FIELD NOTES

Greenfield Microfinance in Sub-Saharan Africa

A business model for advancing access to finance

Sub-Saharan Africa has the lowest level of access to finance of any region in the world with an average banked population of only 24 percent. The lack of reliable and affordable financial services is a constraint on the lives of many low-income individuals as well as the expansion of the small-scale business sector and economic growth. The region's banking systems are small in both absolute and relative size, and the microfinance sector has been relatively slow to expand on the continent compared to other regions in the world. There is a range of strategies for extending the reach of microfinance, including the transformation of existing institutions, the creation of stand-alone greenfield microfinance institutions (MFIs) without a centralized management or holding structure, bank downscaling and others. Identifying sustainable and efficient ways of advancing microfinance is critical to unlocking the full growth potential of Sub-Saharan African (SSA) and to make sure future economic growth is inclusive.

Greenfield MFIs in Sub-Saharan Africa: A Business Model for Advancing Access to Finance examines the role the greenfield MFI business model plays in increasing access to finance in the African context. A good number of greenfield MFIs on the continent now have sufficient track record to enable an analysis of their performance and role in the market. A stocktaking of the experience can help inform decisions that will shape the coming generation of investment in microfinance. This issue of Field Notes from the Partnership for Financial Inclusion summarizes the main premises, findings and conclusions of the research paper. The paper, published by the Consultative Group to Assist the Poor, CGAP, was authored by Julie Earne and Tor Jansson from IFC, Antonique Koning from CGAP, and Mark Flaming, independent consultant.

1. Introduction

The study examines the performance of subsidiary greenfield MFIs, the holding company model and the contribution of greenfield MFIs to market development.

The greenfield business model generally focuses on expanding financial services through two main elements: 1) the creation of a group of "greenfield MFIs" defined as institutions that are newly created without pre-existing infrastructure, staff, clients or portfolios, and 2) the central organizing bodies – often holding companies – that create these MFIs through common ownership and management.

The holding company usually also plays a strong role in backstopping operations, providing standard policies and procedures and co-branding the subsidiaries in the network. Given these commonalities, this model can also be considered a type of franchise where the sponsors inject a tested approach and sufficient patient capital to move new institutions past the difficult start-up phase and onto a growth trajectory in some of the most challenging markets.

Detailed performance data were obtained from 10 holding companies on 30 greenfield MFIs in SSA and interviews were conducted with more than a third of the CEOs of these banks. This cohort represents 90 percent of all greenfield MFIs created in Africa between 2000 and 2012. They belong to the following holding companies: Access Microfinance Holding, Advans SA SICAR, ASA International Holding, BRAC International Holdings, EcoBank International, FINCA Microfinance Holding Company, MicroCred SA, Opportunity Transformation Investment, ProCredit Holding AG & Co, and Swiss Microfinance Holding.

The landscape

In SSA, the greenfield model made its debut in 2000 when ProCredit Holding opened a bank in Mozambique. For a few years, ProCredit was essentially alone in pursuing this strategy; it opened up in Ghana in 2002, in Angola in 2004 and in the Democratic Republic of Congo (DRC) in 2005.

Between 2005 and 2006, Advans, Access, and MicroCred holding companies were formed with a structure similar to that of ProCredit and by the end of 2007 had collectively launched five greenfield MFIs in SSA. Accion started its first greenfield MFI in the same period in partnership with three commercial banks in Nigeria. As a result of this initial experience, Ecobank and Accion entered into a partnership and opened two greenfield MFIs in Ghana and Cameroon. From that point on, the Access, Advans, and MicroCred networks each created more or less one new MFI per year. Toward the end of the decade, ASA and BRAC from Bangladesh created new organizational structures that also allowed them to begin establishing greenfield MFIs in Africa. Over the six years from late 2006 to end of 2012, a total of 27 additional greenfield MFIs were launched.

Meanwhile, FINCA and Opportunity International have used the holding company structure to upgrade their existing (largely NGO) affiliates to regulated deposit taking institutions, and then integrate them in a common investment company. Like the other networks, the holding company has been a vehicle for mobilizing investment capital, expanding and backstopping operations, and establishing an ownership model for an international network of financial institutions.

