

The Changing Face of Microfinance: Transformation of NGOs into Regulated Financial Institutions

Presentation by
NIMAL A. FERNANDO
Lead Rural Finance Specialist

Asian Development Bank
Manila

30 April 2003

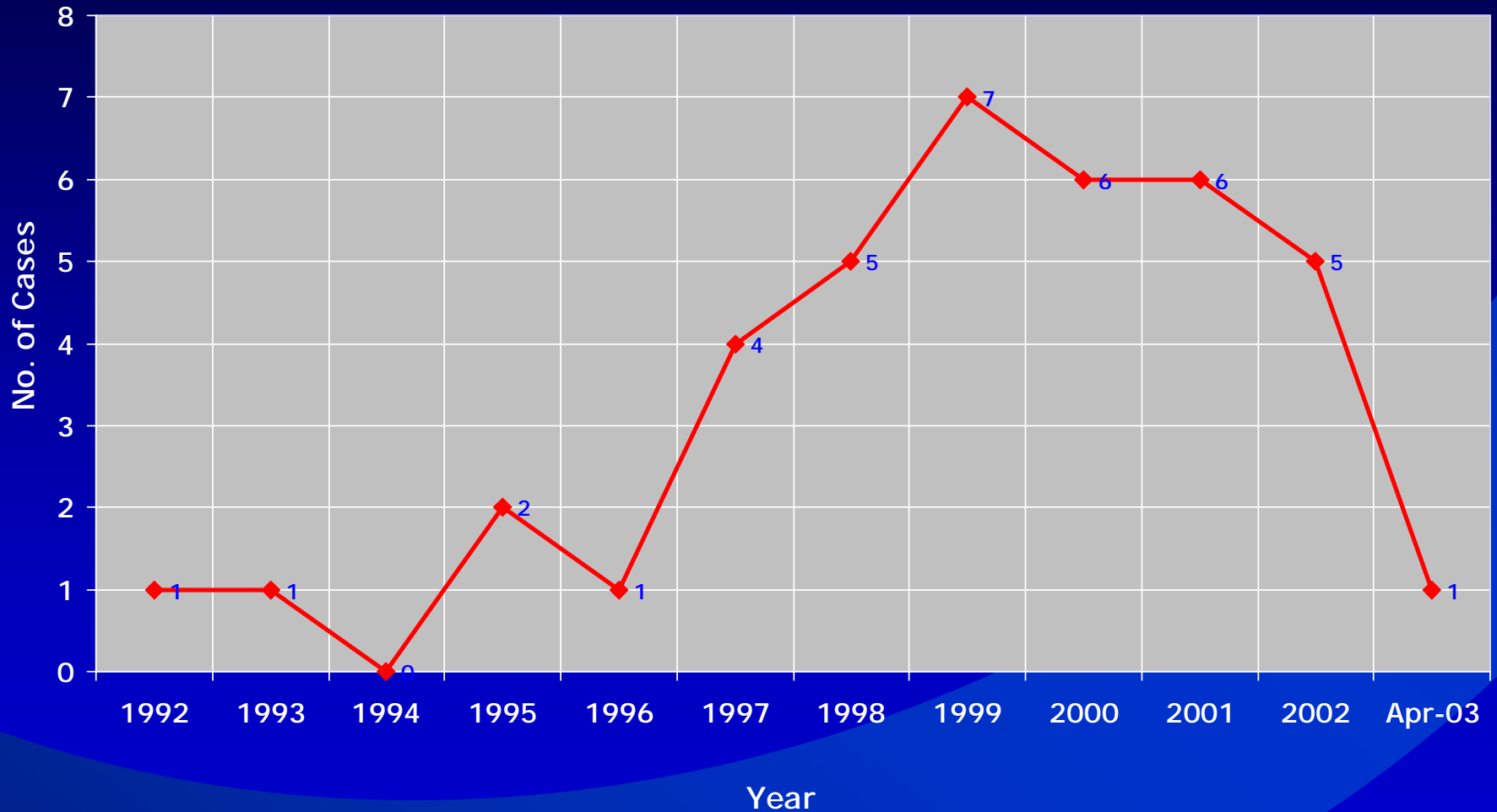
OUTLINE

- ❑ Introduction
- ❑ Motivations for Transformation
- ❑ Expectations
- ❑ Consequences
- ❑ Criticisms of Transformation and Approaches Proposed
- ❑ My Reflections

