



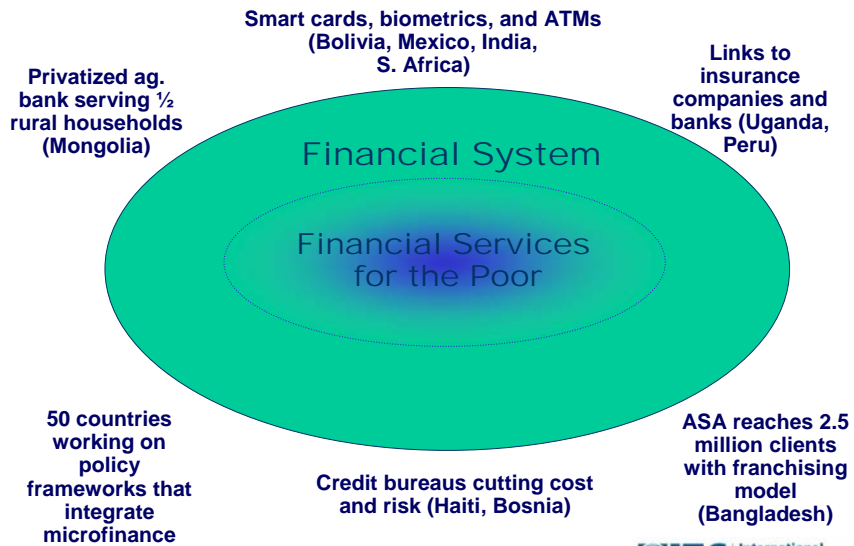
Banking the Bottom of the Pyramid:

“From Microfinance to Inclusive Finance and Beyond”

APEC Microfinance Workshop
Grand Hyatt Jakarta
23 January 2008

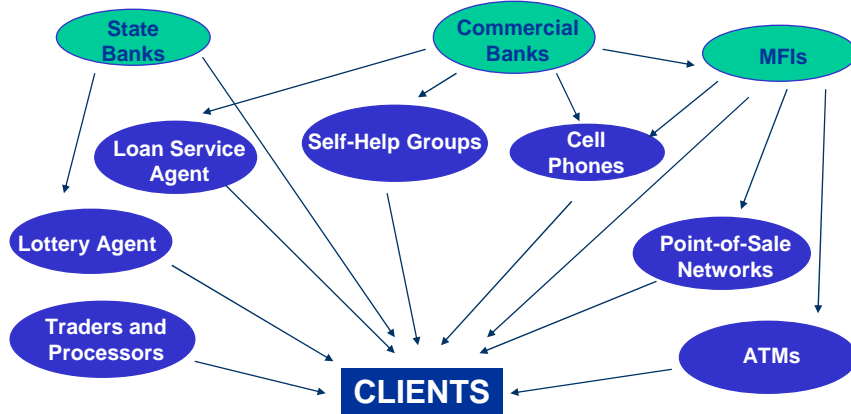
Brigit Helms
Sector Leader, Access to Finance
East Asia and the Pacific

