Banking the Bottom of the Pyramid:
“From Microfinance to Inclusive Finance and Beyond”

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East Asia and the Pacific

Microfinance Borders are Blurring

- Privatized ag. bank serving ½ rural households (Mongolia)
- Smart cards, biometrics, and ATMs (Bolivia, Mexico, India, S. Africa)
- Credit bureaus cutting cost and risk (Haiti, Bosnia)
- ASA reaches 2.5 million clients with franchising model (Bangladesh)
- Links to insurance companies and banks (Uganda, Peru)
- 50 countries working on policy frameworks that integrate microfinance
Access points are multiplying

Institutions are leveraging existing and new infrastructure to offer clients multiple points of access

- State Banks
- Commercial Banks
- MFIs
- Loan Service Agent
- Self-Help Groups
- Cell Phones
- Point-of-Sale Networks
- Lottery Agent
- Traders and Processors
- ATMs

Market is Big

83% of global market yet to be tapped

- 3 Billion Served or not economically active
- ~500 mil served by AFIs
- 3 Billion Unserved
- 2.5 billion Unbanked

An Inclusive Financial System?

- Lower barriers to access, interest rate policy, standards
- Credit bureaus, payments, industry associations, IT companies
- Diverse range of institutions & delivery mechanisms
Banking in Developed Economies

- Wells Fargo: 4th Largest US bank with business model built on mass retail
- Citibank North America: +50% of 2003 profits from consumer/SME loans
- Société Générale: Retail operations helped support 600% growth in total shareholder returns since 1990
- Rabobank: Serves half the population and businesses in Netherlands

Retail and small business clients can lead profits for banks

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Microfinance is Profitable

MFI s more profitable than commercial banks in 4 of 6 regions

![Bar chart showing ROA (%)](chart)

Microfinance Information eXchange, Inc. (MIX), December 2006.
376 MFIs with 2005 adjusted data and 1804 CBs from BankScope in MFIs' countries. Average Weighted by Assets. Only NGOs & Licensed MFIs.
**Evolution of Microfinance: Increase in Profitability**

Percentage of MFI's becoming profitable within 2 years of inception

![Graph showing the evolution of microfinance]

Microfinance Information Exchange (MIX), December 2006.
Combined MIX & MCS data

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**Quality is High**

<table>
<thead>
<tr>
<th>Institution</th>
<th>PAR &gt;30 days</th>
<th>Gross Loan Portfolio (USD mil)</th>
<th>Number of Borrowers</th>
</tr>
</thead>
<tbody>
<tr>
<td>SHARE (India)</td>
<td>0,19%</td>
<td>40,2</td>
<td>368 996</td>
</tr>
<tr>
<td>Compartamos (Mexico)</td>
<td>0,56%</td>
<td>101,1</td>
<td>309 637</td>
</tr>
<tr>
<td>Banco Solidario (Ecuador)</td>
<td>1,54%</td>
<td>177,1</td>
<td>72 787</td>
</tr>
<tr>
<td>ASA (Bangladesh)</td>
<td>1,68%</td>
<td>201,1</td>
<td>2 772 719</td>
</tr>
<tr>
<td>PADME (Benin)</td>
<td>1,81%</td>
<td>44,1</td>
<td>37 661</td>
</tr>
<tr>
<td>NovoBanco (Mozambique)</td>
<td>3,38%</td>
<td>6,9</td>
<td>11 350</td>
</tr>
<tr>
<td>Centenary Bank (Uganda)</td>
<td>4,21%</td>
<td>44,6</td>
<td>52 682</td>
</tr>
<tr>
<td>CMS (Senegal)</td>
<td>4,21%</td>
<td>40,7</td>
<td>33 598</td>
</tr>
</tbody>
</table>

Data as of 2004. Source: The MIX
Commercial banks increasingly engaged

Key Factors

- Business goals
- Competition
- Regulatory environment
- Market size
- Existing infrastructure and systems
- Other factors

