

Access to Finance

**FORUM**

Reports by CGAP and Its Partners

No. 8, February 2014

# Greenfield MFIs in Sub-Saharan Africa

## A Business Model for Advancing Access to Finance

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This research was funded by the Partnership for Financial Inclusion, a joint initiative by The MasterCard Foundation and IFC that aims to scale up commercial microfinance and advance mobile financial services in Sub-Saharan Africa. 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 for the common good. The MasterCard Foundation advances microfinance and youth learning in developing countries to promote financial inclusion and prosperity

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### Acknowledgments

This paper and the research behind it have been jointly produced by CGAP and IFC, with generous support from The MasterCard Foundation. IFC has direct investments in six of the holding companies and 17 greenfield MFIs that participated in the research.

The authors are grateful to the many networks and MFIs who have contributed data and time in support of this project, including Access Holding, Accion, Advans Group, ASA, BRAC, EcoBank, FINCA, MicroCred Group, Opportunity International, ProCredit, and Swiss Microfinance Holding. We would also like to thank members of our esteemed advisory committee—Blaine Stephens, Michael Mithika, Rene Azokli, and Alexia Latortue—for being so generous with their time and advice and Greg Chen and Kate McKee at CGAP and Momina Aijazuddin, Alexis Diamond, and Greta Bull at IFC for their reviews and insightful comments. We also thank Anna Nunan at CGAP for her professional editing. Special thanks goes to Adam Sorensen of IFC and Hannah Siedek for their dedication and significant contributions in researching and organizing data central to this analysis and to Fahima Bille for supporting these efforts. Siedek is the former CEO of ProCredit DRC and assisted with interviews and market analysis for the DRC. The market analysis for the other two markets was done by Yaw Brantuo, an independent consultant, for Ghana, and a team of FTTHM Conseils for Madagascar.

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## Executive Summary

**S**ub-Saharan Africa (SSA) has the lowest level of access to finance of any region in the world, with an average banked population of only 24 percent (Findex 2012). The region's banking systems are small in both absolute and relative size, and the microfinance sector has been relatively slow to expand in SSA 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) with and without a centralized management or holding structure, bank downscaling, and others.

This Forum explores the contribution of greenfield MFIs to access to finance in the region. The greenfield business model is focused on expanding financial services through two main elements: (i) the creation of a group of “greenfield MFIs” defined as institutions that are newly created without pre-existing infrastructure, staff, clients, or portfolios, and (ii) 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 subsidiaries in the network.

The greenfield model has come a long way in a short time in SSA from seven greenfield MFIs in 2006 to 31 by 2012. These are spread over 12 SSA countries, including post-conflict markets such as the Democratic Republic of Congo (DRC), Cote d'Ivoire, and Liberia. While there is a range of microfinance providers in SSA, the proliferation of greenfield MFIs expands the commercial end of the spectrum with regulated, mostly deposit-taking institutions focused on microenterprises and small businesses. At the end of 2012, the 31 greenfield MFIs in SSA had more than 700,000 loan accounts, an aggregate loan portfolio of \$527 million, and close to 2 million deposit accounts with an aggregate balance of \$445 million. While many greenfield MFIs are still young, there are signs of solid institution building for the longer term. At the end of 2012, they already employed more than 11,000 staff and had 700 branches. The greenfield MFIs are becoming noteworthy collectively and, in some cases, individually in their markets.

The time is right to look more closely at how these MFIs and their holding companies build retail capacity, promote market development, and ultimately advance access to fi-

nance in SSA. A good number of greenfield MFIs now have a sufficient track record to enable an analysis of their performance and role in the market. This publication includes some references to other types of financial service providers in SSA in a limited way and only to provide an overview of the spectrum of providers, not to give a quantitative comparison between different models. This stocktaking of the greenfield experience should help inform decisions for various stakeholders. Specifically the paper will inform the coming generation of investment in microfinance, including how much and what kind of funding is necessary to support capacity building in new institutions as well as those ready to scale up. The paper may also help to promote regulatory consistency for institutions providing a full menu of micro, small, and medium enterprise services.

Section 1 introduces the greenfield business model and the landscape in SSA. It also describes the sample of greenfield MFIs and holding companies that participated in the research for this publication. Detailed performance data were obtained from 10 holding companies on 30 greenfield MFIs in SSA.

Section 2 provides an analysis of the operational and financial performance of greenfield MFIs with a focus on their lifecycle, outreach, funding structure, and financial performance. The life cycle of greenfield MFIs 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 three, four, or five), and scale-up (from financial breakeven onward). 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 average initial funding package required for a greenfield MFI ranges from \$6 million to \$8 million over the first 3–4 years of operations and comprises a combination of equity, technical assistance, and debt. Starting equity capital is about \$3.5 million and is supplemented by technical assistance. For greenfield MFIs in the study, the technical assistance budgets ranged from \$1.5 million to \$9 million, but clustered around \$4 million. Shareholders and donors typically raise \$3 million in grant funding on average, while the MFI pays the rest.

A comparison to Microfinance Information Exchange (MIX) data for “young” African MFIs (those with 4–7 years of operations)<sup>1</sup> shows that greenfield MFIs have achieved, on average, 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.

Section 3 provides an overview of the structure and typology of holding companies that participated in the research, including how they are governed and funded and how they implement the creation of greenfield MFIs. The typology distinguishes between holding companies that are led by consulting firms (Access Microfinance Holding, Advans, MicroCred, Procredit, Swiss Microfinance Holding) and those that are helped by network support organizations (ASA, BRAC, FINCA, and Opportunity International) and a commercial bank (EcoBank). Holding companies and their shareholders apply the greenfield business model to address some of the primary challenges in advancing access to finance in SSA. The small size of nascent financial markets, high costs of doing business, uneven regulatory frameworks, and inadequately skilled human resources in many SSA markets benefit from an approach where practices can be standardized and costs can be shared. Through network structures and common practices, holding companies are able to transfer knowledge and learning from one greenfield MFI to another. Their structured approach and heavy focus on human resources development have been a key success factor in their ability to create sustainable institutions in some of the most frontier markets in SSA.

Section 4 explores the contribution of the greenfield model in market development in three markets: the DRC, Ghana, and Madagascar. While it is difficult to attribute changes in a market or behavior of competing institutions to the intervention of one or more greenfield MFIs, the authors used quantitative and qualitative information (looking at market share and observed quality of services) to discern effects on the overall level of financial inclusion and aspects of market building. Development of human resources in the financial sector and innovations in new products and/or product fea-

tures together with market share were key factors considered. Particularly in the less developed financial markets, it appears that greenfield MFIs play a pioneering role in expanding the financial access of microenterprises, small businesses, and low-income households. Their sustainable performance illustrates to the traditional formal banking sector that underserved businesses and households are bankable and even profitable market segments. 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. The most important effect on market building has come from greenfield MFI investment in staff training and development.

In the Conclusion, the authors contemplate the future role of greenfield MFIs in SSA. It is likely that the rate of creation of greenfield entities, at least in SSA, will slow, as the most “feasible” markets have now largely been entered. Yet, there remain about 25 countries in SSA without any greenfield MFI presence, and typically without the presence of any sustainable MFIs at all. And in almost every country, peri-urban and rural populations still struggle to access financial services. 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. Alternative delivery channels (including agent networks, mobile financial services, and related partnerships<sup>2</sup>) are an area of very large investment for greenfield MFIs as they enter the scale-up phase. The greenfield MFI model is a complement to other strategies for increasing access to finance in SSA, such as reform of existing institutions without a holding structure and bank downscaling. The next few years will be very telling about the ability of greenfield MFIs to leverage their foundation and achieve scale, and for holding companies to replicate and sustain the success of their model in other markets, particularly in a context of diminishing funding for technical assistance. Undoubtedly they will find themselves compelled to develop new methods, capacities, and practices to stay relevant and competitive in the microfinance space. At the same time, it is also likely that many of these greenfield MFIs will increasingly begin to compete with commercial banks for mass market customers and those in the small and medium enterprise space. The financial landscape in Africa is poised to become much more interesting.

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1. MIX index for “young” MFIs in Africa comprises 58 institutions between four and seven years old in December 2011. All but five of these institutions are deposit taking, with a deposit base ranging from \$30,000 to \$22.6 million (\$2 million on average) and gross loan portfolio ranging from \$2,000 to \$24 million (\$2.7 million on average). The greenfield MFI subjects of this paper were removed from the benchmark population.

2. For more information see Flaming et al. (2013).



## Introduction

**S**ub-Saharan Africa (SSA) has the lowest level of access to finance of any region in the world, with an average banked population of only 24 percent (Findex 2012). The region's banking systems are small in both absolute and relative size (as measured by liquid liabilities and credit as percentage of gross domestic product) (Beck, Maimbo, Faye, and Triki 2011). The microfinance sector has been relatively slow to expand in SSA compared to other regions in the world. According to the Microfinance Information eXchange (MIX) landscape data, services are concentrated in larger urban centers, and service delivery in rural areas is meager (MIX 2011). Until a few years ago, the main providers of financial services to base-of-the-pyramid customers were credit unions, savings and loans associations, and nonprofit credit programs. Now, new players are entering the region, including specialized greenfield microfinance institutions (MFIs), downscaling Pan African commercial banks, and mobile network operators.

This paper explores the greenfield business model, which focuses on expanding financial services through two main elements: (1) creation of a group of “greenfield MFIs” defined as institutions that are newly created without pre-existing infrastructure, staff, clients, or portfolios, and (2) 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. Three aspects of the greenfield business model are addressed: (i) performance of subsidiary greenfield MFIs, (ii) the holding company model, and (iii) contribution of greenfield MFIs to market development.

