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Overview of Microfinance Markets and Investment Opportunities in Russia and China

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Steering Microfinance On The Way To Growth: Russian Case

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President

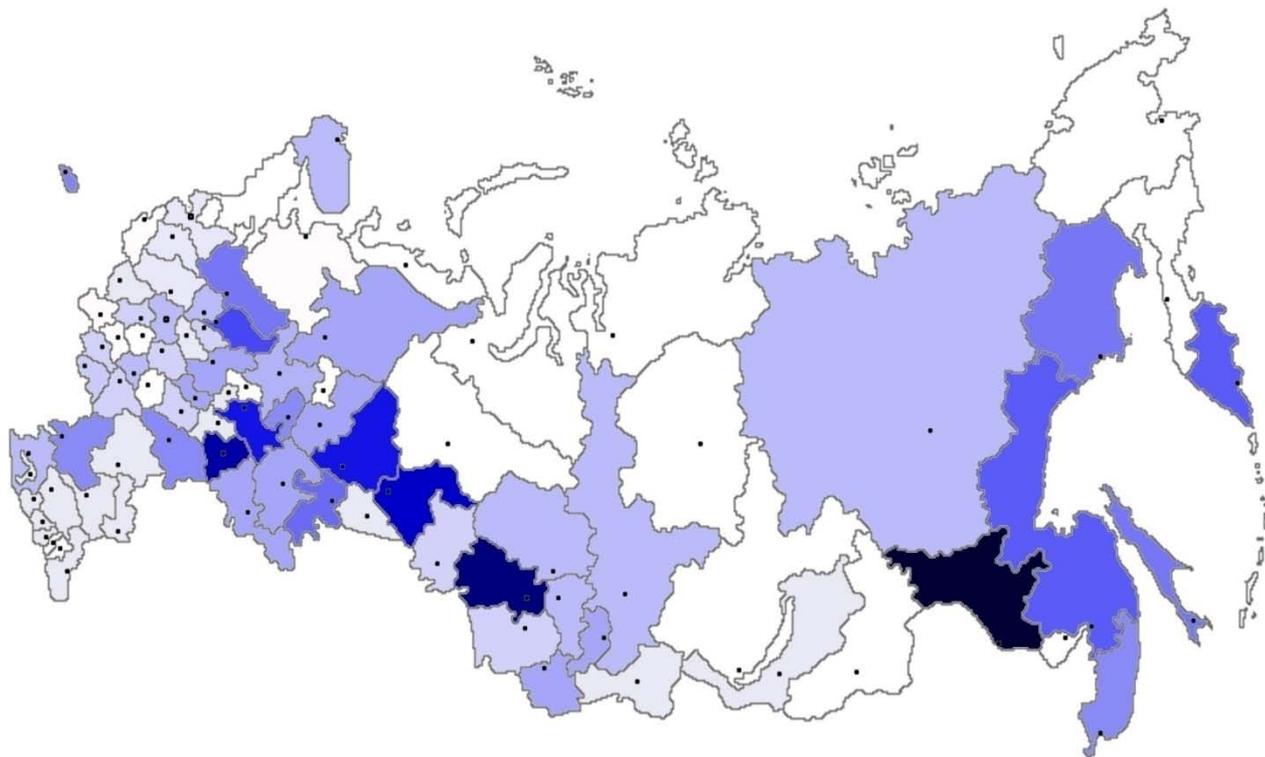
National Partnership of the MF
Market Stakeholders (NAMMS)

RMC Mission

To promote and build an all-inclusive financial system through the development of a strong, sustainable microfinance sector in Russia that will result in:

- Access to financial services for small businesses and unbanked population
- Creation of employment opportunities
- Increase in the living standards of low-income people and entrepreneurs