INTRODUCTION

- ❑ Increasing emphasis on transformation
- ❑ At least 39 NGO-MFIs have been transformed in 15 countries during 1992 – March 2003
- ❑ Of these,
 - 23 in Latin America
 - 15 in Asia
 - 1 in Africa

Cases of Transformation



MOTIVATIONS

Why NGOs transformed themselves into MFIs?

Two fundamental reasons:

- Ensure institutional sustainability
- Desire to expand different dimensions of outreach to meet their mission
 - With additional equity
 - Increased leverage

EXPECTATIONS

- ❑ What did proponents expect to happen?
 - Institutional sustainability
 - Increase in equity capital
 - Greater and easier access to funds from commercial sources
 - Increased outreach
 - Loans
 - Deposit services
 - Other services
- ❑ What did MFIs achieve?

CONSEQUENCES

1. Institutional sustainability

- ❑ Ownership structure: from no owners to multiple owners
- ❑ Better governance (new Board)
- ❑ Better management
 - Systems and procedures (better internal controls; risk management)
 - Staff training
 - Now, these MFIs are not so much vulnerable to changes in top management as before

CONSEQUENCES...cont'd

2. Access to equity and commercial funds

- Equity has increased in almost all
- Attracted some private capital
 - Mibanco
 - Banco Ademi
 - Prodem FFP
 - BancoSol
 - Nirdhan
 - Compartamos

Ownership Composition – Latin America

December 2002 (%)

	BancoSol	Caja Los Andes	Mibanco	Compartamos	Financiera Calpia	Banco ADEMI (July 1998)
	<i>Bolivia</i>	<i>Bolivia</i>	<i>Peru</i>	<i>Mexico</i>	<i>El Salvador</i>	<i>Dominican Republic</i>
Founder NGO	20.2	46.9	60.3	36.6	21.7	24.0
Board of Directors	-	-	-	-	-	39.0
Social Investors	69.1	46.7	30.6	32.9	78.0	
Staff	-	-	-	-	-	20.0
Commercial Investors	-	-	6.0	-	-	17.0
Private Individuals	10.7	6.4	3.1	30.5	0.3	
Total	100.0	100.0	100.0	100.0	100.0	100.0

Ownership Composition

Asia and Africa (%)

	Acleda	Nirdhan	Share Microfin	CARD Bank	OMB	Vision Bank	First Microfinance Bank	K-Rep
	<i>Dec 2001</i>	<i>Mar 2003</i>	<i>Mar 2003</i>	<i>May 2002</i>	<i>Aug 2002</i>	<i>Feb 2003</i>	<i>Sep 2002</i>	<i>Mar 2003</i>
Founder NGO	45.61	12.0	-	44.2	51.1	90.0	45.5	28.8
NGO & MFI Board Members	-	-	-	22.6	-	5.7	-	-
Social Investors	49.00	47.0	-	-	48.9	4.3	54.5	61.2
Commercial Investors	-	-	-	-	-	-	-	-
Private Individuals	-	38.0	-	-	-	-	-	-
Staff	5.39	3.0	1.0	3.9	-	-	-	10.0
Clients	-	-	99.0	29.3	-	-	-	-
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Tapping Commercial Sources....

- ❑ Transformed MFIs have accessed commercial funds
- ❑ Compartamos case is remarkable
- ❑ 2002: two bond issues: \$10mn + \$5mn
- ❑ Backed by a S&P rating: A+
- ❑ Fully based on the financial strength
- ❑ 2001: FinAmerica issued bonds for \$2.0 mn
- ❑ Compartamos, Mibanco and Prodem FFP borrowed from Dexia Micro-Credit Fund
- ❑ Share Microfin also tapped private banks in India

What has happened to the outreach?