Provide Services Directly

Internal Unit
Specialized Financial Inst.
Service Company
Outsource
Commercial Loans to MFIs
Provide Systems & infrastructure

Work Through Existing Providers


Microfinance Today: Service Providers/Commercial Banks

High level of engagement

Commercial bank specialized in microfinance
Bank creates loan service company
Bank invests equity in MFI
Bank buys MFI portfolio and/or contracts MFIs
Wholesale lending
Sharing/renting facilities
Bank provides front or back office functions

Equity Bank, Kenya
Serving poor clients is a main business line
Sogebank, Haiti
Created loan service company Sogesol in 2000
Jammal Trust Bank and Credit Libanais, Lebanon
Have equity stake in Ameen, a CHF microfinance program
ICICI Bank, India
Contracts microfinance operations with self-help groups and MFIs
Raiffeisen Bank, Bosnia
Lends to multiple MFIs in Bosnia
Garanti Bankasi, Turkey
Provides front office functions through branch network to Maya Enterprise for Microfinance
ProCredit Bank, Georgia
Rents space in its offices to Constanta, a local NGO

Lower level of engagement
Can Banks Beat The Mattress?

<table>
<thead>
<tr>
<th></th>
<th>Price</th>
<th>Access</th>
<th>Product Features (Security)</th>
<th>Service Quality</th>
<th>Value Placed on Client</th>
<th>NET</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mattress</td>
<td>+ (free)</td>
<td>+ (anytime banking)</td>
<td>- (easily stolen, ruined)</td>
<td>0 (self-serve)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Bank account</td>
<td>- - (fees, minimum balances)</td>
<td>- (hours or days)</td>
<td>+ (intimidating)</td>
<td>?</td>
<td>---</td>
<td></td>
</tr>
</tbody>
</table>

**Bank accounts = weak value proposition**

**Challenges**

- **Scale**
- **Depth**
- **Cost**
Costs by Region

Administrative costs = main cost component

Costs by Region (cont)

Administrative costs are highest even for Operationally Sustainable MFIs
Innovation and Access Points: Technology Map

Technology Map

Institution
Connectivity
Branches

Information systems
Credit scoring
PDAs

ATMs
POS
PC kiosks in villages

Cards
Mobile phones
Biometrics

Clients

Delivery technology: an answer?

For instance, a recent study demonstrates that a typical ATM transaction costs nearly five times less than a teller
Mobile Phone Banking: Enormous Opportunity

Mobile phone payments will climb from $3.2 billion to $37 billion in 2008. (The Economist)

![Bar chart showing growth in mobile phone payments from 2005 to 2008.](chart)

Source: WB 2005; VISA; UPU 2005

Branchless banking: how does it work?

Payment technology (mobile, point of sale terminal) is paired with a retail outlet which acts as agent of provider for account opening and cash-in / cash-out

<table>
<thead>
<tr>
<th>Provider</th>
<th>Agent</th>
<th>Client</th>
</tr>
</thead>
<tbody>
<tr>
<td><img src="image" alt="Sample withdrawal transaction" /></td>
<td>1. Agent balance</td>
<td>2. KYC docs</td>
</tr>
<tr>
<td><img src="image" alt="Agent" /></td>
<td><img src="image" alt="Settle accounts" /></td>
<td><img src="image" alt="Cash + receipt" /></td>
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</tbody>
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1. Agent balance
2. KYC docs
3. Cash + receipt
4. Settle accounts
**Benefits along the value chain**

**Provider**
- Change economics of serving low-income clients
- Leverage agent infrastructure to reduce capex to expand
- Enable rapid drive to volume

**Agent**
- Increase walk-in business
- Decrease cash-on hand
- Fee revenue from bank
- Differentiated service offer

**Client**
- Comfort of dealing with corner merchant
- Proximity of service point saves time and cost

Brazil banks: 6 mil new clients via agents in 6 yrs
Brazil: 54% of clients who do banking also buy goods
Brazil: 90% of people use banking agents