Regional disproportions in banking

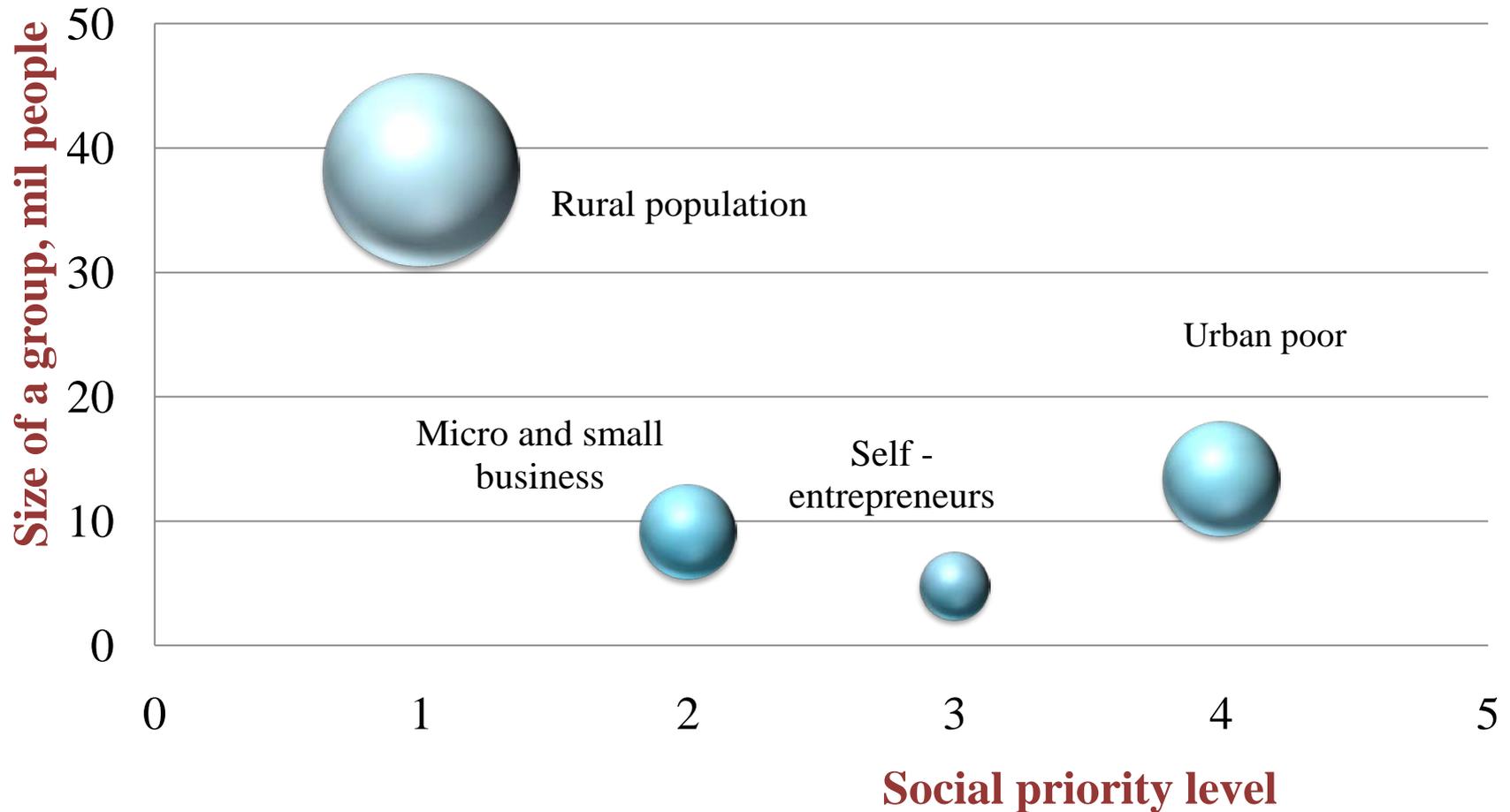


Color explanation: white – less than 5% to near to black – 80% of Moscow.