**Performance of subsidiary greenfield MFIs.** This section analyzes the operational and financial performance of greenfield MFIs with a focus on the lifecycle, outreach, funding structure, and time required to break even. Detailed performance data were obtained from 11 holding companies on 30 greenfield MFIs in SSA, and interviews were conducted with more than a third of the chief executive officers of these

banks. This cohort represents 90 percent of all greenfield MFIs created in Africa between 2000 and 2012.

**The holding company model.** This section provides an overview of the structure and typology of holding companies, including how they are governed and funded and how they implement the creation of greenfield MFIs. The section is based on interviews with the management of the holding companies and review of annual reports and financial statements.

**Contribution of greenfield MFIs to market development.** This section explores the contribution of the greenfield model in market development in the Democratic Republic of Congo (DRC), Ghana, and Madagascar. These countries were selected because they each have a critical mass of greenfield MFIs, most with a reasonably long track record. While it is difficult to attribute changes in a market or behavior of competing institutions to the intervention of one or more greenfield MFIs, the authors used quantitative and qualitative information (looking at market shares and perception of quality of services) to discern effects on the overall level of financial inclusion, the human resources skills base in the financial sector, innovations in new products and/or product features, and the demonstration effect from the introduction of and adherence to internationally recognized good practices, e.g., those related to transparency and client protection.

### 1.1 Landscape

In SSA, the greenfield model made its debut in 2000 when ProCredit Holding opened a bank in Mozambique (see Box 1). 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 DRC in 2005. While other network operators and local institutions started nongovernmental organizations (NGOs) and cooperative microfinance entities much earlier, the greenfield model of a centralized holding company providing investment and expertise for the development of commercial microfinance entities began in earnest at the turn of the millennium.

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

## BOX 1

### ProCredit Holding

The first greenfield MFI was established by Internationale Projekt Consult (IPC) in Bosnia in 1996, and was licensed as a deposit-taking microfinance bank. IPC had gained a lot of experience in institutional strengthening of microfinance providers by upscaling cooperatives and MFIs in Latin America and downscaling banks in Uganda and Russia. Not satisfied with being just the consulting company on these projects, IPC decided to invest in the institutions it was strengthening or creating. The main reasons for investing in greenfield MFIs at the time were (i) to have more control over capacity building and the growth trajectory of institutions, (ii) encouragement from development finance institutions (DFIs) for IPC to “put some skin in the game,” and (iii) a way for IPC to invest in the long-term value of the company.

Source: Interviews and B. Fritz and K. Hujo (2005)

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 (OI) have used the holding company structure to upgrade their existing (largely NGO) affiliates to regulated deposit-taking institutions, and then integrate them into 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.

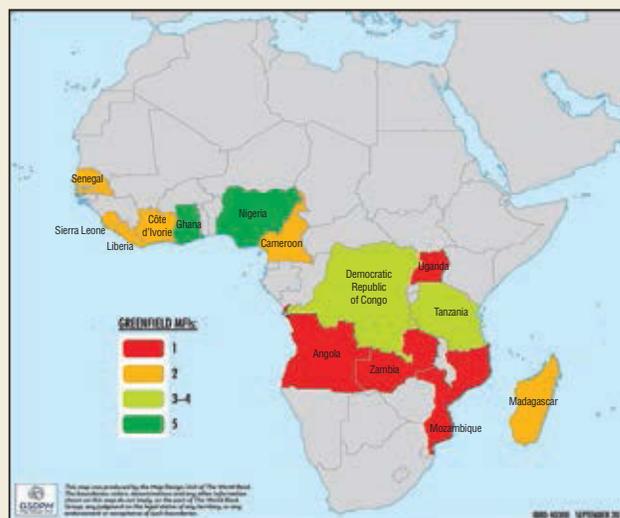
There is a range of strategies for extending the reach of microfinance, including the transformation of existing institutions, the creation of stand-alone greenfield MFIs without a centralized management or holding structure, bank downscaling, and others.

When greenfield MFIs expanded in earnest at the end of 2006, the first seven (Procredit Angola, ProCredit DRC, Procredit Mozambique, Procredit Ghana, FINCA DRC, Opportunity Ghana, and MicroCred Madagascar) had 107,887 loan

accounts, with an aggregate loan portfolio of \$574 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<sup>3</sup> in 12 SSA 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

FIGURE 1

### SSA Countries in Which Greenfield MFIs were Created Between January 2000 and June 2012



3. Excluding the former Procredit companies in Sierra Leone and Angola, which were sold in 2007 and 2010, respectively. Technically, there have been several additional greenfield MFIs launched between June 2012 and the publication of this paper (ASA Kenya, Tanzania and Uganda, Oxus DRC, Advans Nigeria), but they were too recent to include.

**TABLE 1 Growth of Greenfield MFIs in SSA, 2006–2012**

	2006	2007	2008	2009	2010	2011	2012
Greenfield MFIs	7	12	18	22	27	30	31
No. of Staff	1,564	2,512	4,856	6,685	8,009	10,137	11,578
No. of Branches	37	56	261	392	514	625	701
No. of Loans Outstanding	107,887	141,231	332,349	449,973	570,017	743,640	769,199
Gross Loan Portfolio (\$ million)	57.4	94.7	144.5	203.6	285.8	409.5	527.0
No. of Deposit Accounts	220,377	317,943	595,008	780,497	1,050,087	1,574,750	1,934,855
Total Deposit Balance (\$ million)	50.7	106.7	177.9	211.6	291.3	371.8	445.5

\$445 million. These 31 greenfield MFIs had 11,578 staff and 701 branches. These greenfield MFIs are becoming noteworthy collectively (See Table 1), and in some cases individually, in their markets which is further discussed in Section 4 on the role of greenfield MFIs in market development.

### 1.2 Sample Cohort

According to the definition used in this paper, there were 33 greenfield MFIs created before June 2012 (see Table 2). Institutions created through takeovers and mergers were not included, nor were many of the subsidiaries of OI and FINCA, which started as NGOs without strong central network bodies or holding company structures.

The detailed performance analysis of the greenfield MFIs (Section 2) is based on information from 30 MFIs out of 33 (see Table 2). These MFIs belong to the 10 holding companies listed in Table 3. ProCredit Angola, Ghana, and Mozambique are not included (shaded in Table 2). ProCredit Hold-

ing did not provide performance data for these banks by institutional age, but allowed the authors to use publically available data for the aggregate figures as well as the data the authors had already collected for ProCredit DRC and ProCredit Sierra Leone.<sup>4</sup> IFC has direct investments in six of the holding companies and 17 greenfield MFIs in this cohort.

Greenfield MFIs include a variety of legal forms. A majority are licensed and regulated deposit-taking institutions, ranging in legal structure from commercial banks to savings and loan companies to specialized deposit-taking MFIs. Some started as credit-only companies and relicensed as deposit-taking institutions a couple of years after they were created (FINCA DRC, MicroCred Madagascar); a few remain credit-only companies (the four BRAC entities).

The holding companies in this study represent a range of organizational structures that are explained in more detail in Section 3. Regardless of their structures, the holding companies play an important role in identifying new markets and

**TABLE 2 Greenfield MFIs Created in SSA Between January 2000 and June 2012**

	Greenfield MFI	Country	Start of Operations	Current License (June 2012)
1	ProCredit Mozambique	Mozambique	2000	Commercial Bank
2	ProCredit Ghana	Ghana	2002	Savings and Loan Company
3	FINCA DRC	DRC	2003	Deposit-taking MFI
4	ProCredit Angola	Angola	2004	Commercial Bank
5	Opportunity Ghana	Ghana	2004	Savings and Loan Company
6	ProCredit DRC	DRC	2005	Commercial Bank
7	MicroCred Madagascar	Madagascar	2006	Commercial Bank
8	Access Madagascar	Madagascar	2007	Commercial Bank
9	Advans Cameroon	Cameroun	2007	Deposit-taking MFI
10	Accion Nigeria	Nigeria	2007	Microfinance Bank
11	MicroCred Senegal	Senegal	2007	Deposit-taking MFI

*Continued*

4. Data for ProCredit Sierra Leone are included only for the period that it was owned by ProCredit from 2007 until 2010, when it was sold to Ecobank. Procredit Angola was sold in 2007.

**TABLE 2 Greenfield MFIs Created in SSA Between January 2000 and June 2012 cont'd**

	Greenfield MFI	Country	Start of Operations	Current License (June 2012)
12	ProCredit Sierra Leone	Sierra Leone	2007	Commercial Bank
13	Access Tanzania	Tanzania	2007	Commercial Bank
14	EB-Accion Ghana	Ghana	2008	Savings and Loan Company
15	Advans Ghana	Ghana	2008	Savings and Loan Company
16	ASA Ghana	Ghana	2008	NGO (transformed into a Savings and Loan Company in April 2013)
17	Access Nigeria	Nigeria	2008	Microfinance Bank
18	BRAC Tanzania	Tanzania	2008	Credit-only Company
19	BRAC Uganda	Uganda	2008	Credit-only Company
20	Advans DRC	DRC	2009	Commercial Bank
21	Access Liberia	Liberia	2009	Commercial Bank
22	BRAC Liberia	Liberia	2009	Credit-only Company
23	ASA Nigeria (ASIEA)	Nigeria	2009	NGO-MFI
24	BRAC Sierra Leone	Sierra Leone	2009	Credit-only Company
25	Opportunity DRC	DRC	2010	Deposit-taking MFI
26	MicroCred Ivory Coast	Ivory Coast	2010	Deposit-taking MFI
27	EB-Accion Cameroon	Cameroon	2010	Deposit-taking MFI
28	ASA Lagos (ASHA MFB)	Nigeria	2010	Microfinance Bank
29	MicroCred Nigeria	Nigeria	2010	Microfinance Bank
30	Fides Senegal	Senegal	2011	Deposit-taking MFI
31	Advans Tanzania	Tanzania	2011	Commercial Bank
32	Access Zambia	Zambia	2011	Commercial Bank
33	Advans Ivory Coast	Ivory Coast	2012	Deposit-taking MFI

countries for expansion, funding and capital structure, and adhering to the vision and mission of the network. Each of the holding companies has a cadre of specialists who provide technical assistance (TA) to the MFIs, help manage the holding company operations, and in many cases are founding investors in the holding company. DFIs, socially responsible investors, and specialized microfinance investment vehicles (MIVs) are the primary investors in the holding companies and greenfield MFIs.

