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TRANSITIONS TO PRIVATE CAPITAL AND MFI- BANK LINKAGES

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INTRODUCTION & BACKGROUND

- Serving a significant portion of the poor will require massive volumes of private capital
- Development agency capital - necessary but not sufficient
- “Transitions to Private Capital” research funded by USAID

Implemented by Chemonics International, Enterprising Solutions Global Consulting,
IRIS Center at the University of Maryland



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Transition... A passage from one state to another

NGO (Socially Motivated) Ethos

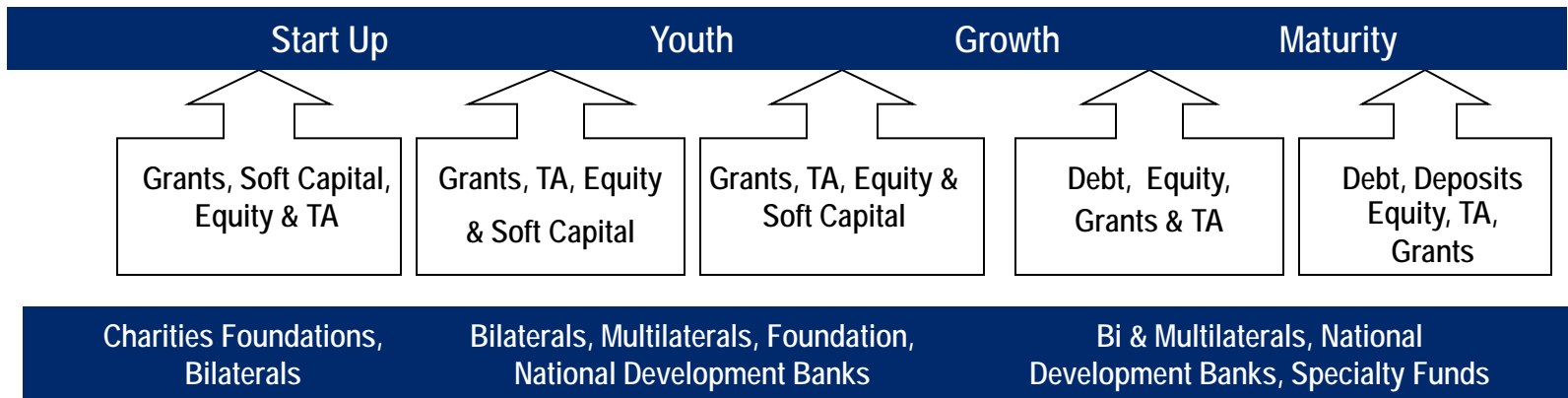
To

Private Sector (Capital) Rules

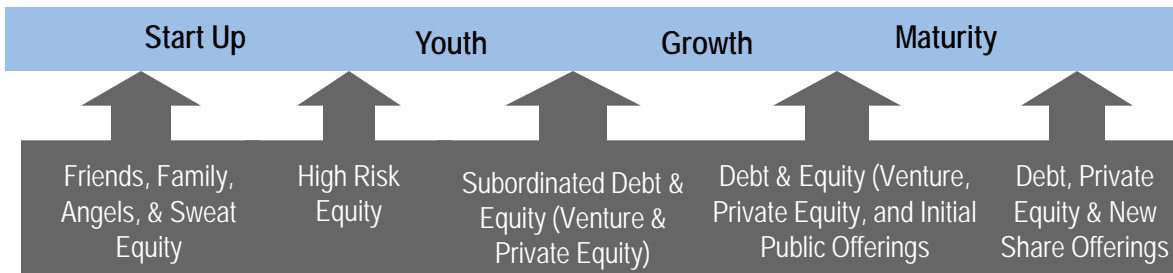


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MFI Financing - How it is



How it Works in the Private Sector

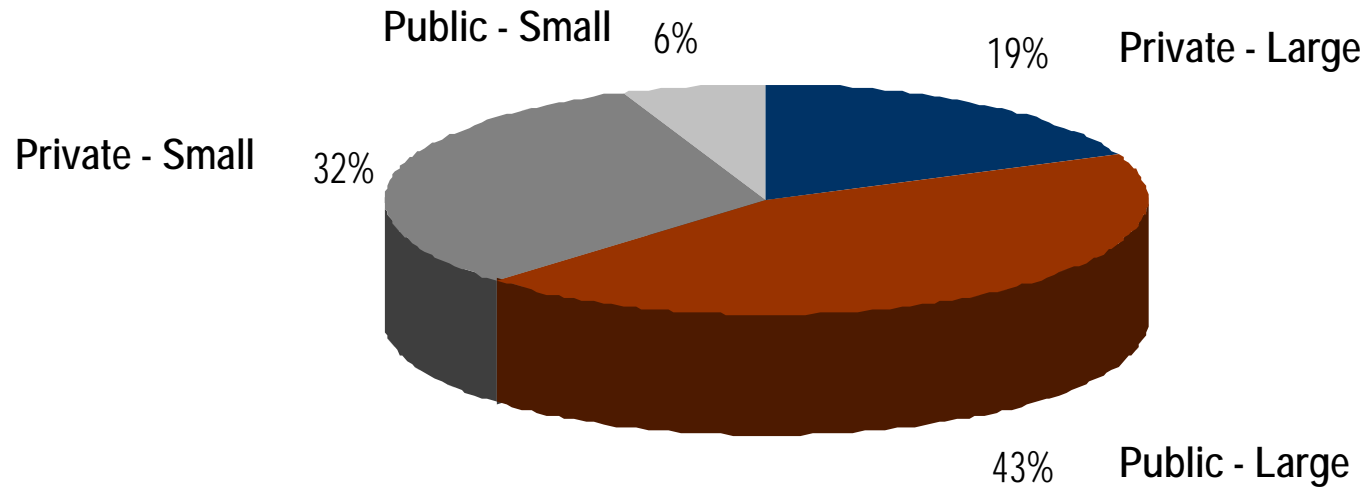