When the expansion of greenfield MFIs took off in earnest at the end of 2006, the first seven (Procredit Angola, ProCredit DRC, Procredit Mozambique, Procredit Ghana, Finca DRC, Opportunity Ghana, MicroCred Madagascar) had 107,887 loan accounts with an aggregate loan portfolio of $57.4 million and held 220,377 deposit accounts with an aggregate balance of $50.7 million. Six years later, at the end of 2012, there were 31 greenfield MFIs in 12 Sub-Saharan countries with 769,199 loan accounts and an aggregate loan portfolio of $527 million, and with 1,934,855 deposit accounts and an aggregate balance of $445 million. These 31 greenfield MFIs had 11,578 staff and 701 branches, and are becoming noteworthy collectively and in some cases individually in their markets.

2. Greenfield MFI Performance

The life cycle of greenfield MFIs, as it is observed in SSA, can be divided in three stages: *foundation* (preparation and first year of operation), *institutional development* (year two through financial breakeven, which typically occurs in year 3, 4 or 5), and *scale-up* (from financial breakeven onwards). The performance of greenfield MFIs largely reflects these three stages, each of which is characterized by milestones related to management, product development, infrastructure build out, outreach, funding structure, and sustainability.

The performance of the cohort of greenfield MFIs was evaluated based on institutional age in order to achieve a coherent comparison and aggregation of data, regardless of the calendar year in which they launched operations.

A comparison to MIX data for 'young' African MFIs (those with 48-84 months of operations) shows that greenfield MFIs have achieved, on average, a very robust performance. By the time greenfield MFIs reach 60 months of operations, they have attained considerably larger size, greater reach, higher loan quality and better profitability than MFIs with no strong holding/network affiliation. The average greenfield MFI tends to be much better capitalized and to have more formal structures and deposit taking infrastructure than the average young MFI reporting to MIX.

Some key findings

Balance sheet indicators

• Taking into account both the initial equity capitalization and the technical assistance funding, the average initial funding package required for a greenfield MFI ranges from $6-$8 million over the first 3-4 years of operations. Thereafter most MFIs need additional funding in the form of debt and/or deposits to support a growing asset base.

Growth and Operational Performance

• The greenfield MFIs have generally achieved impressive growth, with the average MFI having 36,714 loans, $20 million loan portfolio, 81,682 deposit accounts, and $23.1 million in deposit volume on the books at 60 months. Nevertheless, the ranges of values within the cohort hint at the diversity in lending and deposit mobilization strategies among greenfield MFIs.

• The growth numbers are a reflection of the ability of greenfield MFIs to build out distribution networks and train staff while maintaining robust operational control. At 12 months of operation, greenfield MFIs have on average 131 staff and 9 branches; at 60 months of operation, they have on average 524 staff and 31 branches. It is important to note, however, that the rate of branch expansion varies greatly between credit-only institutions and regulated deposit taking-institutions. It requires much more planning and investment, and sometimes regulatory approval, to set up deposit taking branches. Regulated deposit-taking institutions in the cohort opened on average 11 branches in the first five years, whereas credit-led models opened 75.

• Staff development is critical for sustained growth. During the first 3-4 years, successful loan officers are promoted to supervisors, branch managers and regional managers, slowly replacing international staff (typically there will be only one, perhaps two, international staff left at 48 months). Staff productivity levels have improved steadily among greenfield

Performance of Greenfield MFIs at 12, 36 and 60 months

	Month 12	Month 36	Month 60	MIX Young Africa
No. Staff	*131*	*318*	*524*	*69*
No. Branches	*9*	*22*	*31*	*10*
No. Deposit Taking Branches	*3*	*7*	*11*	*n/a*
No. Non-Deposit Taking Branches	*22*	*47*	*63*	*n/a*
No. Loans Outstanding	*9,495*	*25,009*	*36,714*	*11,255*
Gross Portfolio ($ million)	*2.3*	*9.2*	*20.0*	*2.7*
No. Deposit Accounts	*7,123*	*37,460*	*81,682*	*18,127*
Deposit Volume ($ million)	*0.8*	*8.7*	*23.1*	*2.0*
PaR30	*3.9%*	*4.0%*	*3.4%*	*9.5%*
Op. Expenses / Avg Portf (%)	*200%*	*53%*	*36%*	*113%*
Equity ($ million)	*3.6*	*4.3*	*6.6*	*1.2*
Net Income / Avg Assets (%)	*-12.4%*	*-0.1%*	*3.1%*	*-2.4%*
Net Income / Avg Equity (%)	*-44.6%*	*-0.3%*	*18.9%*	*-3.4%*

**n=58 African MFIs between 48 and 84 monthshs*

MFIs in SSA (as measured by the loans-to-staff ratio) but the cohort has nevertheless struggled to reach the same productivity numbers as in other parts of the world. Group lenders tend to have a significantly higher loans-to-staff ratios.