Now the time is right to look more closely at how these MFIs and their holding companies build retail capacity, promote market development, and ultimately advance access to finance in SSA. A good number of greenfield MFIs now have a sufficient track record to enable an analysis of their performance and role in the market. A stock-taking of the experience should help inform decisions that will shape the coming generation of investment in microfinance.

**TABLE 3 Holding Companies**

Holding Company	Sponsor	Year Created	Investors	# MFIs Globally (June 2012)	# GF MFIs in Africa (June 2012)	Total Assets of Greenfield MFIs in SSA (US\$, Dec 2012)
Access Microfinance Holding AG	LFS	2006	CDC Group plc, European Investment Bank (EIB), International Finance Corporation (IFC), KfW Entwicklungsbank (KfW), the Netherlands Development Bank (FMO), LFS Financial Systems GmbH, MicroAssets GbR (MA), Omidyar-Tufts Microfinance Fund (OTMF)	7	5	157,966,796
Advans SA SICAR	Horus	2005	EIB, CDC, FMO, IFC, KfW, Horus Development Finance, FISEA (Proparco)	6	5	74,072,517
ASA International Holding	ASA International	2006	Catalyst MF Investors (Owned by Gray Ghost MF Fund, Sequoia, ABP, TIAA-CREF, CDC Group, responsAbility, private investors)	8	3	37,060,395
BRAC International Holdings, BV	BRAC NGO	1972	BRAC International	6	4	60,006,805
EcoBank International	EcoBank International and Accion	1985	Government Employees Pension Fund, Asset Mgt Corp of Nigeria, Social Security and National Insurance Trust, Stanbic Nominees Nigeria, IFC and IFC capitalization fund, Interlink Securities Ltd.	3	3	37,633,098
FINCA Microfinance Holding Company LLC	FINCA International	2011	FINCA International, IFC, KfW, FMO, responsAbility, Triple Jump	21	1	33,854,511
MicroCred SA	PlaNet Finance	2005	PlaNet Finance, IFC, Société Générale, AXA Belgium, French Development Agency (AFD), EIB, Developing World Markets (DWM)	6	4	24,893,865
Opportunity Transformation Investment	OI	2000	OI	15	2	52,027,591
ProCredit Holding AG & Co. KGaA	IPC	1998	IPC GmbH, IPC Invest GmbH & Co., KfW, DOEN, IFC, BIO, FMO, TIAA-CREF, responsAbility, PROPARCO, Fundasal, Omidyar-Tufts	21	3	168,872,564
Swiss Microfinance Holding, SA	Fides	2007	Financial Systems Development Services AG (Fides), Sobelnat, P.G.C. Suisse, Bank im Bistum Essen	2	1	4,482,212



## Greenfield MFI Performance

The life cycle of greenfield MFIs, as it is observed in SSA, can be divided in three stages (see Box 2): (i) foundation (preparation and first year of operation), (ii) institutional development (year two through financial breakeven, which typically occurs in year three, four, or five), and (iii) scale-up (from financial breakeven onward). 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.

In the following sections, the performance of the cohort of greenfield MFIs is *evaluated based on institutional age to achieve a coherent comparison and aggregation of data*, regardless of the calendar year in which they launched operations. Data are presented as simple averages, unless otherwise indicated, to display the performance of a typical greenfield MFI. In a few cases, when outliers distort the simple average, a weighted average is used.

A comparison to MIX data for “young” African MFIs (those with 4–7 years of operations)<sup>5</sup> shows that greenfield

### BOX 2

#### Three Stages of Greenfield MFIs’ Life Cycle

**Foundation.** The foundation stage includes the legal creation of the new entity, shareholder negotiations, the licensing process, and onsite operations preparation. Five of the 30 institutions included in this analysis are currently at this stage. In most jurisdictions a company needs to be created and partly capitalized before a preliminary approval can be sought from regulatory authorities. At that time initial management of the greenfield MFI is also selected, usually consisting of staff seconded from the holding company.

The initial staff is responsible for tailoring policies and procedures to the local market, designing and adapting products, installing an information technology (IT) system, identifying and building or refurbishing physical space for branches, and managing the relationship with regulatory authorities. They also recruit one or two cohorts of loan officers (usually 20–30 in total) and train them for several months, often with network MFIs in other countries. It usually takes 4–6 months to prepare for operations from the point of receiving the preliminary approval from the regulator. It can then take 2–4 more months until the central bank inspects the greenfield MFI and grants the final operating license. Delays in the foundation stage can easily lead to substantial cost over runs, particularly if the holding company has placed staff on the ground too quickly.

**Institutional development.** During the institutional development stage, greenfield MFIs (in partnership with holding companies) focus on building staff capacity and installing risk management systems that will create the core foundation for future

growth. Eleven of the 30 institutions were in the institutional development stage at the time of this analysis. Typically the MFIs have only one product, group, or individual microenterprise loans, but in some cases small and medium enterprises (SME) lending is piloted. As operations grow, risk management systems are increasingly institutionalized, including policies and procedures for decentralized management, internal audit, cash and liquidity management, and regulatory compliance, including anti-money laundering measures. The asset–liability committee at the board becomes more active as deposits increase and begin to account for a greater portion of funds for intermediation.

**Scale-up stage.** As greenfield MFIs pass breakeven and become profitable, they move into a scale-up phase. Fourteen of the 30 institutions in this study were in the scale-up phase at the time of the analysis. At this point, the focus tends to shift toward product diversification and delivery channel development to attract new clients as well as deepen existing client relationships and gain market share. New products are developed to target secondary market segments, for example, agricultural lending for rural clients. The expansion of small and medium enterprise (SME) lending, in particular, can be a critical driver of profitability by off-setting the high cost of smaller microloans as institutions expand their footprint into more rural areas. Greenfield MFIs have recently introduced automated teller machine (ATM) channels, and some institutions are now rolling out the first phase of various forms of agent networks enabled through point-of-service, cards, and mobile devices.

5. MIX index for “young” MFIs in Africa, comprised 58 institutions 4–7 years old in December 2011. All but five of these institutions are deposit taking, with a deposit base ranging from \$30,000 to \$22.6 million (\$2 million on average) and gross loan portfolio ranging from \$2,000 to \$24 million (\$2.7 million on average). The greenfield MFI subjects of this paper were removed from the benchmark population.

**TABLE 4 Performance of Greenfield MFIs at 12, 36, and 60 Months<sup>a</sup>**

	Month 12	Month 36	Month 60	MIX Young Africa*
No. Staff	131	318	524	69
No. Branches	9	22	31	10
<i>No. Deposit-Taking Branches</i>	3	7	11	n/a
<i>No. Nondeposit-Taking Branches</i>	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 months

a. The figures in this table represent simple averages, except for net income/assets and net income/equity; flow data in ratios (e.g., operating expenses/average portfolio) are based on annualized six-month data.

MFIs have achieved, on average, 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. (See Table 4.)

### 2.1 Balance Sheet Indicators

An early key decision for investors in greenfield MFIs is how much to provide in start-up equity capital. The capital needs to comply with regulatory requirements, absorb ear-

ly-stage losses, and yet be sufficient to attract lenders who can provide debt funding. On average, greenfield MFIs in SSA have started operations with equity capital of approximately \$3.5 million. While the equity is typically partly eroded over the first 24–48 months as the MFIs make losses, Table 5 shows a moderately increasing equity level over time. This is explained by the fact that shareholders usually inject additional equity to support the solvency and growth of the MFIs, demonstrating their generally strong commitment to the endeavor. These capital injections have also been a response to increasing minimum capital requirements in many African countries during the past six years and the realization among investor/sponsors that \$3.5 million has not generally been sufficient to absorb losses, comply with regulatory requirements (for banks), and raise enough debt funding to support loans to the point of break-even. Initial capitalizations of around \$4 million to \$5 million are now more common. In comparison, the average equity of the MIX Young Africa MFIs is \$1.2 million after 4–7 years.

In addition to equity, most institutions start with external TA grants of \$3 million on average. Without this funding, the institution would have to pay for TA out of its own funds (most greenfield MFIs in fact pay for some of the overall TA costs themselves, as will be explained below), incurring higher start-up losses that in turn would be absorbed by the equity through increased retained losses. Taking into account both the initial equity capitalization and the TA funding, the average initial funding package required for a greenfield MFI ranges from \$6 million to \$8 million over the first 3–4 years of operations. But that's just to get started. Naturally the MFI will soon also need additional funding in the form of debt and/or deposits to support a growing asset base.

The TA aspect plays a significant enough role in the financial and operational development of the greenfield MFIs to warrant a more detailed explanation (see, also, Box 3). The start-up TA program is designed to develop and build capacities of the institution. The average TA program includes a six month to one year preoperational phase and

**TABLE 5 Balance Sheet Indicators of Greenfield MFIs**

	Month 12	Month 18	Month 24	Month 30	Month 36	Month 42	Month 48	Month 54	Month 60
Assets (\$ million)	6.0	8.5	11.4	13.6	16.5	20.9	25.8	28.0	34.9
No. in sample	29	28	27	23	22	20	17	14	13
Equity (\$ million)	3.6	3.5	3.6	4.0	4.3	4.5	5.3	5.3	6.6
No. in sample	27	27	26	22	21	20	17	14	13
Equity / Assets (%)	59	47	39	36	33	29	24	23	24
No. in sample	29	28	27	23	22	20	17	14	13
Deposits / Loans (%)	25	36	40	43	42	43	43	53	60
No. in sample	24	23	22	18	17	16	15	12	11

a 36–48 month operating phase intended to support the institution through the foundation and institutional development stages. The TA budget typically funds 3–4 long-term senior managers, installation and tailoring of IT application and management information systems, several short-term specialists in internal audit, risk management and product development, and technical backstopping from the holding company/technical service provider. Once the TA budget is established, shareholders and donors typically try to provide enough grant funding to defray a majority of the TA

costs. The institution contributes the balance, usually 20–40 percent of the total. For greenfield MFIs in this cohort, the TA budgets range from \$1.5 million to \$9 million, but cluster around \$4 million. In those cases, shareholders and donors typically raise \$3 million in grant funding on average, leaving the MFI to pay the rest.