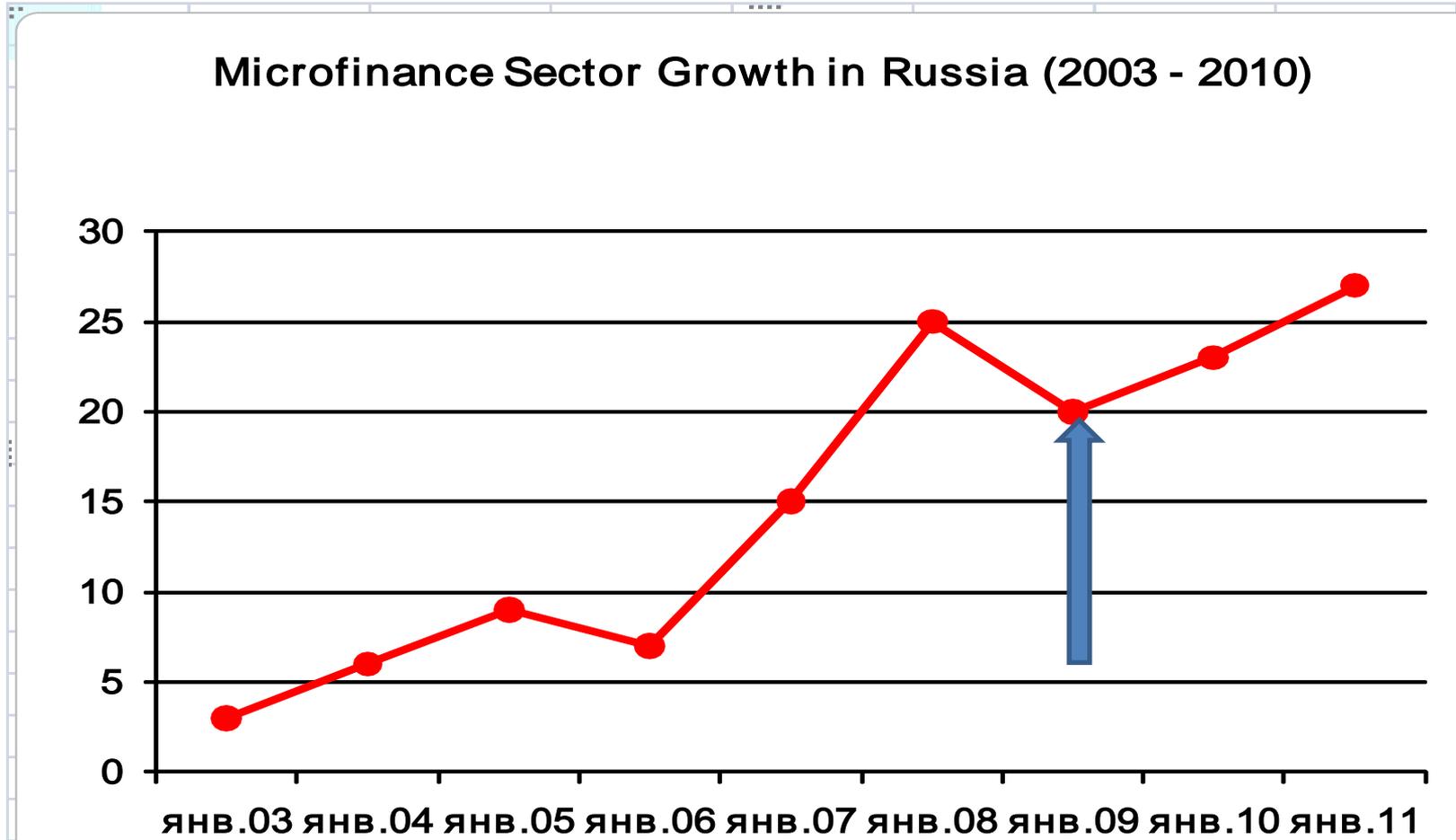
Most financially underserved are rural area and small settlements.



Who is mostly underserved financially?



Microfinance: Development Dynamic 2003 – 2010



Microfinance market in Russia

Average microcredit:

- 4,000 USD for non-banks
- 25,000 USD for banks

Average interest rate:

- 5 - 8 points higher than interest rates on conventional credit to SME

Microloans portfolio of MFI as of Jan 1, 2011 - 1 billion USD (including MFOs and Credit Unions), of which:

- Business loans - 45%
- Consumer loans - 55%

Influence of the crisis and lessons learned

- A need for smart regulation and supervision that would set appropriate standards of MFI performance, financial sustainability, consumer protection and transparency.
- A need to develop Industry Standards, implemented by a majority of MFIs.
- A need for independent institutions that would be able to estimate the health of the sector and help to decrease risks of MFIs.

What has been done since 2009?

- ***Legislation***

- Credit union and microfinance laws (2010 and 2011)
- Special taxation privileges for MFIs
- Special insolvency procedures for credit unions

- ***Regulation and Supervision***

- Financial rates for MFIs set under both special laws
- Any MFI should develop consumer policy available to clients
- Delegated supervision of credit coops, direct supervision of MFOs

- ***Industry Standards***

- “Russified” SMART Campaign Principles and ethic code for MFI

- ***Institutional development***

- Russian rating agencies come to MF sector
- MFIs are joining credit bureaus – to avoid over-indebtedness
- Loans and savings insurance – is a new opportunity to share risks

Government support of microfinance sector – dialogue with NAMMS and RMC

- In 2009 when unemployment was forecasted to grow by 2 million people, microfinance was recognized by the government as an effective tool to reduce unemployment through support of new and existing MSEs
- Anti-crisis support of microfinance included:
 - Immediate: Budget funding for MFIs
 - Long-term: Improvement of regulation and supervision for microfinance – increasing the sector’s stability and attractiveness
 - Involvement of MFIs in state program for unemployed people – “Start your own business” – more than 7,000 start ups supported by MFIs for about 15 million USD between July 2010 – June 2011

State resources allocated to microfinance from 2009 to 2011

- **In total, 620 million USD allocated to the microfinance sector in Russia**
- State support for the second tier (apex) microfinance institutions:
1 billion RUR (33 million USD)
- Capitalization of the first tier regional based NGO and MFI:
7.5 billion RUR (250 million USD)