Microfinance Borders are Blurring



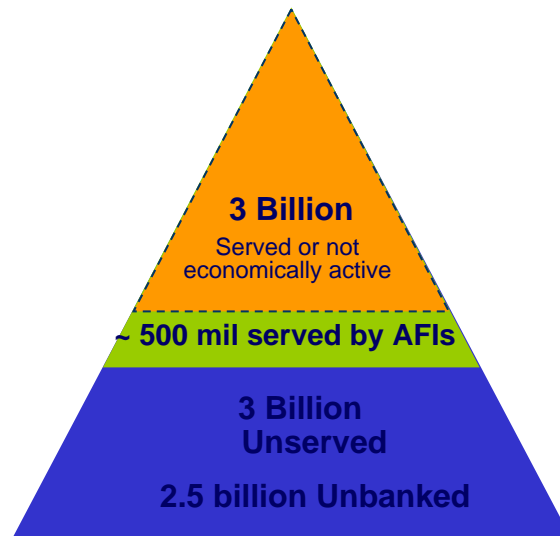
Access points are multiplying

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



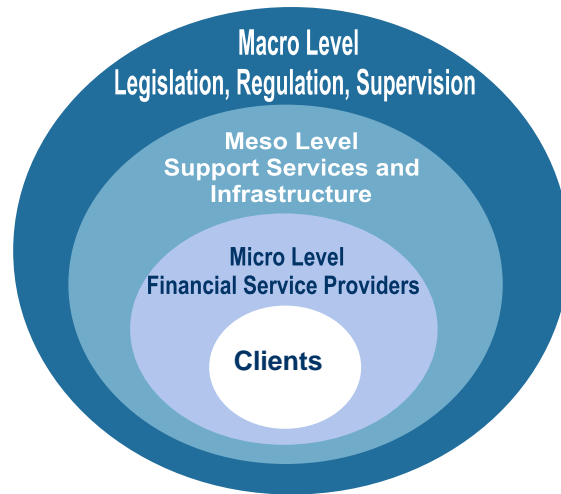
Market is Big

83% of global market yet to be tapped

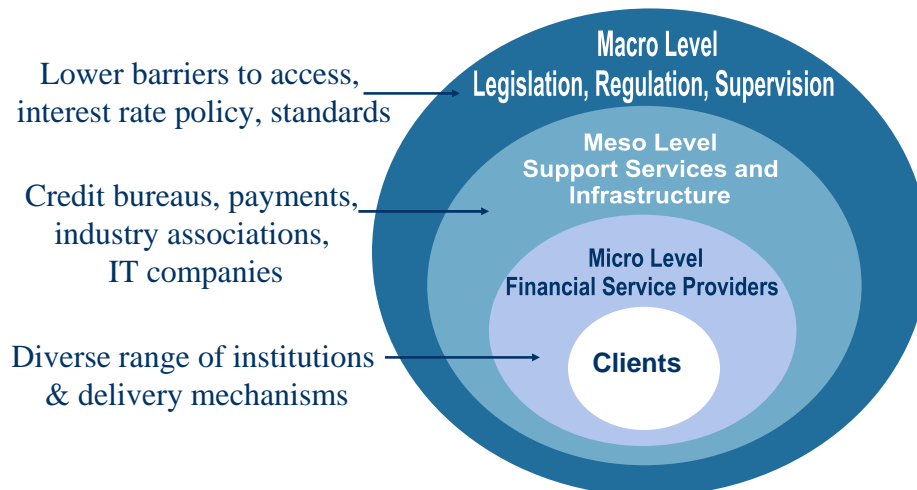


Source: CGAP, Financial Institutions with a Double Bottom Line (2004).

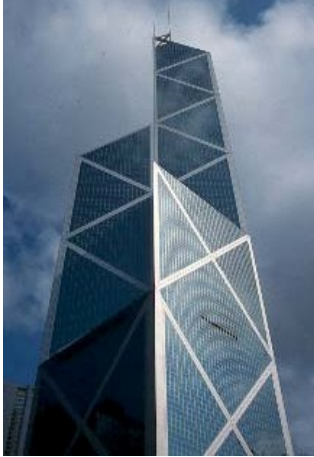
An Inclusive Financial System?



An Inclusive Financial System?