As expected, greenfield MFIs typically remain modestly leveraged over the first 60 months of operations. They start out with an *equity-to-asset* ratio at 100 percent, though some of it is eroded by preparation activities and by initial losses

### BOX 3

## Impact of Technical Assistance on Financial Performance

Why do greenfield MFI projects generally include substantial amounts of TA grant funding? Fundamentally, it is related to internal constraints of investors, such as risk-return preferences and time horizons, and the belief among donors and investors (some investors provide both equity and TA funding) that there are potentially broad benefits to well-run and (eventually) large MFIs that can offer a meaningful range of financial services to microenterprises, small businesses, and low-income populations in SSA (elaborated in Section 4 on market development effects).

On the first point (internal investment constraints), it is of course possible that greenfield MFIs may turn out to be good investments for the initial investors. However, it is unlikely that this will happen over any reasonable time horizon, which most investors would consider to be 5–8 years. While development-oriented investors may accept lower expected returns for higher expected impact, they also face limits to how far this can be stretched.

What does this burden-sharing look like, and how does it affect the finances of the MFIs? As noted earlier, green-

field MFIs receive on average \$3 million in external TA grants for their start-up period. In addition, they typically pay about \$1 million out of their own pocket, for a total TA budget of \$4 million. Table B3-A attempts to illustrate what would happen if the full TA cost were borne by the MFI.

This simulated example shows that typical greenfield MFIs would experience higher retained losses if paying fully for the TA. There is also a lot more volatility in the return on average equity (ROAE), fueled by higher initial losses and diminished equity. The time to reach the monthly breakeven point, however, remains the same at month 42. But since the retained losses are higher and will take longer to recover, the expected return to investors is lower. Without TA grants, the expected internal rate of return (IRR) at five years is approximately 1 percent; with TA grants, it is approximately 14 percent. An IRR of 1 percent is too low for DFI investors to justify an investment, even if they consider the investments to have an important development effect on the local market. In fact, 14 percent is below what many DFIs and social investors would consider acceptable in a region like Africa.

**TABLE B3-A Example Calculation**

	Month 12	Month 18	Month 24	Month 30	Month 36	Month 42	Month 48	Month 54	Month 60
Net Income for the period (\$)	(410,387)	(359,666)	(178,023)	(33,527)	(26,280)	174,318	419,463	553,862	395,553
Add'l Cost to MFI if no external TA funding (\$)	(500,000)	(500,000)	(500,000)	(500,000)	(500,000)				
Net Income if no external TA funding (\$)	(910,387)	(859,666)	(678,023)	(533,527)	(526,280)	174,318	419,463	553,862	395,553
Equity (\$)	3,553,198	3,510,502	3,558,164	3,839,706	4,324,016	4,480,075	5,267,880	5,284,887	6,558,059
Equity if no external TA funding (\$)	2,553,198	2,010,502	1,558,164	1,339,706	1,324,016	1,480,075	2,267,880	2,284,887	3,558,059
Annualized ROAE (%)	-24.4	-23.7	-15.1	-5.8	-1.5	3.6	12.4	19.9	16.1
Annualized ROAE if no external TA funding (%)	-71.5	-78.9	-74.8	-72.3	-73.5	-25.0	33.1	51.7	32.6

The table builds on the following methods and assumptions: (i) the actual average net income and equity positions for the greenfield cohort were used as a starting point; (ii) the \$3 million received in external TA grants is spread evenly across the first 36 months of operations; (iii) the remaining \$1 million funded by the MFI is already reflected in the average net income and equity figures.

**TABLE 6 Average Balances of Greenfield MFIs**

	Month 12	Month 18	Month 24	Month 30	Month 36	Month 42	Month 48	Month 54	Month 60
Avg. Loan Balance (\$)	703	784	795	743	841	896	929	1,003	1,147
No. in sample	29	28	27	23	22	20	17	14	13
Avg. Deposit Balance (\$)	152	214	238	202	228	251	245	251	207
No. in sample	23	22	21	17	16	15	14	11	9

**Note:** The average loan balance (\$1,147) and deposit balance (\$207) at month 60 reflect 101 percent and 22 percent, respectively, of gross domestic product per capita in 2011 of countries represented.

unless shareholders inject additional equity. Over time, as profitability stabilizes, the equity-to-asset ratio is determined more by loan growth and deposit mobilization. In the cohort there is more variation among the greenfield MFIs created as nonprofit organizations or credit-only companies (sometimes the ratio becomes very low or even negative), presumably because these entities are not as bound by formal regulations regarding minimum capital and possibly also because of capital constraints at the sponsor level.

The *deposit-to-loan ratio*, which is an important indication of the ability of greenfield MFIs to gain the trust of local populations and raise stable resources for on-lending, shows a continuous improvement over time. Nevertheless, the data in this paper clearly show that it is easier for greenfield MFIs to sign up depositors than it is to raise substantial volumes of deposits. The low-income nature of the depositor base means that amounts are small and that greenfield MFIs typically have to rely on significant amounts of borrowings during their first 60 months of operations. See Table 6. The ability to mobilize deposits also depends on a couple of other factors, such as institutional license (it tends to be easier for banks than nonbanks to mobilize deposits), and local market conditions (e.g., the reputation of the microfinance industry or even the banking sector). In some cases, particularly over time, greenfield MFIs can come to be perceived as safer than local banks because of high standards of service and/or the nature of

their shareholders (mainly DFIs).

Greenfield MFIs mobilize local resources in various forms but, given their lack of a local track record, they initially depend significantly on debt funding from DFIs and specialized MIVs managed by entities such as responsAbility, Symbiotics, Blue Orchard, Triple Jump, and MicroVest. Local banks have so far been reticent to fund greenfield MFIs. A transition to local deposit and local debt funding is taking place with support from partial credit guarantees, etc., but this will require time: even after five years of operations many greenfield MFIs battle to raise sufficient funding locally to support their (typically) rapid loan growth.

## 2.2 Growth and Operational Performance

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 (see Table 7). Nevertheless, the ranges shown in figures 2, 3, 4, and 5 hint at the diversity in lending and deposit mobilization strategies among greenfield MFIs.

Some greenfield MFIs focus on institution building and prioritize the development of a full menu of credit, savings, and fee products early on, while others focus on expanding their footprint and prioritize the roll-out of a single loan product. For example, credit-only institutions focused primarily on group lending tend to reach a large number of

**TABLE 7 Growth Indicators of Greenfield MFIs**

	Month 12	Month 18	Month 24	Month 30	Month 36	Month 42	Month 48	Month 54	Month 60
No. Loans Outstanding	9,495	12,504	18,622	23,045	25,009	28,346	32,554	35,569	36,714
No. in sample	29	28	26	23	22	20	16	14	13
Gross Portfolio (\$ million)	2.3	4.0	6.0	7.2	9.2	11.6	15.6	17.4	20.0
No. in sample	29	28	27	23	22	20	17	14	13
No. Deposit Accounts	7,123	13,738	21,136	31,551	37,460	48,900	61,743	71,174	81,682
No. in sample	23	22	21	17	16	15	14	11	9
Deposit Volume (\$ million)	0.8	2.6	4.4	6.1	8.7	12.2	14.2	17.5	23.1
No. in sample	24	23	22	18	17	16	15	12	11
PAR30	3.9%	4.3%	4.5%	4.4%	4.0%	3.7%	2.9%	3.7%	3.4%
No. in sample	23	28	27	23	22	20	17	14	13

outstanding loans relatively quickly (though usually with a relatively modest overall loan portfolio volume). BRAC, in particular, has been very quick to scale up its lending programs and has managed to reach more than 100,000 outstanding loans in Tanzania and Uganda within 30 months of operation.

The growth numbers in Table 8 are a reflection of the ability of greenfield MFIs to build out distribution networks (mainly branches and outlets) and train staff while

maintaining robust operational control. At 12 months of operation, greenfield MFIs have on average 131 staff and nine 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

FIGURE 2

Evolution of Number of Loan Accounts

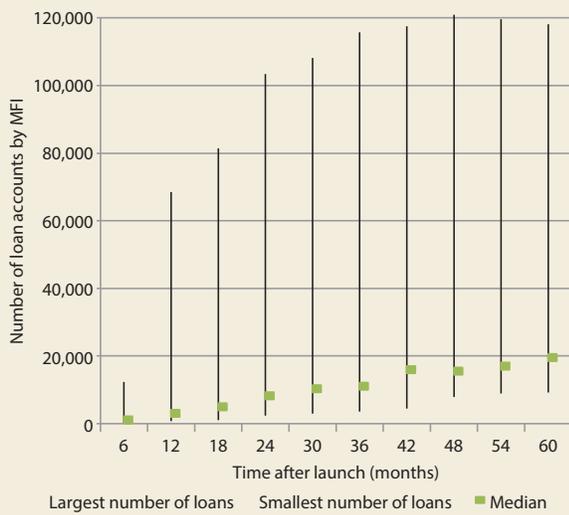


FIGURE 4

Evolution of Gross Loan Portfolio (\$US)



