

How the Strong Dollar is Affecting Microfinance

By Laura Dreese

Over the last five years the US Dollar Index (DXY), which measures the strength of the US dollar against a select basket of trading partner currencies, has risen by 40%. Over the same time frame, countries in which Invest's partner institutions operate have seen their local currencies drop staggeringly against the US dollar. A strong dollar, while beneficial to Americans traveling abroad and US companies importing goods from overseas, has put increased financial pressure on microfinance institutions that lend in local currency. This increased financial pressure has resulted in a few of Invest's partner institutions choosing not to request further loans from Invest until the currency situation stabilizes.

Invest, like many other microfinance investment vehicles, provides loans to microfinance institutions exclusively in US dollars. We do this to avoid the currency risk involved with lending unhedged in foreign currency, and to avoid the high and variable cost of hedging, which is prohibitive at our small size. However, this means that the local microfinance institutions are left with the decision to either absorb the currency risk or to hedge the loan. Absorbing the currency risk would mean that a Tajikistan-based microfinance institution that lends in local currency would be forced to pay back principal of over \$124,000 today on a \$100,000 loan disbursed one year ago, due to the 32% depreciation of the Tajikistani Somoni since December 2014. Hedging instruments that lock in a fixed exchange rate on a dollar-denominated loan exist, but these instruments are ex-



Happy Holidays from the Invest team! From left: Jon Hammon, Laura Dreese, Jon Bishop and Cassie Poeske

pensive and are not always available for the microfinance institutions.

End borrowers also feel the effects of currency volatility. According to the World Bank, in the Central Asian countries of Tajikistan and Kyrgyzstan, money sent home from migrant laborers working abroad (remittances) accounted for 41.7% and 30.3% of the GDP respectively in 2014. The vast majority of these migrants work in Russia. With the current environment of the strong dollar, combined with Russian economic woes brought on by both Western sanctions and low oil prices, the value of the Russian ruble has plummeted by 26% over the past year and by 112% over the past two years. This means that the same nominal wage earned by a Central Asian migrant laborer two years ago is worth less than half of that today. Consequently, the value of the remittances sent to families in Central Asia has dropped, leaving families with less discretionary income. With less discretionary income, micro entrepreneurs can see the demand for their products and services drop.

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Invest Highlights

Winter 2015

- \$200,000 disbursed to PROCAJA in Panama
- Goal met of increasing equity by \$600,000 in 2015
- Jon Bishop and Laura Dreese attended the SRI Conference in Colorado Springs



Pana Pana is located in Bilwi, a town near the city of Puerto Cabezas on Nicaragua's Atlantic coast.

Video on Pana Pana

By Jon Bishop

The final touches are being made to a video that features the activities and impact of Pana Pana, Envest's partner on the Atlantic coast of Nicaragua. As soon as the video is ready, there will be a link to it on our website (www.envestmicrofinance.org).

Clio Therage contacted Envest in October about the possibility of doing a project for us. Clio is a French Citizen who worked as a brand manager in France for four years after graduating from college. Clio and her partner, Benoit Michel, decided to spend the year of 2015 traveling to 12 different countries around the world. Looking for an alternative to the standard tourist approach, they decided to do 12 volunteer projects for a month each, one per country. Their aim was to apply their business and marketing background in developing world situations in which they could truly make a difference. Clio and Benoit's year of service has found them doing projects in places such as Nepal and Brazil. Their travels are chronicled on their website (www.1Month1Project.com), which is in French only.

There is a wide variety of interesting development projects in Nicaragua. We are humbled that Clio and Benoit considered Envest worthy of their efforts. They offered to make a video that would highlight one of our partner MFIs. We asked them whether they were willing to travel to Bilwi, Nicaragua to make a video about Pana Pana. They agreed to do so without



Silvia Thompson

Silvia lives with her family in Krukira, a small fishing community about 17 miles from the Pana Pana office in Bilwi. Silvia took out a loan from Pana Pana to buy a large quantity of fish and shrimp from local fishermen, allowing her to start her business. Now every afternoon, Silvia buys the day's catch from the local fishermen and sells it at the market in Puerto Cabezas the next morning. *Photo credit: Clio Therage*

hesitation and proceeded to spend three weeks with Pana Pana where they beautifully captured the effects of microfinance on people's lives. The video is a wonderful reminder of why we do what we do. A few of the photographs Clio took are included in this newsletter. We look forward to sharing more stories with you when the video is finished.

We are truly grateful to Clio and Benoit for choosing to help Envest and for doing such a wonderful job on the video. We are inspired by their initiative and creativity to embark on such an interesting trip. There is no doubt in my mind that Clio and Benoit will continue to make significant contributions to the world. We feel very fortunate that Envest is among one of them. We very much hope that they will be life-long members of the Envest community.