Source of funds: Ministry of Economic Development

State resources allocated to microfinance from 2009 to 2011

- **In total, 620 million USD allocated to the microfinance sector in Russia**
- Special lending program for various MFIs through the Russian Development Bank
Up to 6 billion RUR (200 million USD)
- Special lending program for rural CCs through the Russian Agricultural Bank (Rosselhozbank)
Up to RUR 2,5 billion RUR (80 million USD)

Investment opportunities – Centurion Capital

“**Centurion Capital**” – Commercial company with 6 years experience in Russian Microfinance Market, founded by Russian Microfinance Center

Main Activity: Wholesale loan products for MFIs and Credit Cooperatives

Shareholders

- 1) Russian Microfinance Center
- 2) Gray Ghost Microfinance Fund
- 3) Association of Russian Banks
- 3) Private investor - individual

Partners

- 1) Symbiotics
- 2) BlueOrchard
- 3) PlaNIS (responsAbility SAS)
- 4) Russian Bank for Small and Medium Enterprises Support

More than 10 million USD of loan capital and equity were invested into “Centurion Capital” for lending to Microfinance Market all over Russia (from South regions to Russian Far East)

Investment opportunities – Centurion Capital

Results achieved:

- **Clients:** 56 MFIs and Credit Cooperatives from 18 Russian regions
- **Aggregate loan portfolio of MFIs and Credit Coops:** about 100 million USD
- **Total retail clients:** more than 50,000 most of which represent small businesses

Long Term Strategy, 2014:

- **Attract** additional debt and equity financing to raise client base up to 100 MFIs
- **Build** a high quality loan portfolio and commercial network for channeling a wide range of financial products for MFIs and retail clients in Russian Federation
- **Grow** a retail client base up to 100,000 representatives of small businesses
- **Sell** RMC's share to a commercial bank or other financial institution

What's next?

Possible expectations for 2011

- Total number of MFOs may increase to 700-800
- Total number of credit cooperatives and SROs may increase to 800-1200
- Aggregate portfolio of microloans is predicted to grow to 1,3 billion USD

Challenges:

- Pay Day Loans (PDL) companies associate themselves with MFOs. What should we do with a policy risk related with extra high interest rates?
- A lot of start-up MFOs can create industry risks if they are unable to perform in accordance to the microfinance law standards.
- Should Social Performance Indicators become an obligation for the MF market? Otherwise, extra commercialization without social goals can make the sector too greedy.

The role of microfinance in SME development

During G20 Business Summit in Seoul in November 2010, Russian President, Mr. Medvedev, spoke on the Role of Business for Sustainable and Balanced Growth and he emphasized the following:

- "Microfinance has become an important element of Russia's financial system, its volumes have grown"
- "We will make sure this work continues in our country"
- "Expansion of microcredit and availability of innovative financial services will help small business create new jobs and thus help fight unemployment"