FIGURE 3

Evolution of Deposit Accounts

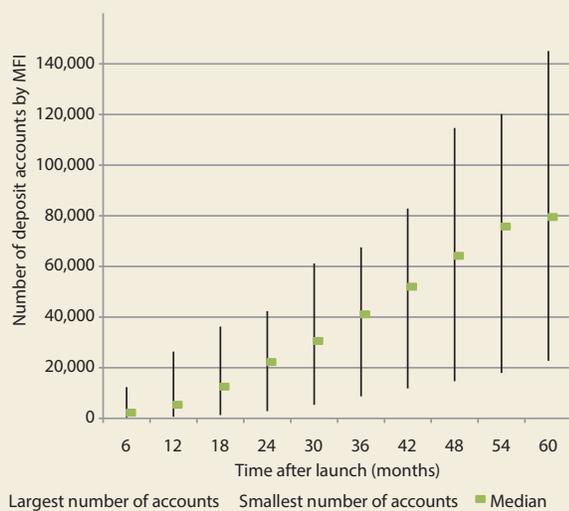
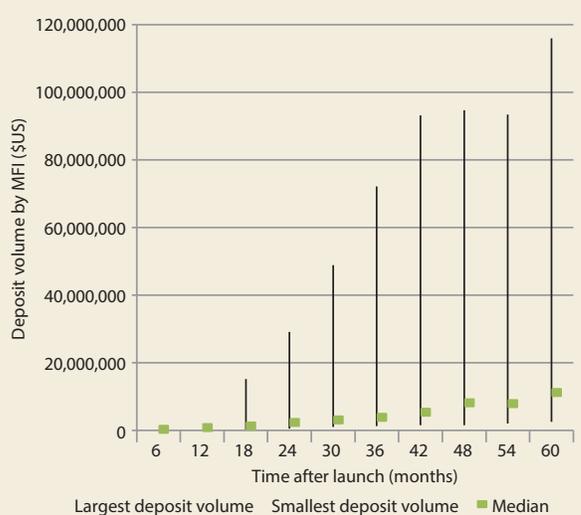


FIGURE 5

Evolution of Deposit Volume (\$US)



**TABLE 8 Staffing and Branches of Greenfield MFIs**

	Month 12	Month 18	Month 24	Month 30	Month 36	Month 42	Month 48	Month 54	Month 60
Number of Staff	131	196	232	303	318	351	420	445	524
No. in sample	28	26	26	22	21	19	17	14	12
No. Branches	9	14	15	21	22	24	26	29	31
No. in sample	29	26	27	22	21	19	17	14	13
No. Deposit-Taking Branches	3	4	5	6	7	7	9	10	11
No. in sample	19	17	17	13	13	11	11	9	8
No. Nondeposit-Taking Branches	22	33	34	43	47	48	57	63	63
No. in sample	10	9	10	9	8	8	6	5	5
Loans / Staff member	65	59	73	73	68	72	72	71	71
No. in sample	28	26	26	22	21	19	17	14	12

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). Several of the networks have created group-wide staff development programs that enable national staff to rotate to sister institutions to be trained or to train others. Staff exchanges are also used to support specific initiatives, such as SME lending or the launch of debit cards.

Most greenfield MFIs recruit and train young adults who have little work experience and are new to the banking sector. Many new staff are recruited with basic high school math skills and are trained in cash-flow-based credit analysis and customer service, reflecting the qualities that characterize the credit culture of most greenfield institutions. Marketing largely focuses on bringing banking services to clients, rather than having clients come to the bank. As such, employees are selected for their ability to relate to and communicate effectively with clients in markets and at the place of their businesses.

Staff productivity levels have improved steadily among greenfield 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. This is probably due to many greenfield MFIs having a significant number of noncredit personnel involved in banking operations, their relatively stronger focus on SME lending, and the continued rapid recruitment of new loan officers. However, it should again be noted that there is

quite a lot of variation in the greenfield MFI numbers, specifically between entities based on group lending (which tend to be credit only) versus those based on individual lending (which tend to be deposit taking). Group lenders tend to have significantly higher loans-to-staff ratios.

### 2.3 Financial Performance

Financial performance is an integral aspect of the greenfield MFI model since many of its investors care almost as much about financial returns as they do about development impact. For these investors, it is important to see a steady progression toward financial sustainability through rising revenues, falling cost ratios, and improving margins and returns.

Indeed, Table 9 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 six months and reaching \$5 million by the five-year anniversary. At the same time, they have managed to push operating expense ratios lower. However, this has not meant that the trajectory to financial sustainability and profitability has been entirely smooth. The averages in the table give the impression of a stable progression toward sustainability but, in fact, greenfield MFIs typically experience significant swings from profits to losses and back to profits during this period.<sup>6</sup> Many greenfield MFIs register substantial losses over the first 24 months before achieving initial breakeven around 24–36 months but then, as they begin to assume the full cost of any additional management service contracts, fall back into losses for the next 6–12 months. Only around months 42–48 do they emerge fully self-sustainable.

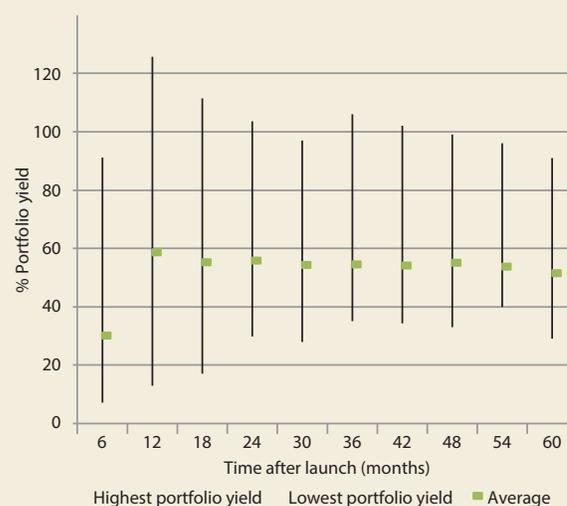
6. The authors have not attempted to remove the TA support from the figures presented in this paper because the amount of the support is very difficult to precisely quantify and attribute among different accounting periods.

**TABLE 9 Financial Ratios of Greenfield MFIs**

	Month 12	Month 18	Month 24	Month 30	Month 36	Month 42	Month 48	Month 54	Month 60
Total Revenue (\$ million)	0.62	0.98	1.59	1.98	2.46	2.75	4.03	4.27	5.02
No. in sample	28	26	25	23	21	19	17	14	13
Portfolio Yield (%)	59	55	56	56	54	54	55	54	52
No. in sample	28	25	23	20	21	19	16	14	13
Op. Expenses / Avg Portf (%)	200	108	82	57	53	45	38	37	36
No. in sample	28	26	24	21	21	19	16	14	13
Net Income (\$ million)	(0.39)	(0.35)	(0.17)	0.01	(0.03)	0.17	0.42	0.55	0.40
No. in sample	28	27	26	23	22	20	17	14	13
Net Income / Revenue (%)	-120	-69	-26	-13	-11	-5	10	12	8
No. in sample	28	26	25	23	21	19	17	14	13
Net Income / Avg Assets (%)	-12.4	-8.8	-4.1	0.4	-0.1	1.8	3.3	3.8	3.1
No. in sample	28	27	26	23	22	20	17	14	13
Net Income / Avg Equity (%)	-44.6	-24.2	-13.7	-0.3	-0.4	-3.9	20.0	26.0	18.9
No. in sample	28	27	26	23	22	20	17	14	13

Greenfield MFIs charge interest rates that typically generate portfolio yields around 55 percent for the first five years. The average operating expense ratio of greenfield MFIs shows steady improvement over time, falling to 36 percent at 60 months of operation. However, both portfolio yields and operating expense ratios are high compared to mature MFIs in other regions of the world, which ranged from 11 percent to 16 percent in 2011 (Rosenberg, Gaul, Ford, and Tomilova 2013). 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 that may not be easy given the high costs of doing business in the region. See Figure 6.

Establishing new MFIs is a difficult endeavor, with many potential challenges and pitfalls. Some of the most common mistakes and problems that greenfield MFIs have experienced in SSA are highlighted in Box 4.

**FIGURE 6****Evolution In Portfolio Yield of Greenfield MFIs**

## Common Challenges and Pitfalls in Establishing Greenfield MFIs

**The startup stage takes longer and costs more than expected.** The preoperational stage is a complex undertaking that, among other things, includes interacting with regulatory authorities, identifying and renovating office space for branch operations, recruiting and training staff, tailoring policies and procedures, and configuring the IT platform. If cost overruns occur due to regulatory delays or poor planning or execution, less funding is available for the operational phase.

**Key management staff leaves prematurely.** The CEO or other key staff sometime depart prematurely, in rare instances before the duration of their initial contract, but generally before the institution reaches the break-even point or scale up phase, either due to difficult living conditions, family reasons, or disagreements with the board or the technical service provider. Sometimes the problem is exacerbated by attrition of critical frontline staff, such as loan officers. Between 2006 and 2010 six CEOs of 12 greenfield MFIs in SSA departed prematurely. Given that management is one of the key success factors in greenfield MFIs, disruptions in the senior management team can create serious difficulties and significantly impact performance.

**Source:** CEO Interviews and Jansson (2010).

**Overly aggressive expansion.** Greenfield MFIs sometime undertake aggressive expansion, driven by the holding company, board, or management, in an effort to quickly reach a large loan portfolio and financial breakeven. Such as the case for stand-alone MFIs, this generally leads to high levels of nonperforming loans. Sometimes this mistake simply involves making too many loans too quickly, but sometimes it also involves poorly managed or premature transition into SME lending before having built basic internal expertise. In some cases, it also involves establishing too many branches too quickly, which can also weigh on profitability through higher asset depreciation.

**Growth exceeds funding.** Significant discrepancies are often discovered between projected and actual demand, particularly regarding deposit mobilization. Sometimes deposit growth takes off immediately, but more often it lingers at low levels for 15–20 months before taking on a more expected trajectory. Rarely does it follow a smooth curve in line with loan portfolio growth. Clearly, a situation of slower than anticipated deposit mobilization can create a major bottleneck with regard to funding, so it is important that greenfield MFIs start out with one or two potential lenders closely associated with the venture (some DFI shareholders, such as IFC and FMO, can also fill the role of lender to greenfield MFIs).