Florencio Martinez Castillo

Florencio works as a security guard at the hospital in Puerto Cabezas while his wife sells fish at the market. Fifteen years ago this couple didn't have enough money to purchase land or build a house. That was when they first turned to Pana Pana. They took out a loan for the land, paid it back in full, and then took out another loan to build the house. Over the years they have taken out further loans for improvements. Last year, they invested in a well and water sanitation system. *Photo credit: Clio Therage*



Clio Therage and Benoit Michel spent three weeks in Bilwi, Nicaragua, producing a video about Pana Pana.

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Despite the macroeconomic pressures of the current currency environment, microfinance institutions are showing resilience. Institutions in countries that have accessible domestic funds might try to replace foreign, dollar-denominated loans with domestic, local currency loans. Central Asian microfinance institutions can factor a decrease in remittances into a borrower's ability to

repay and can adjust the loan terms accordingly. Some microfinance institutions can apply for government licenses to lend in US dollars, which shields the institution from direct currency risk.

Like our partner institutions, Envest is also finding ways to adapt to the new currency environment. Over the next year, we plan to expand our work in dollarized countries where currency risk is less of an issue. We also plan to grow our footprint in Central Asia, where many institutions can obtain licenses to lend in dollars. At our small size, purchasing hedging instruments to lend in local currency is still cost prohibitive, but we will continue to monitor the possibility as we grow.

We expect the dollar to remain strong in 2016. This means that we may need to scale back, at least temporarily, on working with some of our wonderful partner institutions. Despite this, Envest remains viable with sufficient quality partnerships to enable our growth. We are actively researching new potential partnerships in areas less affected by global currency volatility. Our outlook remains positive, and we welcome the opportunities and challenges of the New Year.

Visit to Zimbabwe

By Jon Bishop

A team of three MBA students from Columbia University will visit several institutions in Zimbabwe on Envest's behalf in the second week of January 2016. Pangea Student Advisors, a consulting club at Columbia, performs international consulting engagements for companies as a way to provide its members with real world experience. Students Jason Peyer, Greg Tarca, and Justin Nabozna requested to work with Envest on its proposal for a due diligence visit to Zimbabwe. Pangea works in conjunction with Microlumbia, a microfinance club at Columbia Business School. Envest has a formal partnership with Microlumbia, which has facilitated a relationship with Pangea.

The team will perform an assessment on the ground to determine whether Zimbabwe is a viable market for Envest to consider entering. They will visit the USAID Mission

in the capital, Harare, where they will meet with two contacts who are familiar with the Zimbabwean microfinance market. These contacts have already shared through email some insights into the challenges and opportunities of microfinance in Zimbabwe. The team will have the opportunity to explore the subject in much more detail during their meeting. The team will also meet with the management of the Zimbabwe Association of Microfinance Institutions (ZAMFI) to get perspective on the market from the local microfinance umbrella organization. They will then visit three MFIs to determine whether there is an organization that would be a viable partner for Envest.

This engagement will be the third due diligence evaluation that Pangea has performed for Envest. A Pangea team visited three MFIs in Kenya in January 2014. Another Pangea team visited two MFIs in Trujillo, Peru in May 2014. Envest's current lend-

ing relationship with IDER was a result of the visit to Trujillo.

Zimbabwe is a challenging environment. At the beginning of 2014 the US dollar was adopted as a legally accepted currency, along with the South African rand, Botswana pula, Pound sterling, Euro, Australian dollar, Chinese yuan, Indian rupee, and Japanese yen. This put an end to the hyperinflation that started in the late '90s and peaked in 2008 and 2009. The era of Robert Mugabe, who has ruled Zimbabwe autocratically since independence in 1980, appears to be winding down as his health falters. The microfinance sector all but disappeared during the hyperinflationary period. The sector is re-emerging as MFIs are developing management and lending processes again. A few MFIs have established themselves as viable entities worthy of our attention. We look forward to what Justin, Greg and Jason learn during their visit.

New Envest Intern



Jonathon Hammon is a recent graduate of Beloit College in Wisconsin, where he majored in International Political Economy and minored in Chinese. Jon has made the most of the international component of his degree through studying abroad in China and conducting research on sustainable development in Vietnam. In addition to studying abroad in China, Jon also spent time there setting up a study abroad program concerning the impacts of water scarcity in the Yellow River Basin. Currently Jon is working, interning, and volunteering in Madison, Wisconsin. He plans to pursue a Master's Program in Environmental Management with a focus on Sustainable and Resilient Communities in the near future. While at Envest Jon hopes to gain valuable experience, while simultaneously using his industry specific knowledge to benefit the company.