CREDITEASE

Opportunity & Challenges

Microfinance in China

Ning Tang
CEO / CreditEase

My Story with Microfinance



1997 / Dhaka

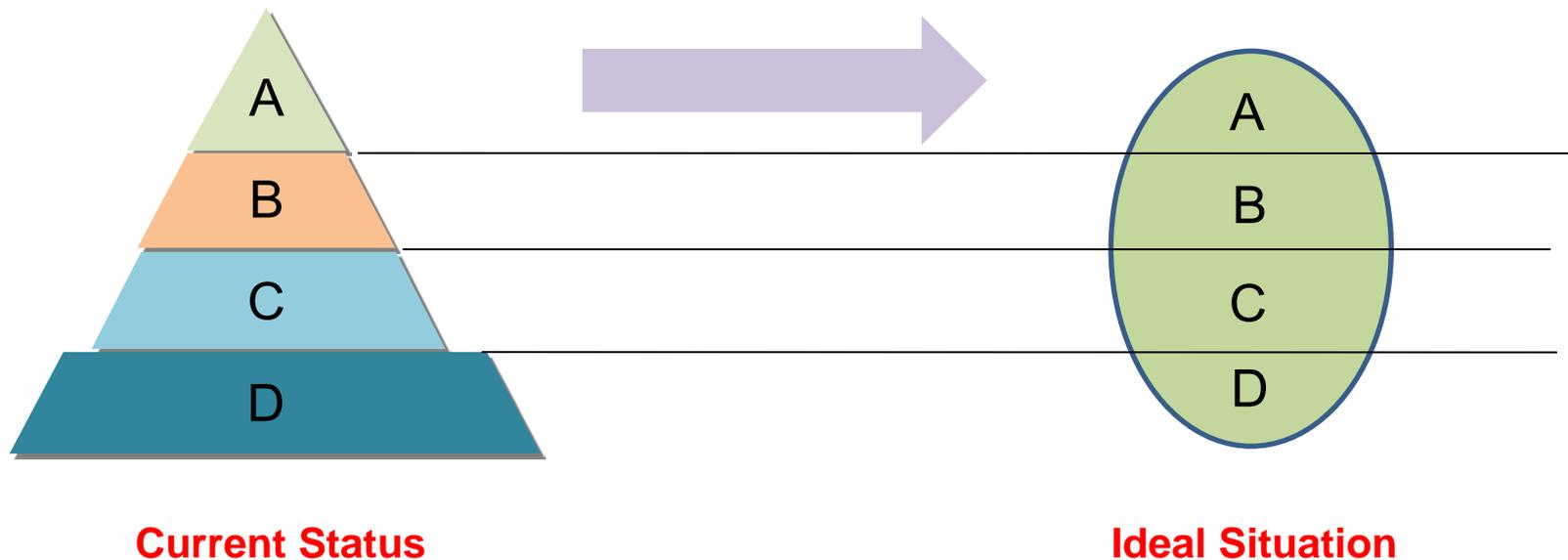


2009 / Beijing

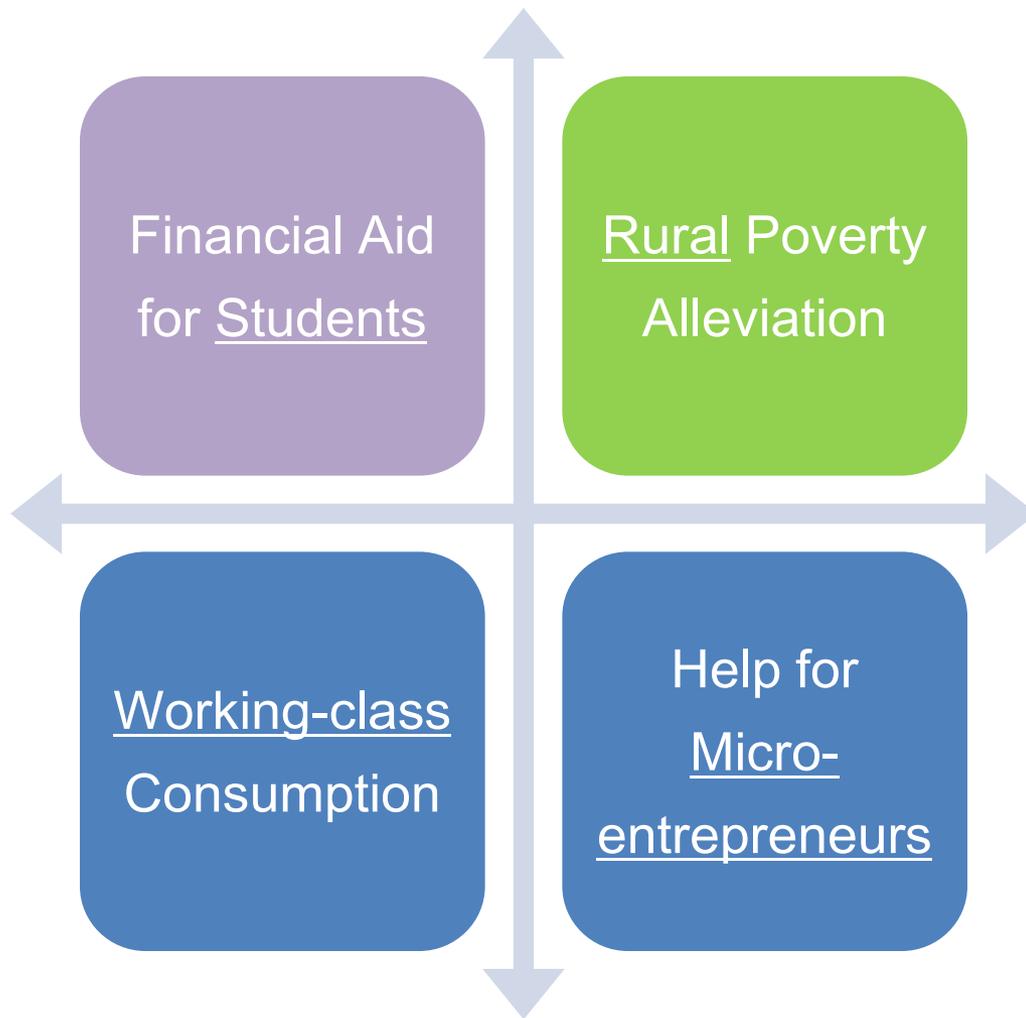
Opportunity in the Bottom of Pyramid

- The demand of China's mid-low income class (class C & D below) for microloans is growing rapidly
- Traditional financial institutions are too rigid and do not meet consumer demands

Social Economic Structure in China



Why are Microloans needed?