## The Holding Company

According to the definition used in this paper, 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, providing staff development and training, and co-branding the subsidiaries in the network. This section explains the holding company structure: who its investors are and how it is governed, its mission and key strategic choices in building out a network, and how management capacity is fostered and knowledge transferred.

### 3.1 Structure

Each of the holding companies is very much an extension of the historical operations and strategies of the group founders (the “sponsors”), reinforced by the investors who joined as initial shareholders. Three types of sponsor organizations are present in the holding companies covered in this study: specialized microfinance consulting firms, microfinance network support organizations (NSO), and a regional bank (see Box 5).<sup>7</sup> Despite their distinct origins, the holding companies share several structural similarities, though there are some interesting variations.

**Sponsor investment in the holding company.** The sponsor organizations are normally founding investors in the

holding companies. In the consulting-firm-led model, the sponsor (i.e., the consulting firm) typically holds a 3–20 percent minority ownership of the holding company. However, in the NSO-led model, the sponsors typically have a much larger stake in the holding company, often above 50 percent, as their shareholding in the holding companies came from contributing shares they held in a relatively large number of existing MFIs. BRAC and ASA are the only two sponsor organizations that have not invested in the holding companies, as Bangladeshi law prohibits nonprofit organizations such as BRAC and ASA from owning shares in foreign companies, whether holding companies or operating companies.

**Sponsor management of the holding company.** In several cases, the holding companies have been launched as investment companies with minimal if any administrative staff, managed by the sponsor organizations under a contract with the holding company and its shareholders. This is the case for networks led by consulting firms (Advans, Access, etc.), as well as some of the NSO-led ones (FINCA, Opportunity). The BRAC and ASAI holding companies have more in-house administrative staff, presumably because they must function independently from the sponsor organizations.

**Management and technical support to greenfield MFIs.** A primary role of the holding companies is to secure, directly or through an associated technical service provider, consis-

#### BOX 5

### Typology of Holding Companies Creating Greenfield MFIs

**Consulting firm led.** Five of the holdings were founded by specialized consulting firms for the purpose of investing in and building a global network of subsidiaries. These initial sponsors, all based in Europe, wanted to be more than mere service providers; they wanted to be investors in branded microfinance networks. The sponsor consulting firms and their related holding companies are LFS and AccessHolding, Horus and Advans, FIDES and Swiss Microfinance Holdings (SMH), and IPC and ProCredit. MicroCred was started by PlaNet Finance, a nonprofit organization with a consulting arm and relatively diverse microfinance interests.

**NSO led.** Four of the holding companies that create greenfield MFIs were established to consolidate the affiliates of international microfinance networks and expand with new greenfield MFIs. FINCA, BRAC, ASAI, and OI all belong to this category.

**Local bank led.** Ecobank is a Togo-based bank (i.e., the holding company is based in Togo) with operations in 33 countries in SSA. It participated as a shareholder in Accion Microfinance Bank in Nigeria and expanded its mass market operations by creating specialized MFIs in Ghana and Cameroun in collaboration with Accion International and Accion Investments in Microfinance (AIM).

7. Some other large commercial banks that also provide microfinance services, such as Equity bank, have expanded to new countries. However, these banks, or their subsidiaries, do not focus exclusively on the MSE market and therefore have not been included in the study.

tent and high-quality support to the greenfield MFIs during their different lifecycle stages. In the case of the consulting-firm-led networks, this service is provided by the sponsor organization, i.e., the consulting firm behind the network. Several of the consulting-firm-led networks are considering (or may have already considered) migrating to an organizational arrangement where the technical capacity of the sponsor organization is merged with the holding company, to achieve even closer alignment of interests and a simpler organizational set-up that can more easily attract private investors in the future.

**Ownership of the subsidiaries.** The holding companies in this study generally aim to hold at least 50 percent ownership in their greenfield MFIs. There are a few African greenfield MFIs where this is not the case (e.g., Accion Nigeria and Fides Senegal) but these cases are rare, and becoming rarer still. The key people behind the holding companies are increasingly focused on making sure that operational responsibilities and financial incentives are appropriately aligned. Alignment would be weaker if the holding company, which is responsible for providing technical and management services to the greenfield MFIs (whether directly or through a linked service provider), does not have a shareholder stake in the greenfield MFI that is appreciably larger than any of the other investors, preferably a majority stake. However, if the holding company has limited financial resources, it may face a trade-off between the degree of ownership control and the number of entities it can launch. It may therefore accept to hold less than 50 percent, at least for an initial period, if the minority shareholders are considered very like-minded. (See Figure 7.)

**3.2 Investors**

DFIs have played a key role in creating and supporting most of the networks that launch greenfield MFIs today. For most of the consulting-firm-led networks, the holding companies began as a partnership between the sponsor and a core group of DFIs: EIB, IFC, KfW, FMO, and AFD. The group of investors has somewhat expanded over time, but it is still dominated by DFIs (see Table 3). DFIs also played a role in the transformation of the FINCA network into a holding company model, contributing significant amounts of equity and debt funding to enable the transformation and continued expansion of their network MFIs. (See Box 6.)

DFIs have actively supported the creation of the holding companies for several reasons. 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 “difficult” countries. Equally important, the leading DFIs wanted 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.

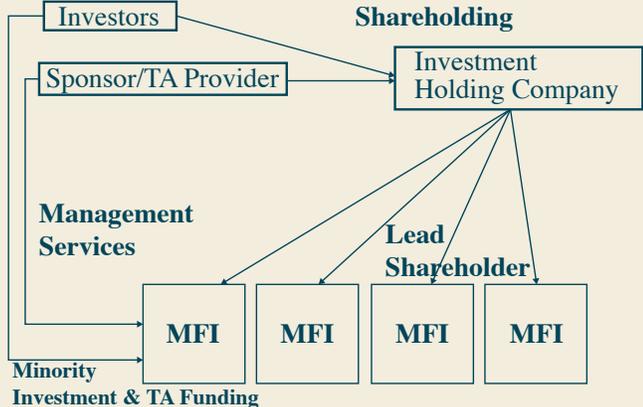
The second largest group of funders in the holding companies and the greenfield MFIs is socially responsible MIVs. Organizations such as the Omidyar-Tufts Microfinance Fund, Doen Foundation, Developing World Markets, responsAbility, Triple Jump, Incofin, and Gray Ghost have all invested in the holding companies and/or in the greenfield MFIs. They tend to prefer the holding companies, for diversification and liquidity, and typically see their role more as providing expansion capital than venture capital. They therefore do not typically participate with equity in the founding stage of individual greenfield MFIs. However, they sometimes enter during the institutional development or the scale-up stage. Several MIVs also provide debt funding to greenfield MFIs.

Private commercial investors have shown interest in the holding companies as well. Large companies such as Axa, TIAA-CREF, Sequoia, ABP, and Bank im Bustum Essen have made significant investments. Small, individual investors are also present.

It is possible to discern some different approaches to funding strategy and investor selection by the sponsors of the different networks. The consultant-led networks generally have DFI-dominated ownership, though Fides took a very different approach and sought out mainly individual investors with higher risk appetite and longer investment horizon than DFIs

FIGURE 7

**Holding Company Structure**



**Note:** This illustrates primarily the consulting-firm led model. In the case of others, the sponsor/TA provider would be together in the same box as the holding company.

BOX 6

### DFI Funding for Holding Companies and Greenfield MFIs

Greenfield MFIs and their related holding companies have become an important vehicle for MFI investors. Many DFIs support the holding companies at both the holding and the greenfield MFI levels. As of the end of 2011, 7 percent of global DFI funding for microfinance (\$676 million) went to greenfield holdings, up from 4 percent in 2007.

Most of the DFI investments at the holding level (87 percent) went to the consulting firm-led model, with the largest share going to ProCredit, while BRAC and FINCA essentially received the other 13 percent in 2011. KfW, OPIC, and IFC provided three-quarters of all the funding, with most of the remaining amounts coming from AFD, Proparco, FMO, EIB, BIO, and CDC.

FIGURE B6-A DFI Funding (US\$ million, Dec. 2011)



Greenfield MFIs represented more than a quarter of the total number of all DFI direct investments in financial institutions in SSA (25 of 91) at the end of 2011. Close to half of the funding directed at greenfield MFIs was invested as equity in 25 entities. In terms of debt, nine received a loan and eight a guarantee from a DFI. Eighty percent of the DFI funding went to MFIs of the consulting-firm-led holdings and the other 20 percent went to affiliates of FINCA, OI, and Accion. At the end of 2011, IFC, AFD/Proparco, and KfW accounted for 64 percent of all direct DFI funding to the individual greenfield MFIs. Other public funders in addition to those invested in the holdings mentioned above include the African Development Bank and DCA USAID (for guarantees).

Source: 2012 CGAP Cross-Border Funder Survey

when it created Swiss Microfinance Holding in 2007. DFIs may eventually be invited to support SMH's next (expansion) phase. It is also important to note that in most consulting-firm-led networks there is substantial financial participation by the individuals behind the sponsor companies.

NSO-led companies have taken a mixed approach. When FINCA created FINCA Microfinance Holding (FMH) in 2010 it focused heavily on identifying like-minded investors willing to weigh social and financial performance equally. As such, FINCA International (NGO sponsor) maintained a majority stake in FMH, and a combination of DFIs and socially responsible investors (IFC, KfW, FMO, responsAbility, and Triple Jump) invested in the remaining shares. OI formalized its network in 1998 when all affiliated partner organizations signed a membership agreement with the OI network. OI programs are financed through direct solicitation of funds from individuals, corporations, foundations, and religious organizations. OI created Opportunity Transformation Investments (OTI), a wholly owned subsidiary, to invest in and hold ownership positions in OI affiliates.