Banking in Developed Economies

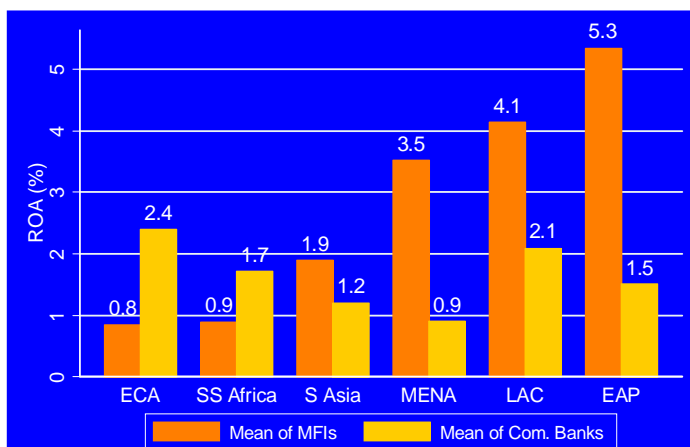


Retail and small business clients can lead profits for banks

- 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

Microfinance is Profitable

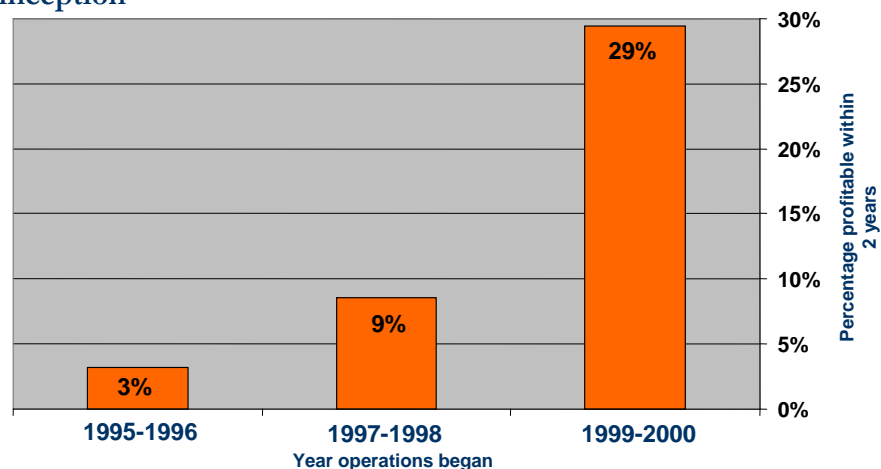
MFIs more profitable than commercial banks in 4 of 6 regions



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 MFIs becoming profitable within 2 years of inception



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



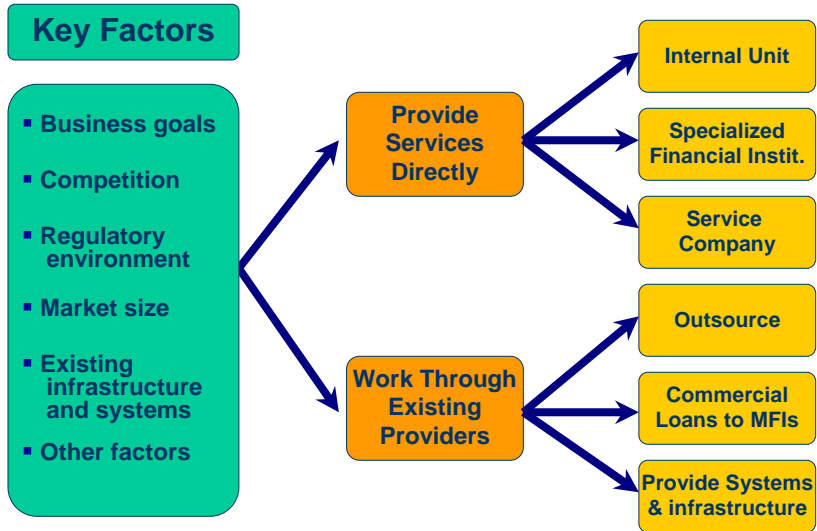
Quality is High

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

Data end 2004. Source: The MIX



Commercial banks increasingly engaged



Source: CGAP, Commercial Banks and Microfinance: Emerging Models of Success (2005).



Microfinance Today: Service Providers/Commercial Banks

High level of engagement

Commercial bank specialized in microfinance

Equity Bank, Kenya
Serving poor clients is a main business line



Bank creates loan service company

Sogebank, Haiti
Created loan service company Sogesol in 2000

Bank invests equity in MFI

Jammal Trust Bank and Credit Libanais, Lebanon
Have equity stake in Ameen, a CHF microfinance program

Bank buys MFI portfolio and/or contracts MFIs

ICICI Bank, India
Contracts microfinance operations with self-help groups and MFIs



Wholesale lending

Raiffeisen Bank, Bosnia
Lends to multiple MFIs in Bosnia

Sharing/renting facilities

Garanti Bankasi, Turkey
Provides front office functions through branch network to Maya Enterprise for Microfinance

Bank provides front or back office functions

ProCredit Bank, Georgia
Rents space in its offices to Constanta, a local NGO



Lower level of engagement

Can Banks Beat The Mattress?