Financial performance

• The research shows that the greenfield MFIs in the cohort have been able to sustain fairly rapid revenue growth over their first 60 months, increasing on average by $500,000 every 6 months and reaching $5 million by the 5-year anniversary. However, greenfield MFIs typically experience significant swings from profits to losses and back to profits during the institutional development period. Only around month 42-48 do they emerge fully self-sustainable.

• For the cohort, both portfolio yields and operating expense ratios are high relative to mature MFIs in other regions of the world, which ranged from 11%-16% in 2011. To align performance with MFIs in other regions, the greenfield MFIs in SSA will need to further reduce the operating expense ratio by 10-20 percentage points, something which may not be easy given the high costs of doing business in the region.

3. The Holding Company

Greenfield MFIs belong to a larger network or holding company, which through common ownership and management plays a strong role in backstopping operations, providing standard policies and procedures, staff development and training, and co-branding the subsidiaries in the network. There are generally three types of holding companies:

Consulting firm-led, founded by specialized consulting firms for the purpose of investing in and building a global network of subsidiaries, e.g. Access Microfinance Holding, Advans SA SICAR, MicroCred SA.
Network support organization-led (NSO-led), established to consolidate the affiliates of international microfinance networks and expand with new greenfield MFIs, e.g. FINCA Microfinance Holding Company, Opportunity Transformation Investment.
Local bank-led, expanding mass market operations of an existing traditional bank by creating specialized MFIs, e.g. EcoBank International.

Investors

Development Finance Institutions (DFIs) have played a key role in creating and supporting most of the networks that today launch greenfield MFIs. The holding company model has provided DFIs with a single vehicle for making larger investments in microfinance and leveraging their participation with other investors. The holding companies are also seen as providing a relatively feasible exit route when DFIs believe their role has been completed, as shares in a geographically diversified holding company are thought to be easier to sell than multiple small investments in frontier countries. Equally important, DFIs want to create commercial incentives to ensure the full engagement of the sponsors. The holding company arrangement has engaged the consulting firm and NSO sponsors as shareholders in the holding company, where they stand to gain or lose along with the other investors.

The second largest group of funders in the holding companies and the greenfield MFIs is socially responsible microfinance investment vehicles (MIVs). They tend to prefer the holding companies for diversification and liquidity, and typically see their role more as providing expansion capital than venture capital. Private commercial investors have also shown interest in the holding companies, as well as small individual investors.

To date, there have been few exits from the holding companies. It seems likely that the investment time horizon may be a few years longer than initially anticipated, suggesting that it takes more effort and more time than anticipated to build successful MFIs of significant size.

Some common success factors and challenges include:

• The operational success factors most often cited by holding companies themselves as critical are standardization of operational procedures and systems. In the long term, the holding companies contend that human resource development is key to success.

• It is important that the shareholders involved, at the holding level and MFI level, have a similar long-term strategic vision for the network and its MFIs. If so, most disagreements will be about tactics and can be easily resolved.

• A clear vision and mission centered on creating and managing MFIs enable coherent long-term decision making for building appropriate expertise and capacity at the holding company necessary to successfully guide the network.

• A strong sponsor commitment, sometimes secured through direct financial involvement, is especially important when things are not going as well as hoped and sponsors and key staff are asked to go the extra mile without necessarily being immediately compensated.

• Several networks identified the regulatory and supervisory regimes as a challenge to their activities. Political instability adds further challenges to the business environment in SSA and has imposed heavy costs on some MFIs and holding companies.

• All in all, the holding companies report that the cost of doing business in SSA is decidedly more expensive than their operations in other parts of the world.

• Some holding companies said it is more challenging to create MFIs in SSA compared to other parts of the world under overly ambitious expectations about financial performance from investors.