**Microfinance Today: Sources of Funding**

**Donors**
- New
  - Greenfields
  - Small scale
  - NGOs

**International Financial Institutions (IFIs)**
- Young
  - Transforming NGOs
  - Operationally Self-Sufficient

**Microfinance Investment Vehicles (MIVs)**
- Mature
  - Mature w/ Large Scale
  - Financially Self-Sufficient

- **17 Public Investors (June 1, 2006):** Commit nearly $800m - $1 billion a year
- **19 IFIs:** Committed portfolio of $2.4 billion (MIVs, networks, MFIs)
- **76 MIVs (April, 2007):** Total Funds under management = > $2 billion
Microfinance Investment Vehicles (MIVs)

- From 2004 to 2006, investments in MIVs increased from US$1 billion to US$2.3 billion
- MIV portfolios grew from US$600 million to US$2 billion
- 86% have less than US$20 funds under management with average loan to MFIs of US$1 million
- Yields range 2% to 7-8% percent (commercial investors)
- Top 10 MIVs account for 67% of the total MIV market
- MIVs finance a larger pool of MFIs than IFIs
- 81% of MIV investments are in LAC, Eastern Europe and Central Asia

MIV Funding Sources

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<th>Source</th>
<th>Percentage</th>
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<tr>
<td>IFIs (KfW, FMO, IFC)</td>
<td>47%</td>
</tr>
<tr>
<td>Individual Investors &amp; Foundations</td>
<td>17%</td>
</tr>
<tr>
<td>Institutional Investors (pension funds)</td>
<td>36%</td>
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BOLD Transaction: Tapping the Market

- **BOLD**: US$108 million fund to finance 21 MFIs worldwide
- **First ever rated Microfinance CDO** for private placement: S&P Rating
- **Morgan Stanley** - arranging bank
- A Notes (US$42 million) receives a “AA” rating; B Notes (US$16 million) receives a “BBB” rating
- A Notes protected by 61% and B notes protected by 46% of total fund
- **US$ Offering** - Morgan Stanley & FMO provide currency swaps so BOLD can provide local currency financing
IFC’s Global Microfinance Facility

- **Yesterday to Today (GMF I):**
  - 2004: Creation of GMF at US$30M w/other investors (KfW, Credit Cooperatif, Calvert, Belgian Investment Company, others)
  - 2007: 17 MFIs in 10 countries - 20% in local currency (average loan size of US$1.8M) up to US$5M; Generates some of the highest returns in microfinance

- **Initial investment:**
  - US$2M in equity
  - US$4M in debt

- **Today and Tomorrow (GMF II):**
  - US$165M vehicle w/ partner global bank to act as arranger for private placement in US
  - Portfolio of 38 MFIs in 17 countries; Average Loan size of US$4M (up to US$10M)
  - Will be 2nd ever rated CDO in the Microfinance Industry

- **Additional investment:**
  - US$16M in debt
  - US$5M Swap Option

Compartamos: The way to go?

- **Yesterday and Today:**
  - 1991: Creation of an NGO with capital of US $50K
  - 2001: Transformation into SOFOL
  - 2005: First MFI in Mexico
  - 2006: Conversion into Bank

- **Initial investment:**
  - US$660K in equity
  - US$1M in debt

- **Achievements:**
  - 2006: US$126M net worth, 616,000 borrowers (90% of women in rural areas)
  - 2004: Launch of IFC credit enhanced bond program (MXP 500M – US$45M) as a first MF rated bond targeting institutional investors
  - 2004: First tranche issue: MXP 190M
  - 2005: Second tranche: MXP 310M at TIIE + 1.17%. Demand exceeds offer threefold
  - April 20, 2007: First Latin American microfinance institution to raise equity capital via an IPO on the Mexican Bolsa raising $407 million. IFC sold 11,302,644 shares (25% of IFC’s original holding) at 40 pesos per share. The proceeds were $38.9 million.
Terima Kasih!

คำขอบคุณ

Thank you!