- ❑ Has the expectation of “increased” outreach been met?
- ❑ Has there been a mission drift?
- ❑ What does the empirical evidence indicate?

Mibanco - Outreach

Item	1997	2002	% Increase
Loans outstanding (\$mn)	12.55	92.29	635
Active borrowers	33,549	99,121	195
Average loan balance (\$)	374	931	149
Average loan balance/ GNP per capita (%)	16	45	-

Compartamos - Outreach

	2000	2002	% Increase
Loan disbursements (\$mn)	46.5	189.5	300
Loans outstanding (\$mn)	10.3	43.0	317
Active clients	64,000	145,000	126
Average loan balance (\$)	161	297	85

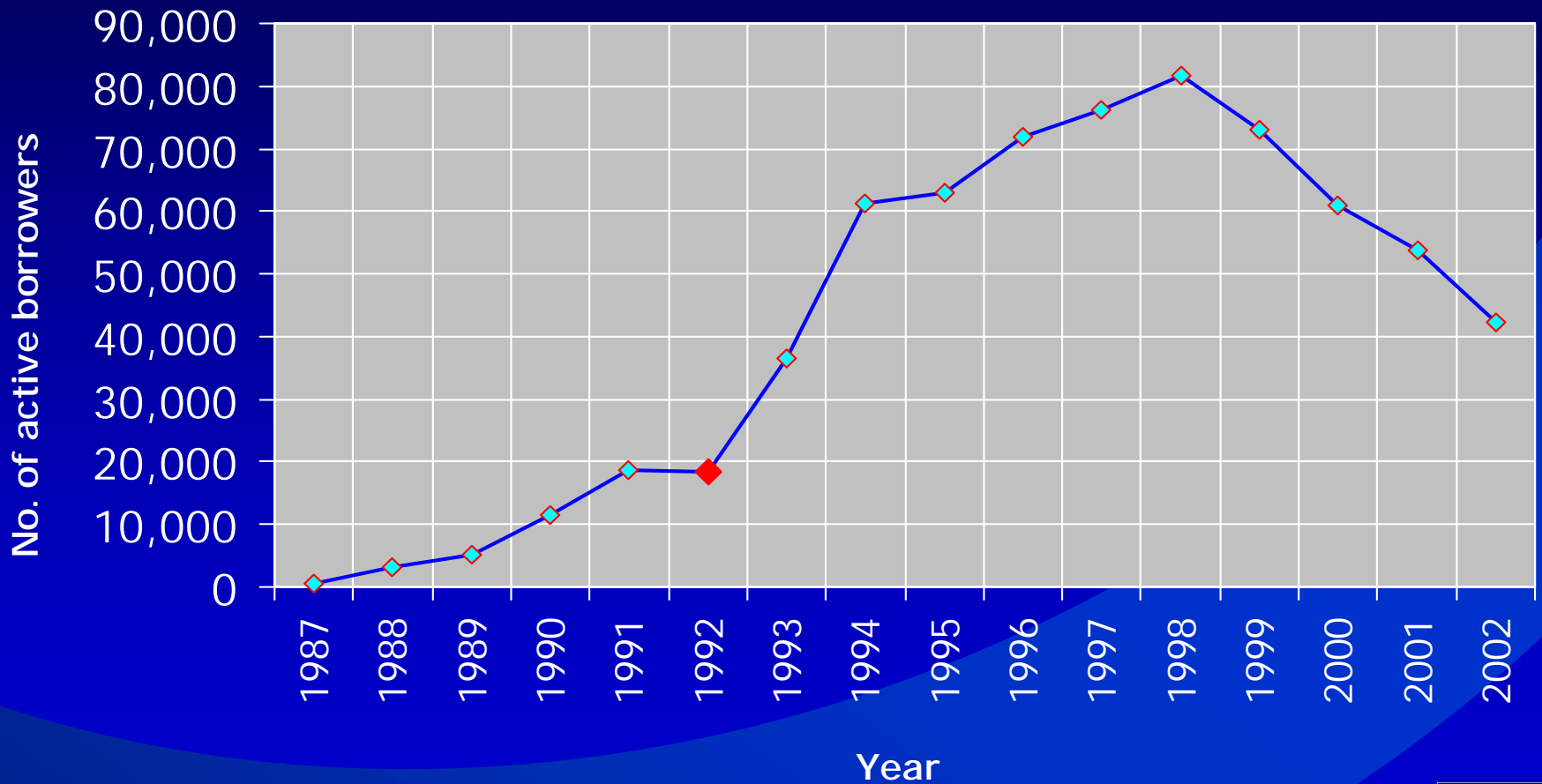
BancoSol

Amount of Loans Outstanding (in US\$)