4. The Role of Greenfield MFIs in Market Development

Qualitative and quantitative research in DRC, Ghana and Madagascar, where at least two greenfield MFIs have been operational for more than 5 years, shows that greenfield MFIs play various roles in the development of the market for financial services for those at the base of the pyramid. In addition to improving access to finance they also increase the level of skills in the financial sector, introduce new products and channels to the market, and expand the number of access points for clients.

Market relevance

The greenfield MFIs in the DRC, Ghana and Madagascar represent only a small portion of total financial sector assets, but they are significant players in terms of numbers of households and enterprises served. They also manage a significant number of branches and employ a significant number of employees relative to the financial sector overall. These effects are observed most clearly in countries with a less developed financial sector. In post-conflict DRC the four greenfield MFIs served 89,942 microenterprise borrowers and 265,741 depositors at the end of 2011, representing about 50% of all borrowers in the microfinance sector and 65% of the depositors served by microfinance institutions.

Skills building

By their own account, the greenfield MFIs' most significant effect on market development is through their contribution to the professional development of staff in the banking and microfinance sectors. With the exception of a small number of international staff, all 11,600 employed in greenfield MFIs as of December 2012 were nationals. Since mainstream banks and other financial institutions frequently try to poach staff from greenfield MFIs it appears that this skills development results in considerable positive externalities for the financial sector as a whole. Some holding companies calculate that they will train two to three times the number of required staff to address expected attrition to local financial institutions. For greenfield employees, the greenfield MFIs appear to provide a career bridge between the less formal microfinance sector and the more formal banking sector.

Product and Channel Diversification

Greenfield MFIs tend to be at the forefront (compared to other MFIs) of introducing innovation in low-income retail banking. The greenfield MFIs have introduced new products, credit policies and service standards that have been replicated by other financial institutions. For example, in the DRC ProCredit introduced free savings accounts without a minimum deposit requirement at a time when most banks had minimum requirements of more than US$1000. ProCredit attracted large numbers of savers and demonstrated that the Congolese population was able and willing to save. Following this example, other banks, like Rawbank and BIAC, relaxed their account opening requirements and the number of deposit accounts in DRC has grown from 30,000 in 2005 to 1 million in 2012. Additionally, greenfield participation in credit bureaus, when available, helps to build the foundation for a strong credit culture and promotes responsible finance for the market as a whole.

5. Conclusion

The greenfield model has come a long way in a short time in SSA. The sustainable performance of greenfield MFIs illustrates to the traditional formal banking sector that underserved businesses and households are bankable and even profitable market segments. Now the question is, where does the model go from here?

The number of greenfield MFIs has expanded rapidly in the last decade and new entities are still being added to this segment of the microfinance industry. It is likely, however, that the rate of creation of greenfield entities, at least in SSA, will slow, as the most 'feasible' markets have now largely been entered. But this leaves about 25 countries in SSA without any greenfield MFI presence, and typically without the presence of any sustainable MFIs at all.

One challenge for greenfield MFIs and their holding companies is therefore to develop a delivery model that facilitates commercially viable and affordable access in smaller more dispersed markets and rural areas. Indeed, some of the more mature greenfield MFIs that have achieved breakeven are now exploring alternative delivery channels, such as agent banking and mobile financial services, to extend their reach in markets with low population densities which present challenges for traditional bricks and mortar expansion models.

At the same time as the holding companies and greenfield MFIs face significant operational challenges (and opportunities), they will also have to manage their investors' expectations, particularly those of the DFIs. Proof of concept now has to give way to mass market reach and shareholder returns.

The full study is available on the Resources link of **www.ifc.org/financialinclusionafrica**. For further in-depth analysis on the performance of greenfield MFIs in Africa, and a comparison of their performance against other institutional types, please refer to the forthcoming World Bank research paper "Benchmarking the Financial Performance, Growth, and Outreach of Greenfield Microfinance Institutions".

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The Partnership for Financial Inclusion aims to scale up commercial microfinance institutions and advance mobile financial services to bring financial services to 5.3 million previously unbanked people in Sub-Saharan Africa by 2017. It is a $37.4 million initiative by The MasterCard Foundation and IFC that brings together the intellectual and financial capital of the Foundation with IFC's market knowledge, expertise and client base. The partnership is also joined by The Development Bank of Austria, OeEB, and collaborates with knowledge partners such as the World Bank and CGAP. An important objective of the partnership is to contribute to the global community of practice on financial inclusion, and to share research and lessons learned. This publication is part of a series of reports published by the program.

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