ASAI and BRAC have chosen to partner mainly with MIVs and institutional investors. ASAI is 100 percent owned by Catalyst Microfinance Investors (CMI), a Mauritius-based company whose shareholders include more socially responsible private investors, pension funds, and MIVs than DFI funding. Much of the funding for BRAC subsidiaries comes from the BRAC Africa Loan Fund, a Cayman Island vehicle established with funding from OPIC, MIVs, and socially responsible investors specifically interested in supporting BRAC's expansion.

The case of Ecobank is naturally different, as the group was not created for the purpose of extending microfinance services. Consequently, the investors of the holding company do not represent the same focused interest in microfinance as can be found behind the other networks. Rather, they are fairly mainstream institutional investors with rather broad agendas, raising the question of how microfinance will be accommodated and supported in the larger organization.

All of the holding companies require at least a majority share in the network MFIs to exercise control, which they consider to be a critical success factor. The consulting-firm-led holding companies own majority shares in the MFIs in partnership with minority investors, typically the same DFIs that have invested in the holding company. In the FINCA network, the holding company owns 100 percent of the MFIs. OTI is the majority owner of the OI subsidiaries, and the remaining shares are divided among the individual OI companies in Canada, Australia, and the United Kingdom. The BRAC and ASAI holding companies also strive to own 100 percent of subsidiaries but have made exceptions where legally required. Ecobank has opted to establish subsidiary finance companies to clearly separate microfinance operations from Ecobank's core retail business. These subsidiaries are typically owned and controlled by the local Ecobank subsidiary together with the Ecobank International holding company, but Ecobank has also included a few strategic partners as minority investors, notably AIM and IFC. (See Box 7.)

## BOX 7

### Accion Investments in Microfinance

Ecobank's microfinance greenfielding ventures were undertaken in collaboration with AIM and Accion International. The idea was to use Ecobank's footprint in the region and—in the creation of greenfield MFIs—and combine it with Accion International's technical expertise and AIM's investment capital. Under this model, Accion International would provide initial capacity-building services through three-year TA programs, while AIM supported the ventures financially through significant minority equity stakes.<sup>a</sup> This approach suited all parties: it gave Ecobank a chance to roll out microfinance operations under experienced supervision; it allowed AIM to invest with a 5–8 time horizon (which coincided with its fund life), and it enabled Accion International to expand its activities in Africa through a high-visibility partnership with multiple replication opportunities. The collaboration has produced two greenfield MFIs so far: in

Ghana and Cameroon.<sup>b</sup> Ecobank also participated as a minority shareholder in a greenfield MFI in Nigeria launched by Accion.

The Ecobank–Accion model involves an important challenge in that the operational responsibility (which lies with Accion International) and the financial responsibility (which lies primarily with Ecobank) are not completely aligned. It is to avoid this challenge that many holding companies are closely linked with the technical service provider and insist on taking majority stakes in the greenfield MFIs. Over time, Ecobank and Accion will need to address this challenge, particularly if they intend to create additional greenfield MFIs. Lately Ecobank and Accion have pursued new microfinance projects in SSA independent of one another.

a. In 2012 the shareholders of AIM sold their shares to Bamboo Finance (a global private equity group specializing in microfinance and social entrepreneurship) and, in the case of AIM's Africa portfolio companies, to Accion's Gateway fund.

b. While Ecobank has a majority stake in the projects in Ghana and Cameroon, the shareholding in Nigeria is more fragmented (it has a total of six shareholders). However, Ecobank is the largest minority shareholder with 24 percent, and Ecobank is an important investor with 18.5 percent.

**Governance.** Governance for greenfield MFIs is meant to support long-term growth and development. Viewed as one of the primary benefits of this model, high-quality and consistent governance practices provide a strong foundation and enabling operating environment from inception and throughout the institutions' lifecycle. Particularly critical to governance is the ownership structure and board composition, which influence key strategic decisions related to the shareholders agreement, articles of association, and key operating principles.

The consulting-firm-led model lends itself to a governance discussion as it accounts for just over half of the cohort analyzed in this paper, and it provides a homogeneous structure for analysis across a number of institutions. In consulting-firm-led greenfield MFIs, the ownership structure includes the holding company, like-minded investors comprised mainly of DFIs and, in some cases, local shareholders, who appoint directors based on their level of ownership. Generally the approach has been not to appoint executive directors; however, in some cases regulatory requirements for resident directors have necessitated the need, at least temporarily, for nonvoting executive directorships. Independent directors are identified as management, and shareholders become more familiar with expertise that exists in the market. Board committees are gradually expanded as the MFI's operations become more complex.

During the foundation stage, the shareholders agree on articles of incorporation and the shareholders agreement, which detail the mission and governing principles of the institution, board structure, and voting requirements. Majority and super majority votes are generally stipulated for strategic decisions, including the issuance of new shares, entry of new investors, changes to primary operating policy guidelines of the institution, and the procurement of technical and management services. The large number of decisions requiring a super majority vote by the board and/or the shareholders attests to the importance attached to shared objectives and "like-mindedness" in these projects.

A management services contract (MSC) is often used to structure and budget TA services from the holding companies, and/or the associated consulting firm, to the greenfield MFIs. Backstopping from the holding company and the technical services provided by the related consulting firm are critical to the MFIs' operating continuity, staff development, and adherence to core operating policies and procedures. The board and shareholders play an important role in governing the potential conflict of interest that could otherwise arise from having staff from the consulting firm (acting on behalf of the holding company) involved in the decision-making process related to the procurement of technical services. Directors appointed by the holding company (which often is partly owned and managed by the consulting firm) typically recuse themselves when the board votes on the

MSC. In other cases, decisions regarding the MSC are referred to the shareholders of the greenfield MFI, which typically include several minority shareholders. Notwithstanding the potential conflicts, the consulting firm's ownership stake in the holding companies and, therefore, indirect ownership in the greenfield MFI, helps align financial interests.

### 3.3 Mission and Strategy

Without exception, the networks in the study are driven by a mission to expand access to financial services. They aspire to build retail mass market financial institutions that serve populations neglected by mainstream banks, especially micro, small, and medium-sized enterprises (MSMEs). Not surprisingly, the extremely low-level of financial inclusion in SSA has been a key consideration in the networks' decision to enter and expand in the region. But they approach the market in different ways, in terms of country selection, preferred institutional license (bank vs. NGO vs. nonbank financial institution), and commercial orientation.

**Country selection.** The holding companies typically point to market characteristics, personal security of staff, political and economic stability, features of legal systems, and quality of financial sector supervision as significant factors in determining country selection decisions. At the same time, each of the holding companies has specific criteria for selecting a market conducive to its unique implementation model. Most of the holding companies seek markets capable of supporting an efficient scale of operations and some of these groups explicitly exclude smaller markets where they feel that the impact and potential scale do not justify the investment. On the other extreme, some holdings are taking a long-term approach to rural areas where they are less likely to face competition. Most of the networks want a market that supports diversification into the SME segment. They contend that the SME market is also underserved and that developing SME products enables MFIs to maintain a partnership with clients as they mature, allowing for continuity in the financing relationship while protecting against attrition of the longest standing and most profitable relationships.

Finally, several groups deliberately seek a footprint that will allow for reasonably easy replication and sharing of expertise and resources, for example, by focusing on a particular subregion. ASAI and BRAC are focused specifically on English-speaking, common-law jurisdictions because it facilitates transfer of the model they have developed in Bangladesh. MicroCred is increasingly focusing on French-speaking West Africa, where the regulatory environment is relatively uniform.

While country selection is usually driven by the management and board of the holding companies, in some cases DFIs and MIVs have made efforts to steer networks to certain markets by promising significant and consistent support

to the new greenfield MFIs. This was the case when Access Holding launched a greenfield MFI in Liberia, for example.

**Institutional license.** With only one exception, all of the holding companies stress the importance of operating as an institution that is permitted to mobilize deposits. Some of them have been willing to start with credit-only institutions but, when doing so, with the clear expectation to acquire a deposit-taking license eventually. For these networks, deposits are both a necessary service to customers and an important funding source for growth. This approach does not apply to BRAC, since its model in Africa focuses on delivery of credit and social services. To secure funding for its greenfield MFIs, BRAC has created a debt-funding facility within its group structure.

The networks typically have two options to obtain deposit-taking capabilities in a particular country: a deposit-taking microfinance license or a commercial bank license. Some of the consulting-firm-led networks have opted for commercial bank licenses wherever possible, because they have the aspiration to create full-service banks capable of meeting most, if not all, financial needs of MSMEs and low-income households. However, minimum capital requirements for commercial banks are increasing across Africa, leading some networks to opt for microfinance deposit-taking licenses with the intent to transition to commercial banks over time. Commercial bank licenses are, of course, subject to significant compliance cost and complexity, so not all networks are willing to go that route when there are deposit-taking microfinance licenses available that can get the basic job done.

**Commercial orientation.** The holding companies are double-bottom-line investors, but they articulate their investment return expectations with different levels of precision. Initially, the consulting-firm-led holding companies expected to generate rates of return centered around 13–14 percent for their investors in a 6–8-year timeframe. The DFIs established this benchmark at the founding of the consulting-firm-led holding companies, and subsequent investors have entered with similar, if not higher, expectations. However, there have been few exits from the holding companies and it seems likely that the investment time horizon may be a few years longer than initially anticipated. It simply takes more effort and more time than anticipated to build successful MFIs of significant size.

As noted earlier, Fides has deliberately sought out investors with a longer return horizon (10 years) and a more modest return expectation (8–10 percent) for SMH, which it feels is necessary when operating in the rural market. The NSO-led holding companies speak in more general terms about expecting “reasonable” returns, and stress their primary commitment to social objectives.

