rates.

May 29, 2009 - Microfinanzas Arariwa became Envest's first partner in Peru, where the majority of Envest's portfolio would be concentrated by 2014. Arariwa is headquartered in Cusco, Peru, which has a high indigenous population. The MFI employs Quechua speaking loan officers so they are able to serve indigenous borrowers who do not speak Spanish. Arariwa exemplifies inclusivity by extending access to credit to people who, because of location, language, economic status or ethnic identity, are excluded from financial services.

November 23, 2009 - ProCaja became Envest's first Panamanian partner. Panama has a more developed economy than most of Latin America and it has many accessible options for financing consumer purchases, so it is not surprising that there are fewer MFIs. However, it is estimated that roughly one-third of Panamanians live in poverty, with the poverty being particularly acute in the rural areas. This is the niche that ProCaja fills, lending exclusively to rural borrowers.

March 16, 2010 - EDAPROSPO, an MFI that works in the slums of Lima, Peru, became the next addition to Envest's portfolio. EDAPROSPO views credit as a tool that, when combined with education, can make a powerful difference in peoples' lives. The MFI offers training on financial literacy, credit management, self-esteem, and women's rights to borrowers. It also offers job skills training to at-risk youth.

September 15, 2010 - Alternativa Microfinanzas became Envest's last partner added before SARPARAST in 2014. Alternativa Microfinanzas is a small MFI that operates in the shantytowns of Lima, Peru, where the MFI is heavily involved in building healthy communities. To this end, Alternativa focuses both on economic development and civic participation within the community. The MFI prioritizes teaching borrowers their rights and then facilitates conversations between borrowers and local government officials to make sure the borrowers have a voice.

September 15, 2010 - EMPRENDER, an MFI in Bolivia, became our first partner in the country. Bolivia continues to suffer from a notoriously poor public health system with only 1.1 hospital beds per 1000 people (CIA World Factbook, 2011). EMPRENDER realizes that a microentrepreneur's most important asset is his/her health, and so EMPRENDER provides free basic healthcare to all of its borrowers and their families.

The Envest Team and their Years of Service

Board of Directors

Jon Giegel	7 years
Jon Bishop	9 years
Georgette Frazier	2 years
Kathy Hankard	4 years
Francisco Aguilar	8 years
Paul Sager	7 years

Advisory Board

Richard Brooks	9 years
Justin Conway	7 years
Howard Finkelstein	3 years
Sue Good	5 years
Jennifer Lazarus	2 years
Sergio Loureiro	8 years
Andy Loving	1 year
Mel Miller	1 year
Doug Morrison	8 years
Wayne Orthwein	7 years
Julia Pooler	8 years
Jeni Servoss-Pecard	2 years
Megan Snyder	5 years
David Szakonyi	7 years
Ann Terlaak	3 years

Management Team

Jon Bishop	9 years
Laura Dreese	2 years
Francis Soza Huete	8 years
Victoria Haler	1 year
Shweta Wahal	1 year
David Morel	1 year
Ziyi Huang	1 year

New Envest Interns

David Morel is a junior at the University of Wisconsin-Madison majoring in Finance, Investment & Banking, Economics with a Math Emphasis, and Actuarial Science. He started learning Spanish when he was 9 years old, and is currently improving his skills through his coursework, and practicing speaking with his family on a regular basis. After graduation, David plans to go into Investment Banking or Research, and then pursue an MBA. He wants to use his background in Finance to promote ethical business practices and advocate for international investment opportunities.

Ziyi Huang is a senior at University of Wisconsin-Madison, majoring in Finance and Accounting in the School of Business. She is an international student from China, and wishes to apply her business knowledge to real life analytical experience by interning at Envest. Ziyi wishes to become a financial analyst after graduation, and believes her Envest experience very valuable for starting her future career.

New Partner in Mexico—continued from page 1

partamos charged to borrowers in the period leading up to the IPO was 120%.

There are several legitimate reasons why microfinance interest rates in Mexico were, and continue to be, higher than in other countries including 1) higher cost of labor, 2) higher cost of compliance with Mexican regulatory requirements due to an elevated level of bureaucracy, 3) need for transactions to occur in the clients' places of business rather than the MFI's office due to the security situation in Mexico, and 4) need for banks to intermediate all transactions because MFI branch offices do not participate in cash transactions, again because of the security situation. Additionally, Compartamos held a virtual monopoly in a market in which demand for credit vastly outstripped the supply of lending capital. It should come as little surprise that prices were high in such market conditions.

The focus of the outcry from the international development community centered on the "greed" of the initial investors who made such high returns on their investments "on the backs of the poor." There was surprisingly little discussion about why the Mexican microfinance market was allowed to be a virtual monopoly in the first place. It is also worth mentioning that the premium paid for the IPO was a result of two factors that had nothing to do with the high interest rates charged to borrowers. First, Compartamos had a Mexican banking license at the time of the IPO, which was very difficult to obtain due to bureaucratic climate in Mexico. Thus, investors were paying a premium for access to a Mexican banking license. Second, international investors looking to diversify their portfolios typically invest in equity offerings in many countries. Mexico was attractive as a middle income emerging market. There were relatively few high quality IPOs in Mexico in 2007, so Compartamos was a natural choice for investors wishing to include Mexican equities in their portfolios in 2007.

Several banks and formal financial institutions in Mexico interpreted the Compartamos IPO as a signal that the microfinance sector was a source of large, rapid returns. This spurred the entrance of several institutions with no experience in microfinance and little social mission into the Mexican microfinance sector. These institutions infused large quantities of money into the market via inappropriate products with inadequate underwriting standards. The portfolio quality of the Mexican microfinance sector deteriorated markedly from 2007 to 2010 as a result. The portfolio at risk over 30 days (PAR 30) for the sector was 10% in 2010. The poor portfolio performance during this period resulted in financial losses for many MFIs, particularly the new entrants. The majority of these new entrants have significantly reduced their lending operations or suspended them entirely.

Portfolio quality improved across the Mexican microfinance sector in 2012 and 2013. Large quantities of poor portfolio were written off in 2012. Underwriting standards were strengthened by most MFIs.

Today, effective interest rates to borrowers are typically 60% to 90%. This is due to the high cost of labor and bureaucracy in Mexico. Additionally, average loan sizes are far lower in Mexico than in other regions of Latin America because the terms of the loans are very short. This results in high administrative costs relative to the size of the loan. The average effective interest rate charged by APROS is typically between 40% and 50% due, in part, to the fact that APROS's average loan size is larger than the average for the Mexican microfinance market. International lenders play a smaller role in the Mexican market than in most microfinance markets in Latin America. Many have been deterred from entering the Mexican market by the poor portfolio quality and financial losses of the past several years, and many prefer to avoid being associated with a microfinance sector that is characterized by high interest rates.

APROS is among the MFIs in Mexico that maintained high underwriting standards during the period between 2007 and 2010. Interestingly, even Compartamos's strongest detractors concede that it maintained high underwriting standards during that period. Nonetheless, many of these detractors still berate Compartamos for its greed. At Envest, we believe that this line of discussion misses the point. The point is that there was not enough money available for loans to low-income people in Mexico, and there were not enough institutions providing the loans. The situation has improved somewhat since 2007, but the demand for credit still greatly exceeds the supply of lending capital.

We are delighted to partner with APROS to support its vision of providing the credit products that low-income Mexicans need rather than what lending institutions think they need.