Development Agency capital is offered by organizations whose primary activity is to foster economic and social development such as multi & bi laterals, national devleopment banks, foundations etc.



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Non-Commercial Foreign Debt is Concentrated



Public = donors, government, government agents etc.

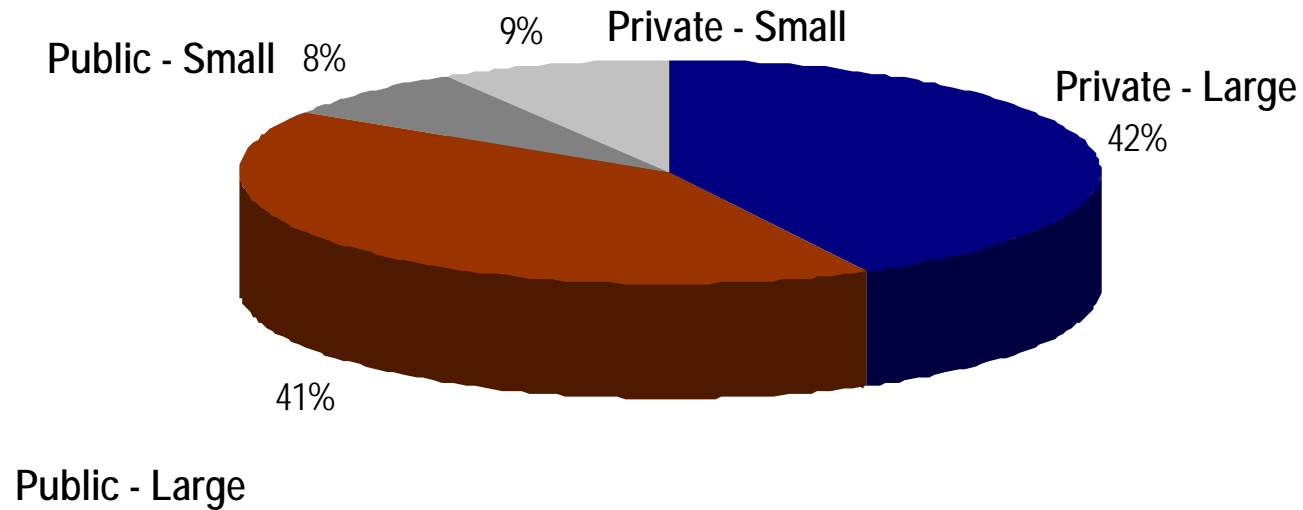
Private = non-public sources which expect commercial rate of return

*Large MFIs as defined by the MicroBanking Bulletin



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Non-Commercial Foreign Equity is Concentrated



*Large MFIs as defined by the MicroBanking Bulletin



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Debt Remains Important

Small Unregulated MFIs - NGOs, National Development Banks

Large, Unregulated MFIs - National Development Banks, NGOs, Dev Finance Agencies

Newly Regulated MFIs - National Development Banks, Dev Finance Agencies, Deposits

Mature Regulated MFIs - Deposits, National Development Banks, International Dev. Finance Agencies, Deposits



