

## Building sustainable microfinance institutions in rural Africa

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DDC Workshop on Access to Finance in Sub-Saharan Africa and Social Performance mainstreaming in microfinance

## Content

- Presentation of FIDES/smh
- The creation of a rural microfinance bank as an example
- Conclusion and outlook
- Discussion

DDC Workshop on Access to Finance in Sub-Saharan Africa and Social Performance mainstreaming in microfinance

## FIDES mission:

### Building sustainable microfinance institutions in rural environments

- FIDES is a private company
- specialised in the creation and management of sustainable MFIs
- FIDES' mission is to provide reliable and sustainable solutions for customers who are excluded from the normal banking system
- All actions are based on a sound understanding of local environments and of the demand of clients for inclusive financial services
- FIDES invests in research and innovation : product development, social performance measurement, insurance and training.

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## FIDES Team and Know-How

- Headquarter in Fribourg, Switzerland
- 25 experienced microfinance practitioners as staff
- 20% working in research
- Very low employee turn-over, capitalization of experience

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## Swiss Microfinance Holding



Investment company created by FIDES in 2007, the holding aims to:

1. Become shareholder in institutions created by FIDES in order to guarantee their social orientation, the general policy and the quality of the management on the long run.
2. Realize economy of scale in the areas of training, research and development : new technologies, branding, marketing etc.
3. Offer exit strategy to investors.

Mission of **smh**: Secure pro-poor growth and reasonable return on investment

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## Partners

### Institutional partners:

**GTZ** (*German technical cooperation*)  
**KfW**  
**World Bank**  
**IFAD** (*International fund for Agriculture Development*)  
**SDC** (*Swiss Agency for Cooperation and Development*)  
**IFCI**



### Private partners:

**Investisseurs et Partenaires (IP)**  
**OIKOCREDIT**  
**INCOFIN**  
**DZ Bank**  
**BIB Essen**



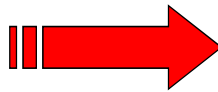
## Portfolio

Experience gained in Eastern Europe by creating fully sustainable MFIs. Examples:

- Moldova
- Albania

Rural Microfinance institutions under development in Africa:

- Namibia
- Mali
- Algeria
- Senegal
- Ghana (2009)



The objective is to build a network of 10-12 microfinance banks by 2015

## Lessons learned

- Not enough good institutions in the market to absorb available resources and to reach out to rural clients
- Greenfield creation of a new institution is often easier than to advise an old institution how to serve poor people efficiently
- Mainstream Finance institution, if possible full commercial bank
- Financially sustainable and pro-poor not a contradiction

## Lessons learned

- Private sector involvement: 75% of shares privately owned in all institutions
- But: Association of DFI (KfW, IfC...) necessary for political protection
- Strong governance of a commercial company
- Social organization in rural Africa is an important asset and allows to externalize transactions
- Appropriate adjustment to local contexts is a condition for success (islamic finance, integration of informal savings groups...)

## Lessons learned

- In the future, main productivity gains will come from technical innovations and no more from further improvement of organizational features
- Research and experimentation is the key for a better understanding of clients, product development and social performance measurement
- Donor contributions remain necessary for human resources development

## Sustainable banking with the active poor: Creation of a Bank for Micro Entrepreneurs in Namibia



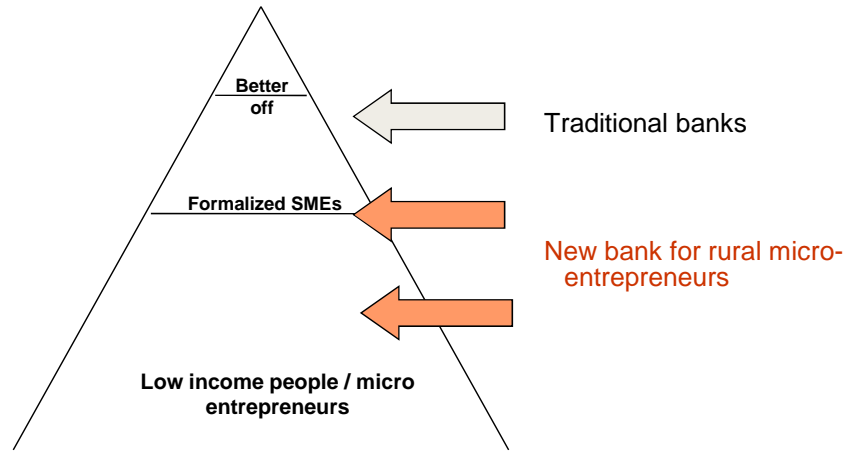
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## Namibia

- Middle income country (GDP 2200 USD), but majority of the population is rural and poor
- Population concentrated in the North of the country, low population density
- High prevalence of HIV/AIDS, many women-led households
- Former Apartheid system as a handicap
- 80% of the population excluded from the formal banking system

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## Clear Positioning within the Namibian banking sector



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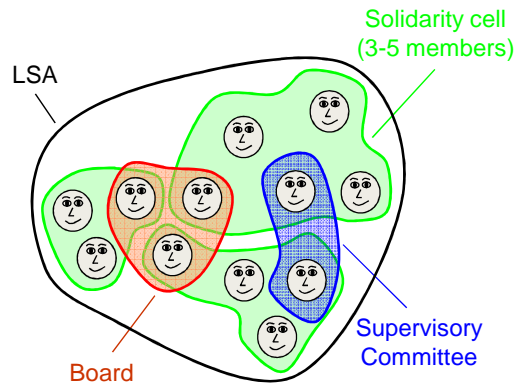
## Our vision for the Bank

- Contributing to building an inclusive financial system in Namibia: financial services for the majority
- Building local capacity
- Working with otherwise “unbankable” clients
- Demand-driven product range
- Sustainable institution, properly managed and supervised, able to expand on a larger scale
- Offering decentralized services at the village level through LSAs: micro loans, savings, transfers, cashless transactions

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## Local associations of clients are lowering transaction and risk costs

### STRUCTURE OF A LOAN AND SAVINGS ASSOCIATION (LSA)



- Membership-based guarantee organizations of micro-entrepreneurs
- Strong peer pressure
- Working with the mobile officer of the bank
- Involved in client selection and transactions
- Lowering entrance barrier for the bank in rural areas
- Focus on sustainability
- Backed by state of the art technology

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## Easy pricing, simple products and high back-office productivity are essential.