How People Use Microloans – Rural Areas



Education



Crops

Micro-enterprise



Rural Credit Loans

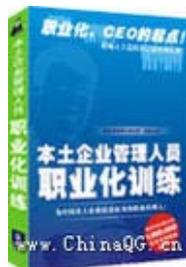
Healthcare



Livestock



How People Use Microloans – Urban Areas



Education
and Training

Laptops



Healthcare



Consumer Credit Loans

Consumer
Electronics



Automobiles



Travel

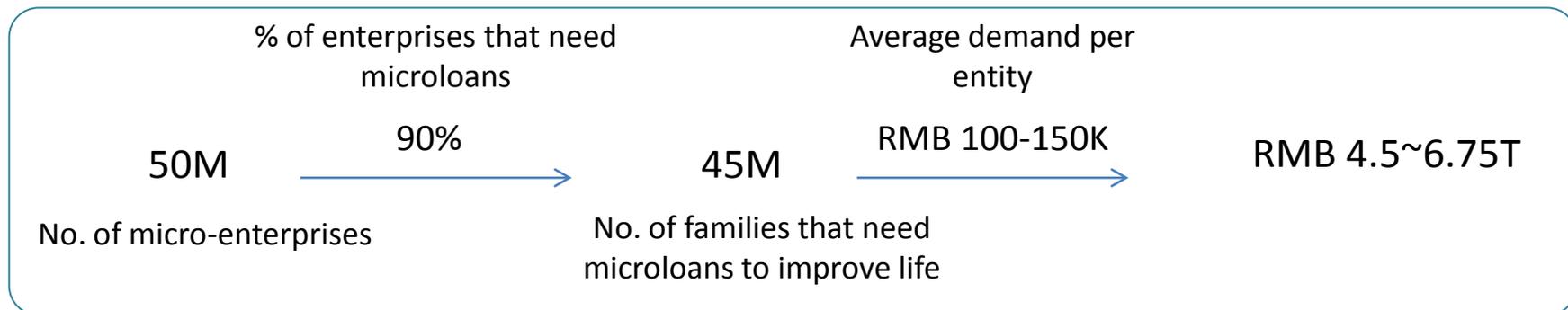
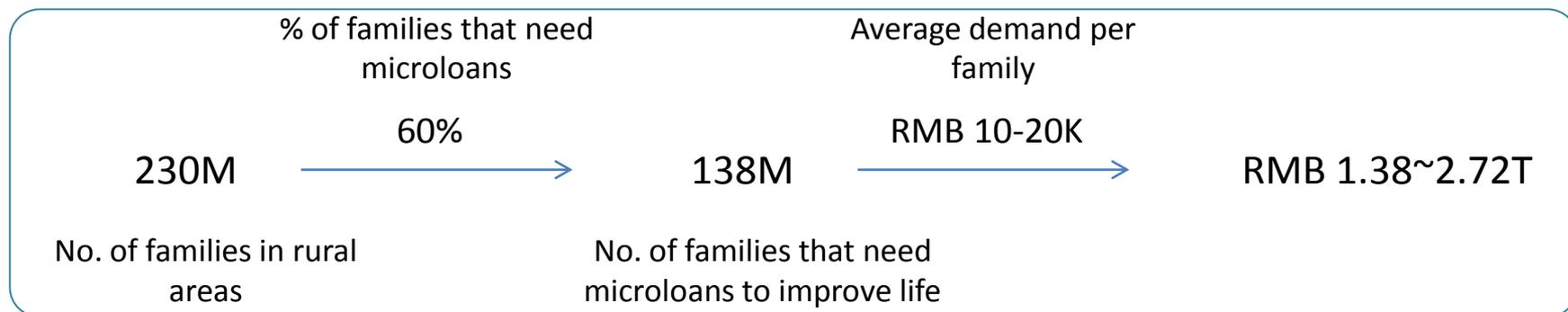


Micro-enterprise



Huge Demand for Microfinance

- In the past 10 years, China's non-mortgage consumer loan portfolio grew several dozen times. However, the ratio as a percentage of total loan portfolio in China was merely 1~2%, compared with 10~20% in developed countries.



- A majority of such demand is **UNDERSERVED** by mainstream financial institutions!

Who is Serving the Huge Demand?