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MOBILIZING SAVINGS IS IMPORTANT, BUT DIFFICULT

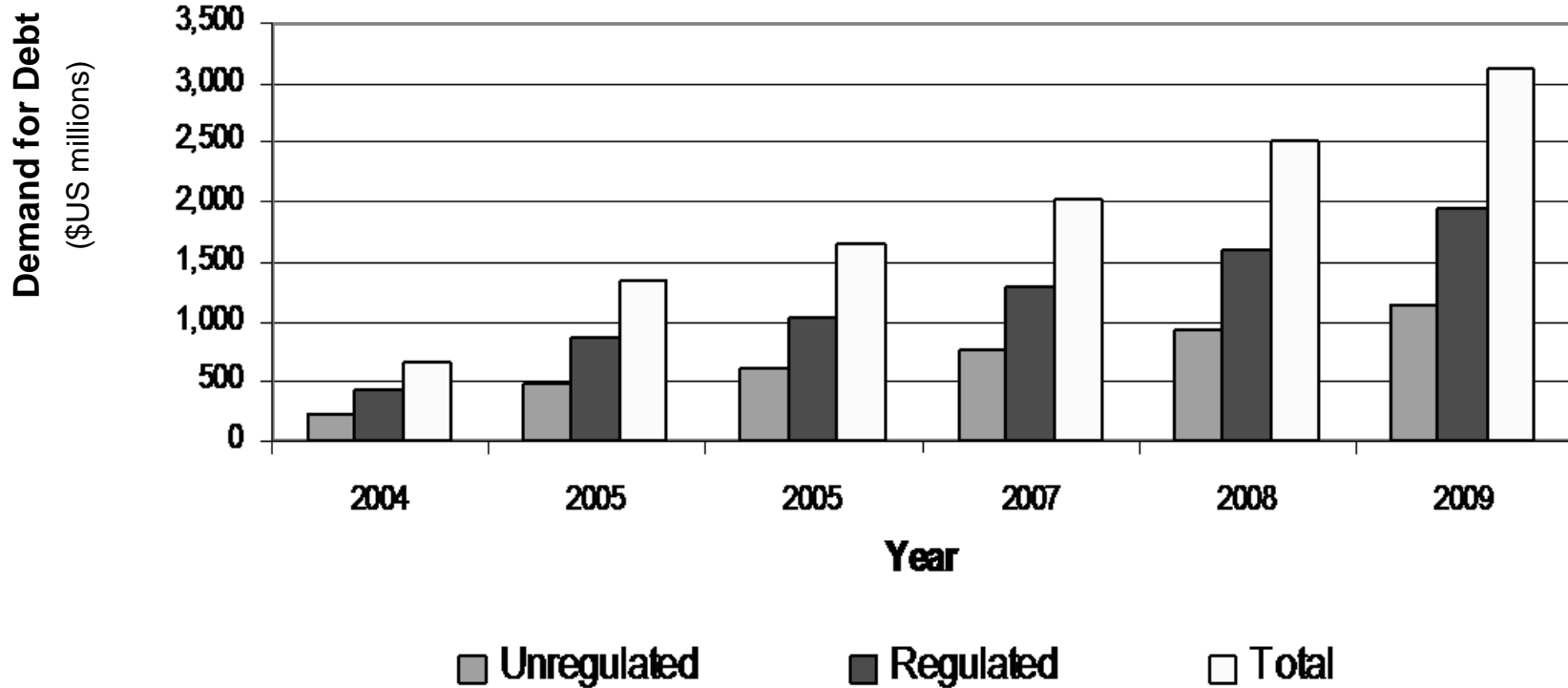
	Transformed	Deposits/Loans
BancoSol, Bolivia	1992	78%
Caja los Andes, Bolivia	1995	60%
Prodem, Bolivia	1992	64%
Finamerica, Colombia	1996	26%
Banco Ademi, Dom. Republic	1998	5.0%
Banco ProCredito, El Salvador	1995	53%
Fincomun, Mexico	1994	24%
Nirdhan Utthan, Nepal	1997	26%
First Microfinance Bank, Pakistan	2002	596%

Source: Anne Miles, MicroBanking Bulletin, Issue 11, May 2005



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MFI GLOBAL DEBT DEMAND ESTIMATES



Based on 30% annual growth of assets and 5% of debt being replaced by savings annually



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EQUITY CHALLENGE

Information Asymmetries: What is an MFI?

Co-own with a Charity?

What is a Share Worth?

What is a Share Worth Compared to Other Opportunities?