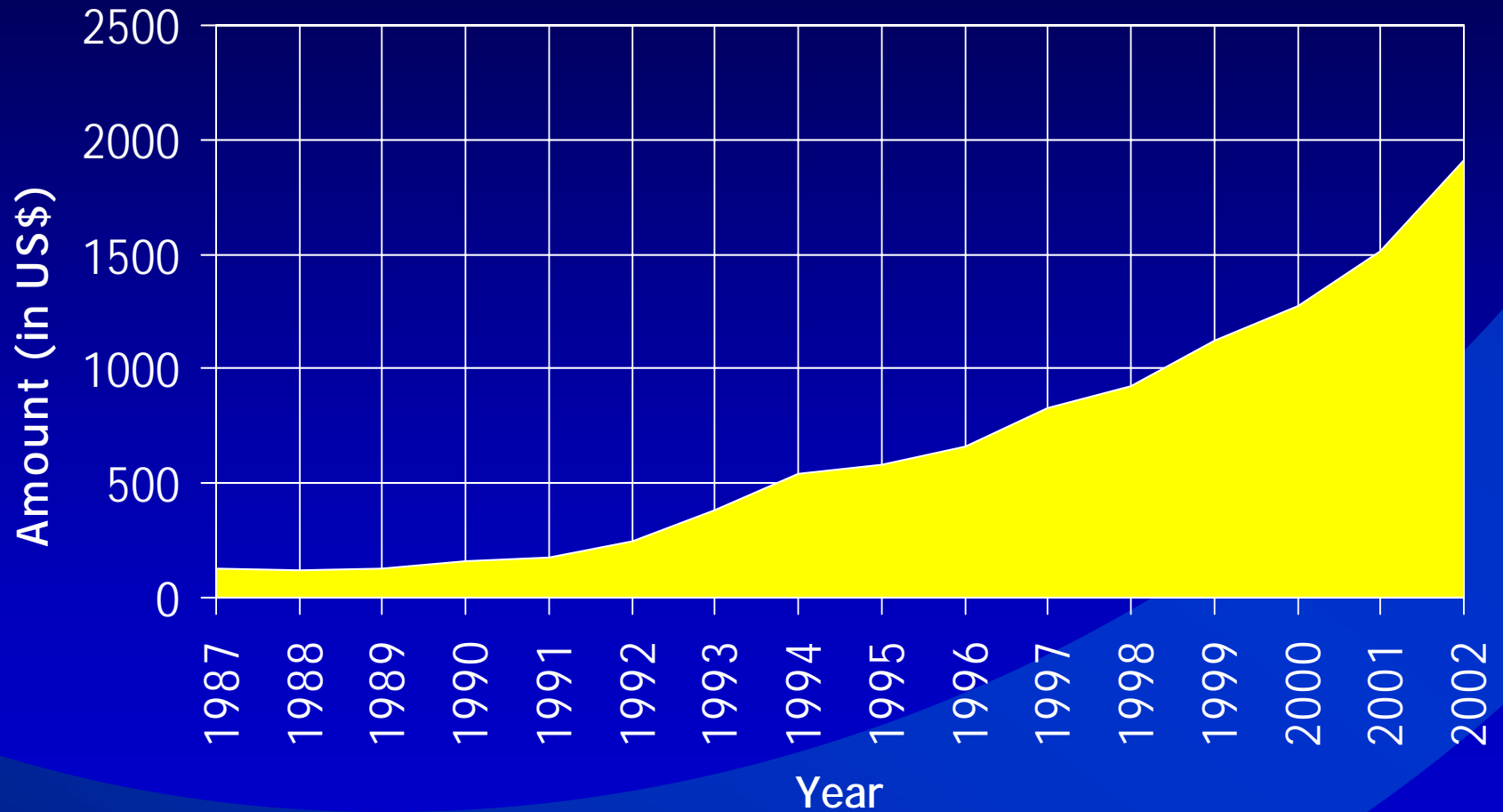
BancoSol

Number of Active Borrowers



BancoSol

Active Loan Balance (in US\$)



