

“What Role can Banks and the Private Sector Play in the Development of Microfinance?”



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Is Microfinance Profitable?

- IFC'S EXPERIENCE PROVIDES CASE FOR INVESTING IN MF - EACH PROJECT INVOLVES PRIVATE SECTOR INVESTMENT
- COMMERCIAL ORIENTATION MEANS TO LEND TO MICRO- BUSINESSES – POOR IN TERMS OF INCOME NOT CREDIT RISK
- IFC'S OWN PORTFOLIO IS US\$352 MILLION AS OF END DECEMBER 2005
- 104 TRANSACTIONS, 76 INSTITUTIONS IN 45 COUNTRIES
- NO LOAN LOSSES OR ARREARS.

IFC's MF Philosophy ...



Build large sustainable MF business cases

Private capital invests only in profitable businesses

Private sector resources vital for large scale sustainable microfinance

Only large scale operations bring in meaningful development impact

Microfinance is a poverty reduction tool

IFC – Global Microfinance Approach

- ESTABLISHING “GREENFIELD” MSB FINANCE INSTITUTIONS i.e. Bosnia, Bulgaria, Afghanistan with experienced operators Partner with Network Operators such as ACCION, FINCA, LFS , PlaNet Finance, etc
- “UPSCALING” & TRANSFORMING NGOS INTO FORMAL FINANCIAL INSTITUTIONS i.e. K-REP, Kenya, ACLEDA, Cambodia
- INTRODUCING MSB FINANCE WINDOWS IN COMMERCIAL BANKS i.e. Financial Bank Benin, Chad
- BANK- MFI PARTNERSHIP THROUGH SERVICE COMPANY MODEL (India, Mena)
- ENCOURAGING MFIS TO ACCESS COMMERCIAL FUNDING i.e. Guarantee structure in Mexico, Morocco
- CREATING WHOLESALE INVESTMENT VEHICLES, USUALLY DEBT FUNDS, THAT CHANNEL CAPITAL TO MFIS e.g. Africacap, Global Microfinance Fund



Advantages for Commercial Banks

- Profitable and commercially viable
- Sustainable profit and growth opportunities
- Diversification of risk
- Access to untapped and unbanked client base



Tameer Microfinance Bank, Pakistan

- CAPITALISED AT US\$10 MILLION THROUGH EMC, IFC AND LOCAL PRIVATE INVESTORS
- CORE BANKING EXPERTISE WITH USE OF TECHNOLOGY
- STARTED LENDING IN MARCH 06 - HAS DISBURSED US\$6 MILLION, HAS 12,000 ACTIVE CLIENTS AND NO LOAN LOSSES TO DATE
- EXPECTS TO BREAK EVEN WITHIN 18 MONTHS OF OPERATIONS
- TA PACKAGE FOR MOBILE BANKING, RURAL AREAS, TRAINING AND IT DEVT



US\$250 LOAN TO SEAMSTRESS

FONDEP MOROCCO - SNAPSHOT

- NGO ESTABLISHED IN 1997 FOCUSING ON URBAN AREAS OF MOROCCO
- END SEPTEMBER 06 OUTREACH
- LOAN PORTFOLIO EUR 13.6 MILLION
- 62,000 BORROWERS



RATIONALE

FONDEP

- BANKS RELUCTANT TO LEND LONG TERM AND LARGE AMOUNTS
- EXPANSION PLANS TO GO INTO RURAL AND SEMI RURAL AREAS
- STRATEGIC GOAL TO STRENGTHEN STRUCTURE INTERNAL CONTROL AND OPERATIONS
- ALLOW IT TO GRADUALLY TRANSFORM INTO NBF1

IFC

- HELP MID MARKET PLAYER IN ORDER TO ACHIEVE SCALE AND OUTREACH
- LEVERAGE IFC'S AAA STATUS TO ENABLE MFI TO ACCESS LT LOCAL CURRENCY FINANCING FROM LOCAL BANKS
- DEVELOP FINANCIAL SECTOR

PACKAGE OF INVESTMENT AND TA

- PARTIAL CREDIT GUARANTEE TO ENABLE FONDEP TO ACCESS MAD 60 MILLION (EURO 5.3 MILLION) OF 7 YEAR TERM FINANCING FROM LOCAL BANKS
- TA PACKAGE TO STRENGTHEN HR FUNCTION, DEVELOP INTERNAL CONTROLS AND RISK MANAGEMENT AND FACILITATE GROWTH TO NBFi

IFC Achievements and Lessons Learned

- ACCORDING TO CONSULTATIVE GROUP TO ASSIST THE POOR (CGAP), 10 YEARS AGO, ALMOST NO PROFITABLE DEDICATED MFI EXISTED.
- COMMITTED AND EXPERIENCED SPONSORS AND COMMERCIALY SUSTAINABLE BUSINESS PLAN IS KEY TO ATTRACT PRIVATE SECTOR FUNDING
- DONOR FUNDS CAN BE USED UPFRONT TO ATTRACT PRIVATE CAPITAL BY START UP BURDEN AND WEAKNESSES OF EXISTING MFIS IE STRENGTHENING INTERNAL AUDIT OR RISK MANAGEMENT SYSTEMS
- MICROFINANCE IS A GOOD ASSET CLASS SECTOR THAT HAS A HIGH DEVELOPMENT IMPACT.