Getting Money Out: Dividends and Share Liquidity

Potential MFI investors

**Business Groups,
Entrepreneurs**

Commercial Banks

Finance Companies

Retail Stores

**International MFI Specialty
Funds**



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Equity Challenge: A Suitable Investor

Suitable Investor ~~X~~ Social Investors Only

Developing Credible Dividend History

Sell Sub Debt

Sell Minority Shares

Share Buy Back Agreements

Defining "suitable" to include Complementary Investors

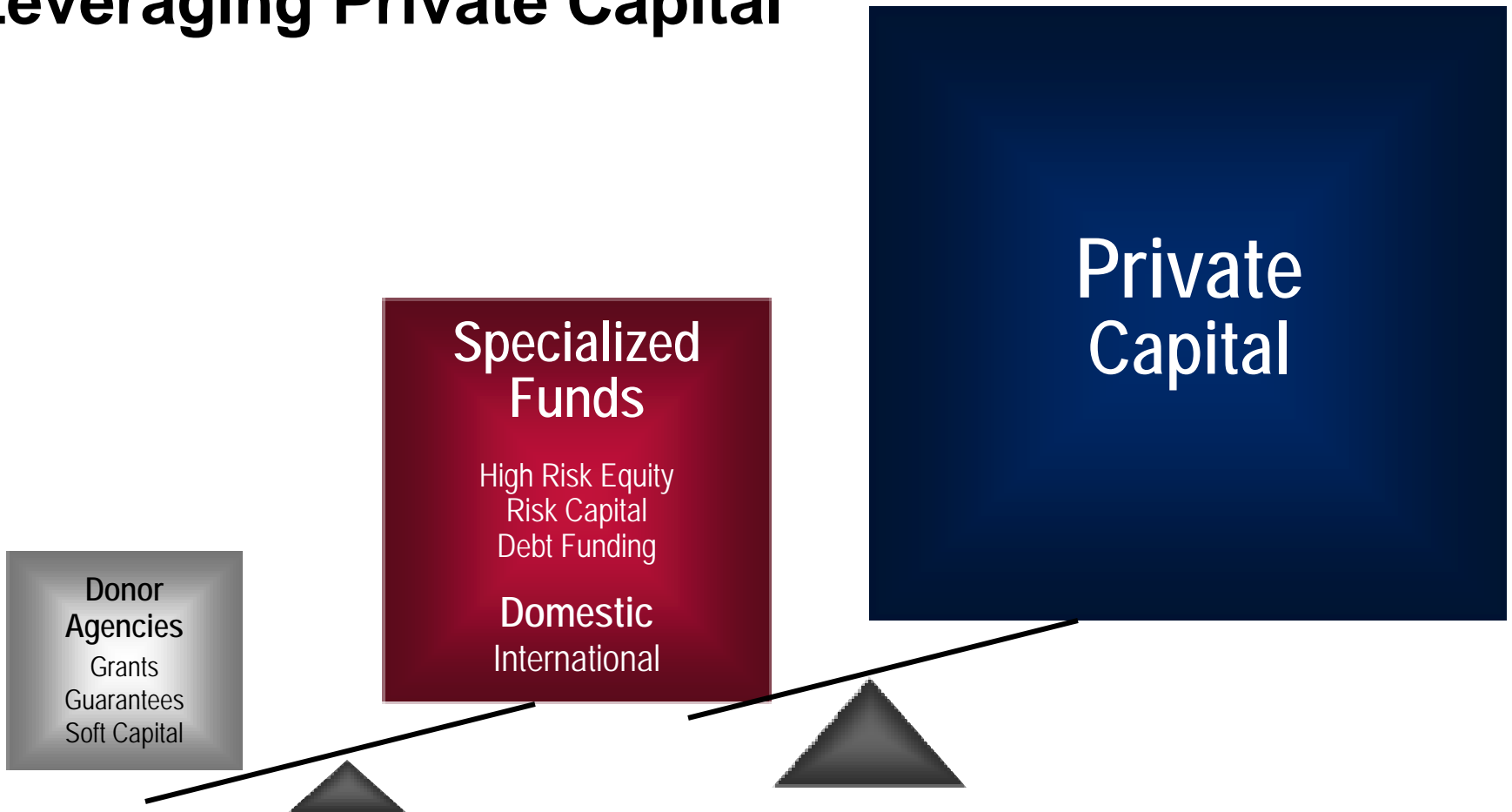
Note to MFIs:

99.7% of all social investment money follows private capital allocation rules and habits..... Of the remaining 0.3% only 10% can realistically be expected to consider developing country risk.



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Leveraging Private Capital





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Microfinance for a Just & Sustainable World