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

Bank accounts = weak value proposition

 International Finance Corporation
World Bank Group

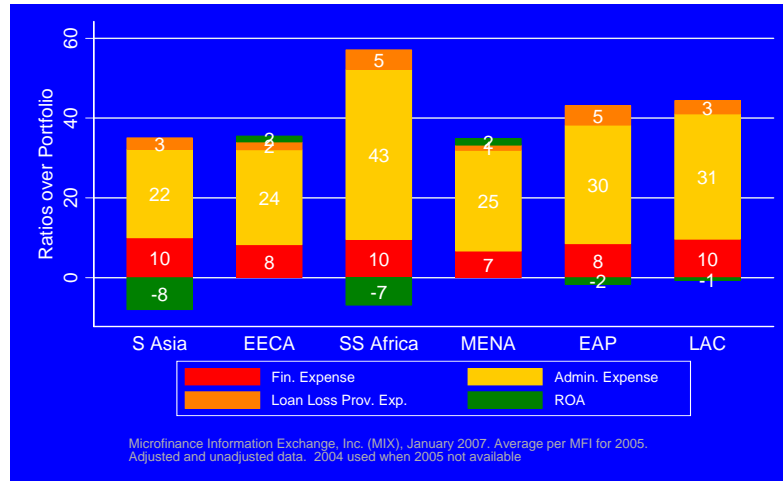
Challenges



 International Finance Corporation
World Bank Group

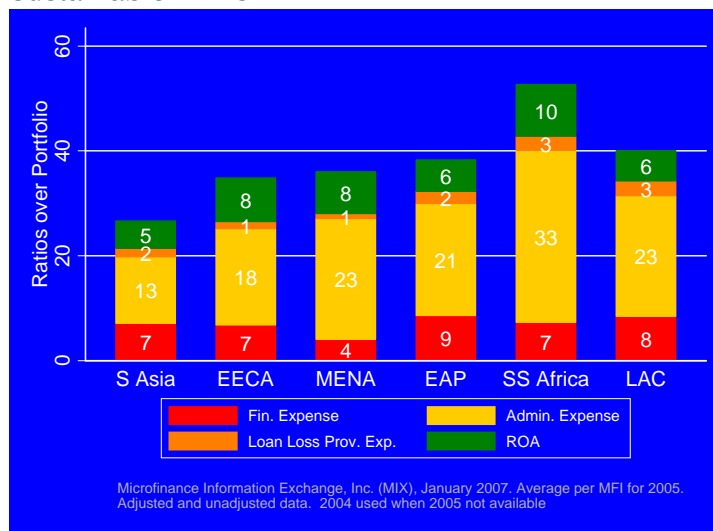
Costs by Region

Administrative costs = main cost component



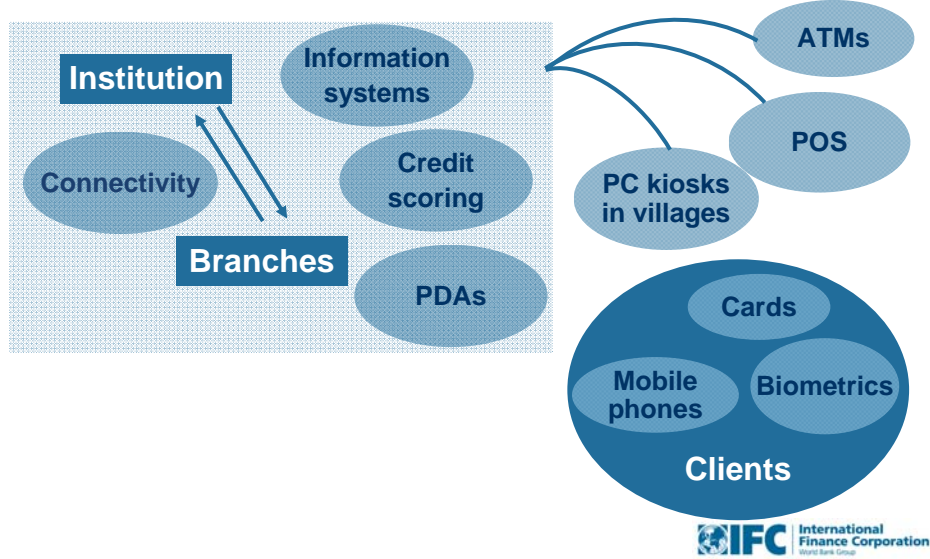
Costs by Region (cont)

Administrative costs are highest even for Operationally Sustainable MFIs



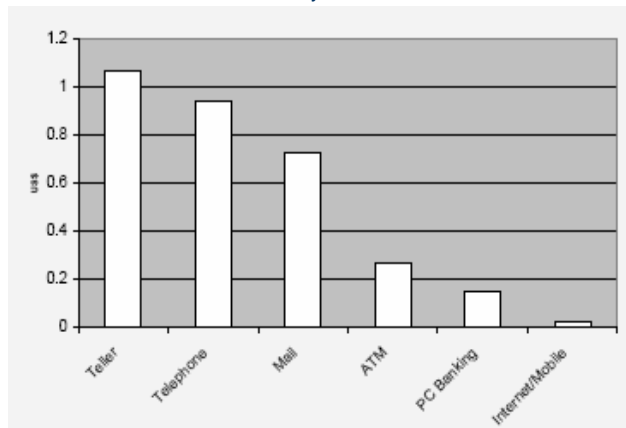
Innovation and Access Points: Technology Map