	Financial Institutions	Semi-financial Institutions	NGO MFIs	Informal Lending through Institutions
Examples	Postal Savings Bank, City Commercial Banks, Rural Credit Cooperatives, Village and Township Banks, Consumer Financing Companies	MCC, Pawnshop	Rural Development Association, Women's Federation	Lending Intermediary; lending service provider
Targeting clients	Small enterprises and employees in cities, farmers in good economic condition	SME, individuals with sufficient collaterals, mainly in urban areas	Poor women in rural areas	Individuals, both urban and rural areas
Loan size	Enterprise: over RMB 1 million Civil Individuals: RMB 100,000 to 500,000 Farmers: RMB 20,000 to 50,000	RMB 200,000 to several million	RMB 2,000 to 20,000	A few thousand RMB to RMB 100,000
Numbers		MCC: 3300, Pawn shops: 4000	Around 100	Less than 100
Outstanding Portfolio	In City: around RMB 500 billion In Rural area: RMB 300 billion	Around RMB 400 billion	RMB 1 billion	RMB 10 to 30 billion
Restraint	Not willing to downscale	Financing bottle neck	Financing bottle neck	Lack of regulation

➤ All these together meet a small portion of demand

Tremendous Challenges on the Way

China is facing tremendous structural challenges, both socially and economically

- Lack of laws and regulations. Unfavorable policy for private companies and foreign companies.
- Most banks are reluctant to serve small clients.
- Tremendous small clients scattered in different regions; overall credit environment is far from mature; need to develop localized lending techniques.

Government Support (I)

- **2006:** China Banking Regulatory Commission issued a notice that adjusted and relaxed the financial institution entering policy for microfinance in rural China, in supporting the development of socialism new countryside

- **2008:** The People's Bank and the China Banking Regulatory Commission issued Guiding Opinions on the pilot operation of small-sum loan companies

- **2010:** State Council of the People's Republic of China issued 36 new encouraging non-governmental investment clauses, encouraging non-governmental funds to enter the financial services industry
 - Encouraging non-governmental funds to initiate or participate in the establishment of rural banks and other financial institutions
 - Support non-governmental funds to establish credit trust companies
 - Encouraging non-governmental funds to initiate financial intermediating service agencies

Government Support (II)

- **2011:** Ministry of Industrial and Information Technology issued regulations on clarification of small and micro enterprises. Follow up actions from CBRC are expected.
- **2011:** Local governments of Chongqing, Zhejiang, etc. encourage establishment of MCCs



Support small and microenterprises, support financial institutions who serve those clients, meanwhile, strengthen regulation of informal lending business

Allow everyone to enjoy affordable financial services that are of high quality and tailored to their needs



Practice by Pioneers

- NGO: Xixiang Women Development Association
- MCC: Inner Mongolia Rongfeng Microloan Ltd.
- Lending Intermediary: CreditEase

NGO: Xixiang Women Development Association(I)

Inception	2006
No. of Employee	10
No. of Client (All Female)	5,840
Outstanding Balance	RMB 4.2 Million
Loan Size	RMB 1,000 - 8,000
Coverage	10 towns, 54 villages
Bad Debt Ratio	0%
Capital Source	Plan International, The women's Federation, Enterprise loan
Use of Proceeds	<u>Crop</u> : Jew's-ear, tea, herbal medicine <u>Livestock</u> : pig, silkworm



NGO: Xixiang Women Development Association(II)

- Xixiang alone represents an annual demand of over RMB 50M, while the Association takes less than 10% market share.
- Under coverage of the Association, villagers' annual income doubles or even triples YoY, thus calling for more capital to enlarge their business.
- There were 600 counties like Xixiang, belonging to the defined absolute poverty county where monthly income is less than \$15 USD. But most of them are not as lucky as Xixiang in recent years.

MCC: Inner Mongolia Rongfeng Microloan Ltd.

(I)

Inception	2006
No. of Employee	54
No. of Client	618
Outstanding Balance	RMB 552 Million
Loan Size	RMB 5,000 – 1,000,000
Branches	6
Bad Debt Ratio	0%
Coverage	6 Cities in Inner Mongolia
Target Client	SME and Micro-enterprises; farmers
Capital Source	Local Enterprises & Individuals



MCC: Inner Mongolia Rongfeng Microloan Ltd. (II)