LOAN PRODUCTS	SAVINGS PRODUCT
<p>For all loans:</p> <ul style="list-style-type: none"> <li>▪ 6% proportional share</li> <li>▪ Cost covering interest rates</li> </ul> <ul style="list-style-type: none"> <li>▪ Micro Loans:                             <ul style="list-style-type: none"> <li>- 100 – 4'000 NAD (step by step depending on repayment quality)</li> <li>- weekly monthly repayment</li> <li>- duration: 11, 23, 30, 50 weeks</li> </ul> </li> <li>▪ Small Business Loan:                             <ul style="list-style-type: none"> <li>- individual loans</li> <li>- 4'000 – 80'000 NAD</li> <li>- monthly repayments</li> <li>- duration: 6 - 24 months</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ Weekly savings plan:                             <ul style="list-style-type: none"> <li>- Minimum: 1 NAD per week</li> <li>- Same amount each week</li> </ul> </li> </ul>

**Money transfer (telephone banking, service points) and insurance products in testing phase.**

**Banking license will now allow to expand the product range**

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## The clients we are serving

- Working in the informal sector and cannot provide collateral
- Vulnerable people who are exposed to a range of life and business shocks (closely linked for self-employed people)
- 67% of our clients are poor and likely to spend less than NAD 10 a day  
... but have a clear motivation to overcome their difficulties.

The new bank will support them by providing financial services enabling **asset building** strategies.

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The clients of Koshi Yomuti are mainly rural, vulnerable and unbanked. Data derived from the social performance measurement tool:

	Koshi Yomuti clients	Average in Namibia
▪ No electricity in the homestead	89%	36%
▪ No toilet	75%	53%
▪ No higher education	100%	94.1%
▪ Average household size	11 pers.	4.9 pers.
▪ Households supporting at least one orphan	64%	23%
▪ Never applied for a loan with a bank or cash loan provider before	97%	
▪ Not formally employed (i.e.no pay slip)	98.5%	
▪ Female clients	91%	

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Before the creation of the Bank a pilot operation has allowed to test products and delivery mechanisms:

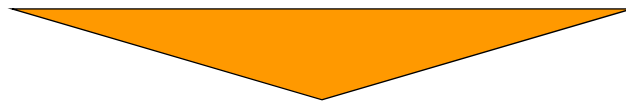
- *Number of disbursed loans:* > 20 000
- *Outstanding savings:* 40% of the loan portfolio
- *Loans at risk (>30 days):* 1.8%
- *Write offs* 0.01%
- *Share of clients with savings:* 45%
- *Full operational sustainability reached after 3 years*

**The pilot operation has lowered risks for private investors to a reasonable level**

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### Why a full banking licence ?

- To better protect the assets of poor people
- To create a sustainable private bank dedicated to micro entrepreneurs
- To offer a broader range of products and services



Placing the bank under  
the supervision of the Bank of Namibia.

The ongoing transformation into a full commercial bank will allow to serve 80 000 savings clients and 40 000 credit clients in year 5.

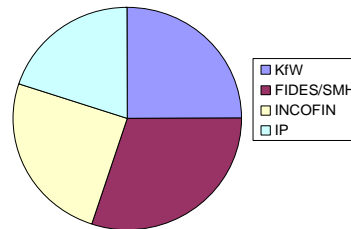
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### A Namibian bank in the initial Phase:

Initially the bank will be owned by a group of social investors and KfW:

- They will cover the start up years that are relatively risky and with low financial return
- Most of these investors have a medium term exit strategy
- INCOFIN is a Belgian Investment fund for financial institutions targeting low-income groups
- I&P is a private social investment company investing in African MFIs

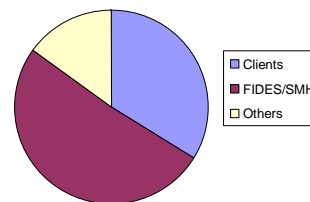
**Initial Shareholders of the new bank**



### Medium term perspective: A Namibian bank co-owned by its clients

- IP, INCOFIN and KfW have exit strategies and could sell shares to the clients or other shareholders that are important for the development of the bank
- The clients will become long-term shareholders of the bank
- Integration in a network of similar banks giving access to technology upgrades, product innovation and capacity building

**Medium Term ownership (after 5 to 7 years)**



## Slide 21

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**K3** Krueckeberg; 21.04.2008

## Slide 22

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**K4** Krueckeberg; 21.04.2008

**Strength of the Bank: to be a sustainable and poverty-oriented institution**

- Appropriate products and delivery mechanisms: financial services at the doorstep in rural and urban areas
- Highly professional management applying innovative banking technologies for the poor
- Business model: small margin with each client due to high transaction costs, but large number of clients.
- Well capitalized: basis to achieve its objectives
- Efficient governance: to preserve the “double bottom-line” being a sustainable and poverty-oriented institution
- Not standing alone, but integrated into an international network of like-minded institutions



**Thank you!**