ACLEDA - Outreach

	End Sept 2000	End Dec 2002	% Increase
Microbusiness loans	46,000	66,450	45
Loan amount outstanding (\$mn)	4.6	7.8	70
Average loan balance (\$)	97	117	21
Average loan balance/per capita GNP (%)	39	45	-

Share Microfin (India) - Outreach

	31 Mar 1999	28 Feb 2003	% Increase
Membership	18,000	167,000	828
Annual loan disbursements (\$mn)	3.0	41.0	1267
Loans outstanding (\$mn)	0.6	10.0	1567

Nirdhan Utthan Bank - Outreach

	July 1999	July 2002	% Increase
Active borrowers	15,382	29,589	92
Loans outstanding (\$mn)	0.97	2.7	178
Average loan balance (\$)	63	91	44
Average loan balance/per capita GNP (%)	27	36	-

Scope of Outreach

- ❑ In most cases, scope expanded
- ❑ New loan products
- ❑ Mibanco's Micasa housing loan product is just an example
- ❑ Introduced in mid-2000; at end of Sept 2002, there were 6,954 active loans; outstanding balance: \$8.1 mn
- ❑ More diversity and flexibility in loan products
 - Different sizes, repayment schedules, individual loans

Voluntary Savings

MFI	Year End	Number of Accounts	Amount (\$mn)	Savings/Loan Ratio (%) End of 2002
Caja los Andes	2001	23,308	25.23	58.0
BancoSol	2000	30,004	57.8	68.0
Banco Ademi	2000	11,608	16.4	33.5
Mibanco	2001	70,000	9.4	26.0
ACLEDA	2002	19,070	5.68	18.9
K-Rep	2002	-	82.0	71.0
FIE-FFP	2002	-	-	48.0
Prodem FFP	2002	-	-	77.0

Local money transfers

- ❑ ACLEDA's success is remarkable
- ❑ Transfers in 2001: \$7.0 mn
- ❑ Increased to \$28 mn in 2002
- ❑ Used by both poor and non-poor
- ❑ Garment factory workers use this extensively

Evidence of Mission Drift?

- Most serve a larger number of poor than before
- Also, a larger number of non-poor
- Increase in loan size does not necessarily mean a mission drift
- Many poor households benefit from voluntary deposit services

Criticisms of Transformation

1. The process is cumbersome, time consuming, and expensive
2. Have failed to attract significant volume of private risk capital
3. Have not fully harnessed their charter to mobilize voluntary savings (White & Campion)
4. Reduced the number of clients (Bolivia/Chris Dunford/President, FFH)
5. Does nothing to resolve the fundamental weakness in the NGO model (Schmidt & Zeitinger)

Approaches Proposed

1. Establish new microfinance banks from scratch (IPC group)
2. Convince large scale financial institutions to enter into this business (Bob Christine, CGAP)
 - [- by educating them that microcredit is a viable, profitable business]

My Reflections

- ❑ Potential benefits are greater than the apparent cost
- ❑ Cannot expect quantum leaps in private risk capital investments
- ❑ The NGOs' concerns about participation of such capital are legitimate
 - BancoSol Chief Financial Officer: "At times, it's like mixing oil and water"
- ❑ But a positive trend has emerged
- ❑ More empirical studies needed on poverty outreach

My Reflections...cont'd.

- ❑ We should not be dogmatic
- ❑ Need to promote different approaches
- ❑ Transformation is one of different modalities
- ❑ A businesslike approach can be combined with the social mission to serve the poor

Thank You