Technology Map



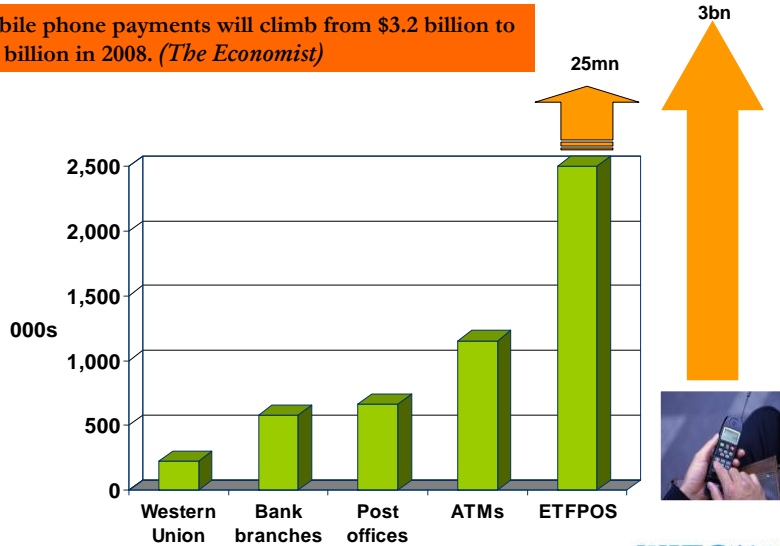
Delivery technology: an answer?

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*)



Source: WB 2005; VISA; UPU 2005

IFC International Finance Corporation
World Bank Group

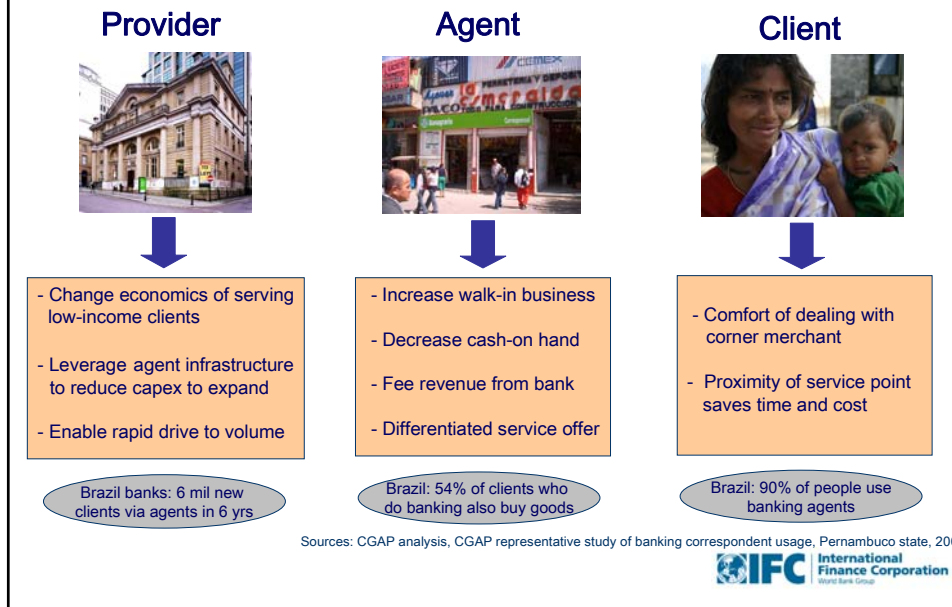
Branchless banking: how does it work?