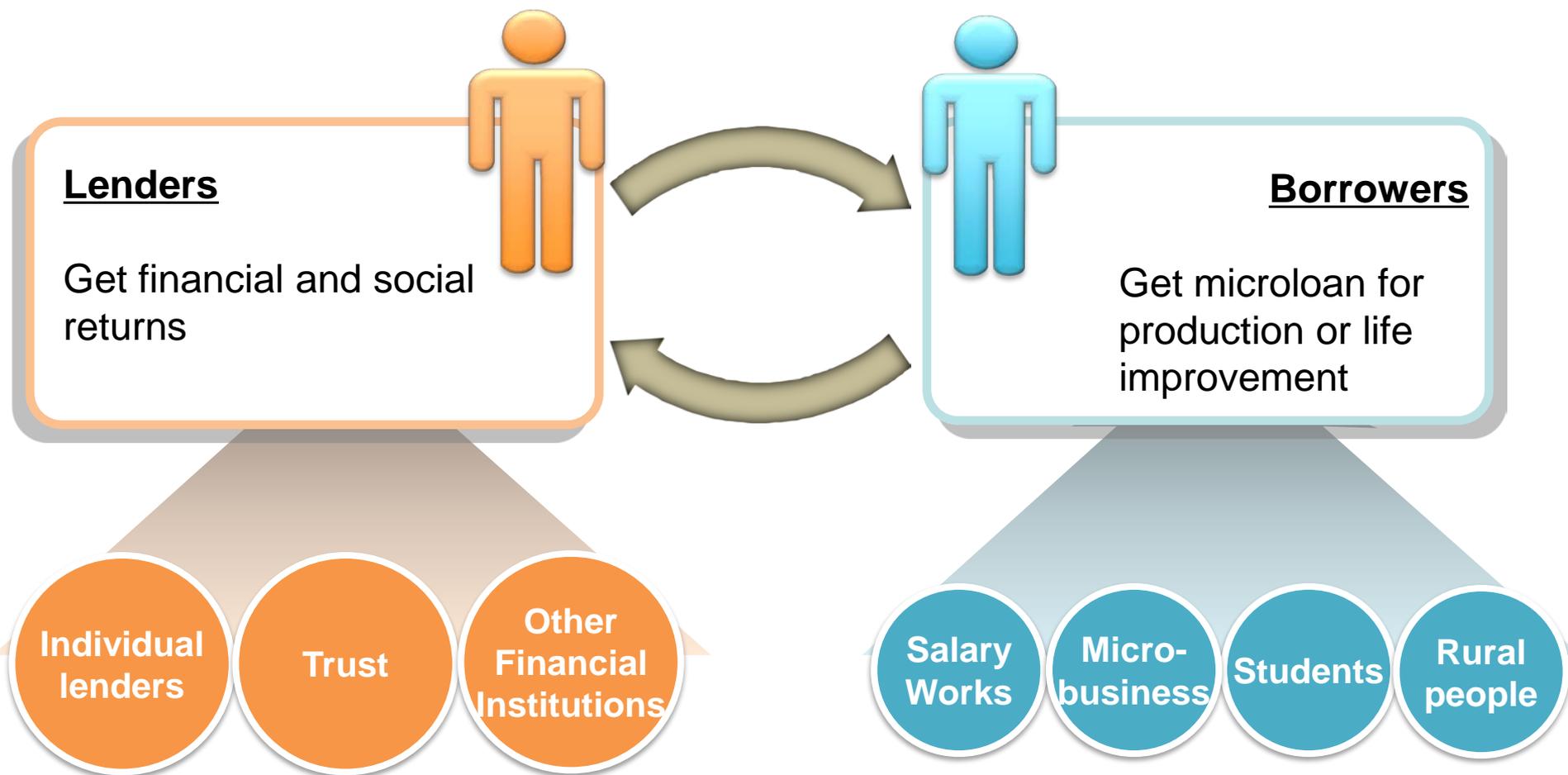
- Rongfeng is the first MCC in Inner Mongolia
- Rongfeng got permission from the Government to open new branches in 5 cities in Inner Mongolia, thanks to its outstanding performance in recent years, while most MCCs in China can only commence business in one city
- It takes less than 2% of local market share

Lending Intermediary: CreditEase Holdings (I)

Inception	2006
Portfolio	A few billion RMB
Loan size	Around RMB 100K
Coverage	Around 50 cities/counties

- CreditEase positions itself as a microcredit intermediary, helping individual borrowers to get funding by credit from individuals or institutional lenders
- CreditEase charges service fees by providing credit management, repayment collection and customer service

Lending Intermediary: CreditEase Holdings (II)



Innovation Creates Opportunities for Newcomers (I)



- CAM, CICETE, PAFIRC and CreditEase jointly initiate the first **Wholesale Fund** mainly for NGO MFIs in China
- The fund aims to leverage social capital to the microfinance industry in China to solve the financing bottlenecks faced by MFIs, and help them build capacity
- Similar concepts can be utilized on MCC in the future
- CreditEase has done a lot of exploration under current legal governance and gained rich experience

Innovation Creates Opportunities for Newcomers (II)

Others

Insurance + Bank

Trust + Lending Intermediary

Limited Partnership + Bank

Guarantee + Broker + Financial Asset Exchange

Summary



Huge but unmet demand



Systematic; Improving



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