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

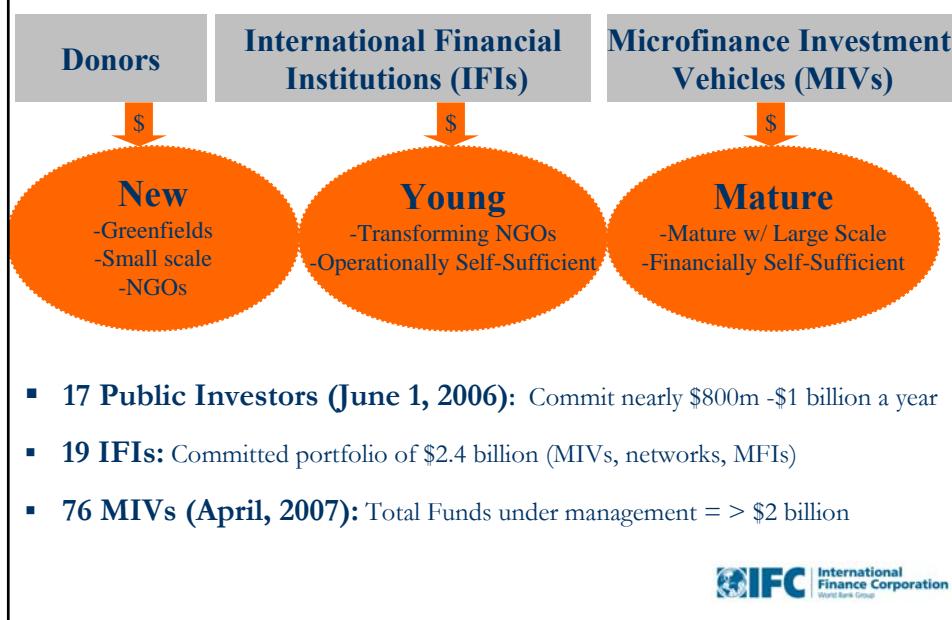


IFC International Finance Corporation
World Bank Group

Benefits along the value chain

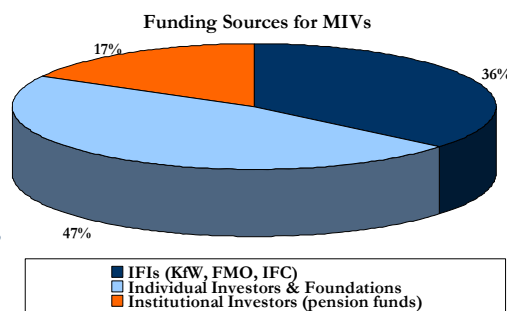
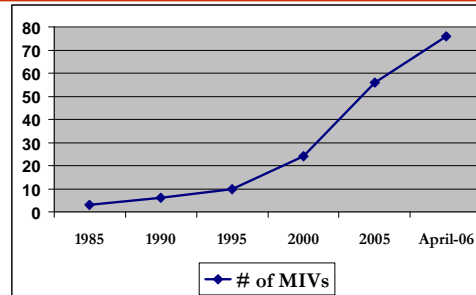


Microfinance Today: Sources of Funding



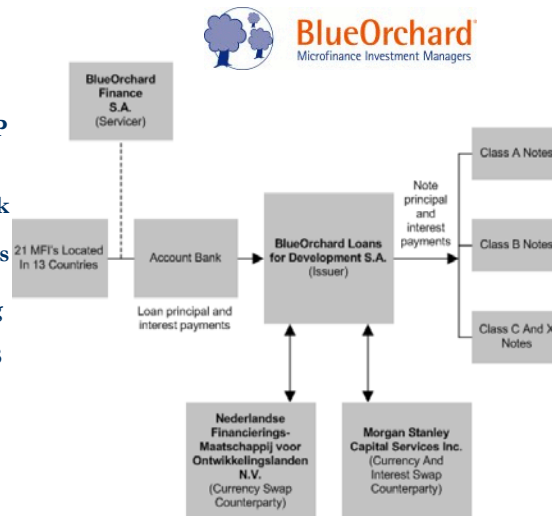
Microfinance Investment Vehicles (MIVs)

- 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



BOLD Transaction: Tapping the Market

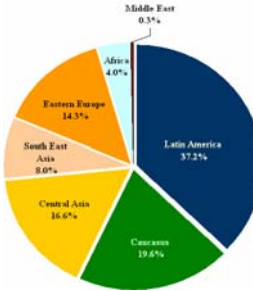
- BOLD**: US\$108 million fund to finance 21 MFIs worldwide
- First ever rated Microfinance CDO** for private placement: S&P Rating
- Morgan Stanley** - arranging bank
- A Notes (US\$42 million) receives a "AA" rating; B Notes (US\$16 million) receives a "BBB" rating
- A Notes protected by 61% and B 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

"Senior" A Notes & Loans US\$20M	"Senior" A Notes & Loans US\$110m
"Mezzanine" B Notes US\$8M	"Mezzanine" B Notes US\$44M
C Notes US\$2M	C Notes US\$11M
- 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\$2M in equity
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!

ຂອບໃຈຫລາຍໆ

cảm ƠN!

GrKuNeRcIn!

Harami Salammat Po!

谢谢!

THANK YOU!