A common thread across all networks, regardless of their financial return expectations, is their aspiration to be so-

cially responsible. They all have a memorandum of association or articles of incorporation that define access to finance for micro and small entrepreneurs as a primary mission. Some networks, in particular BRAC, take this further and attempt to provide or facilitate health and education services. Such services are generally linked to a credit-only approach to microfinance.

### 3.4 Institutional Capacity and Knowledge Transfer

The holding companies and sponsors typically take a proactive role in building institutional capacity among their greenfield MFIs. They do so by providing technical and management services to the MFIs, which in turn are specified in a management services contract or a TA agreement. There are some differences in how the networks have arranged the delivery of these services. In the MicroCred network, for example, the MFIs procure management services and TA directly from the holding company. In the SMH, Advans, and Access Holding networks, MFIs procure much of this from the sponsors (Fides, Horus, and LFS, respectively). MFIs operating under BRAC's Dutch holding company also procure services directly from the sponsor, BRAC Bangladesh. FINCA MFIs obtain TA, oversight, and services from FINCA International and FMH in exchange for dividend payments. The long-term vision for service delivery in the Ecobank model is less clear, as Ecobank has not yet developed comprehensive capacity to provide tailored expertise to its network MFIs. Regardless of these differences, the knowledge transfer from the holding company or the sponsor is usually channeled through three main mechanisms: (i) the international management team; (ii) the systems, policies, and procedures; and (iii) the training of national staff.

**Management team.** Holding companies and/or sponsors usually provide anywhere from two to six managers for the first three years of operations of a greenfield MFI. Typically this includes the CEO, the chief operating officer, the banking services manager (if the MFI takes deposits), and one or two temporary branch managers. These managers are meant to provide skill and experience during the initial stage of operations. But they are also expected to provide internal coherence and a strong culture that reflect the values and mission of the network. They are as much role models and advocates of corporate culture as they are technical experts. This management team typically has a lot of authority in guiding the delivery of specific technical services to the MFI: what services are needed, when they are brought in, and how they are implemented. Over time, most of these managers are replaced by national staff who have risen through the ranks and proven their capacity to execute the required responsibilities.

**Systems, policies, and procedures.** Another key advantage conferred by the holding company/sponsor is a stan-

dardized set of systems, policies, and procedures: the IT platform, internal control and risk management policies, and lending procedures, among others. Many networks have gone through an extensive process of identifying, vetting, and refining appropriate business practices for its MFIs. The success of greenfield MFIs is in no small measure connected to the effective implementation of such practices, and it is often cited as a critical success factor by the holding companies themselves. One holding company proudly calls itself the "McDonalds" of microfinance, and contends that systematic implementation of standardized systems is the key to cost and quality control. In particular, the adaptation and implementation of a common IT platform across the network can yield significant advantages compared to stand-alone MFIs, in the form of better support services (provided in part by the holding company or the sponsor), lower licensing costs, and greater ability to manage complex system requirements. This is particularly important for greenfield MFIs, which have plenty of other challenges to worry about. Almost all of the networks in this study have implemented or are in the process of implementing a single core banking system for their MFIs.

**Training national staff.** Holding companies identify human resource development as the greatest challenge they face in SSA, more so than in other regions. The most common approach is, like in other regions, to hire young adults with little work experience and develop their skills and capacity over time. Given that the average greenfield MFI has about 300 employees after 30 months of operations, and more than 500 after 60 months, the training need is enormous. And many times the training must go back to the basics, particularly in post-conflict countries. Often basic arithmetic skills need refreshing before staff can evaluate and present loan proposals. Most networks have relatively well-established training modules for every key aspect of the business, facilitated by standard systems, policies, and procedures. It is also common practice for networks to move employees among network MFIs as a way to build and transfer knowledge within the group.

In addition to staff training that occurs at the MFIs and staff transfers between the MFIs, many networks are setting up regional hubs or regionally based staff that support MFIs through technical expertise, backstopping, and management oversight. FINCA was one of the first to set up a regional hub, which in addition to providing technical backstopping, has direct management responsibility of MFI CEOs, effectively decentralizing management. Similarly, but with a less robust approach, OI and Accion have regional heads based in Africa. Other examples range from a training academy ProCredit set up in Ghana to the regional decentralization of IT systems housed in Ghana for Advans and in Senegal for MicroCred. (See Box 8.)

## BOX 8

### Cross-Fertilization in the Holding: Example of Advans

Holding companies increasingly rotate national staff among their network MFIs as a motivational measure, to build a consistent group culture, and to share knowledge on methods, standards, and procedures. Younger institutions benefit from expertise and culture built up in more mature greenfield MFIs at low or no added cost to them. The rotating staff remain either fully paid by the more mature MFI or the host MFI takes on the direct costs of salary and travel. These rotations offer interesting growth opportunities for national staff, who start seeing the possibility of an international career.

One example is the assistance of Advans Cameroun, which was launched in 2007, to Advans Cote d'Ivoire, which opened its first branch in March 2012. Advans Cote d'Ivoire relied extensively on support from Advans Cameroun to prepare and launch operations. Two Cameroonian branch managers worked in Cote d'Ivoire, and a group of Ivorian loan officers got 4.5 months on-the-job training in Cameroun.

**Source:** Interviews with CEOs of Advans Cameroun and Cote d'Ivoire (December 2012).

One of the internal trainers from Advans Cameroun coached client officers in Cote d'Ivoire.

The exchange proved to be a win-win solution. Clearly the arrangement helped Advans Cote d'Ivoire get off to a better start. But the staff exchanges also had a positive effect on staff loyalty in Advans Cameroon, according to its CEO. Attrition rates have declined in recent years as staff recognize international growth opportunities within the network, which are not offered by other MFIs or even local commercial banks in Cameroun.

In addition to staff exchanges, procedures and training material are shared across the Advans network. The CEO of Advans Cote d'Ivoire estimates that it saved two to three months in international staff time compared to earlier greenfield MFIs, because of materials available from Advans Cameroun. Other benefits include pilots with new products and delivery channels, which are tested in one MFI and then shared with others; this spreads the development costs over more entities.

### 3.5 Success Factors and Common Challenges

Standardization of operational policies, procedures, and systems are the critical operational success factors most often cited by the holding companies themselves. They also cite close oversight and consistent reinforcement of internal controls as critical to achieving a sustainable institutional culture in greenfield MFIs. In the long term, the holding companies contend that human resource development is key to success.

In addition to these factors, core strategic factors include alignment of shareholder interests, clarity of vision and mission, sponsor commitment, the regulatory and business environment, and sufficient resources. When transparent, these core strategic factors lead to success; however, when muddled, they become significant challenges to MFI sustainability.

**Shareholder alignment.** It is important that the shareholders involved, at the holding level and at the MFI level, have a similar long-term vision for the network and its MFIs. If the long-term vision is shared and agreed to, most disagreements will be about tactics and can be easily resolved. If the long-term vision is not shared, or if it is unclear, fundamental disagreements can arise and can require a lot of effort and energy to resolve—effort and energy that could be better used to improve the MFIs' operations. Some networks have learned the hard way.

**Clarity of vision and mission.** Clarity of vision and mission that is centered on creating and managing MFIs leads to

clarity in organizational priorities. Clear organizational priorities enable *coherent long-term decision making* for building appropriate expertise and capacity at the holding company, including human resources, IT system capabilities, tools and methods, and means of sharing knowledge. Capable networks tend to be guided and supported by a holding company that has a focused, long-term perspective, that enables its management and staff to invest in the right expertise, organize teams purposefully, and institutionalize effective knowledge transfer practices. Holding companies or sponsors that are not focused on creating and managing MFIs are not very likely to be effective in greenfield MFIs, given the difficulty and complexity of this business model.

**Sponsor commitment.** As noted earlier, strong commitment can often come from a strong sense of mission. However, to reinforce this commitment, holding company structures typically aim to make sure that the sponsor and key decision makers and managers assume a financial stake in the network. This becomes particularly important when things are not going as well as hoped. In those instances, the MFI may not be able to pay for all services required, underscoring the importance of having a sponsor and key staff that are willing to go the extra mile without necessarily being immediately compensated for it. For example, some sponsors will send additional junior consultants, or consultants with strong technical skills but limited field experience, to support the early operational stage of greenfield MFIs without charging for it. In other cases, staff from mature network

MFIs are seconded on a subsidized or direct-cost basis to younger MFIs. Not only does this support the operations of the MFIs, but it also builds the experience and expertise of network and holding staff, which is likely to yield additional returns to the network.

**Enabling and predictable regulatory and business environment.** Several networks identify the regulatory and supervisory regimes as a challenge to their activities. There is broad frustration with protracted licensing procedures, difficult communication with regulatory authorities, and a general lack of supervisory competence that, in some cases, has undermined the sectors' credibility and stability. The greenfield model discussed in this paper relies less on external supervision, since it is designed with very strong internal controls and governance structures.

In addition, greenfield MFIs in Africa face significant challenges related to the business environment. Political instability has been a constant threat and, in several cases, has imposed heavy costs on greenfield MFIs and holding companies. Personal security is also a concern, as it adds to cost of operations and makes it more difficult to attract international talent as necessary. Several networks also cite the challenges of their international staff in adapting to local

conditions. These problems are particularly acute in post-conflict countries.

**Sufficient resources.** For many of the aforementioned reasons, the holding companies report that the cost of doing business in SSA is decidedly more expensive than the cost of their operations in other parts of the world. As a very simple example, the cost of preparing a deposit-taking branch in Eastern Europe is estimated at \$50,000 whereas in SSA it ranges from \$150,000 to \$400,000. But other operating costs are also higher, including communications, transport, and security.

The NSO-led holding companies, which have decades of experience in other parts of the world, also point to the challenge of creating MFIs in SSA under ever increasing expectations about financial performance. Available grant funding is more modest compared to when many Latin American MFIs launched. At the same time, investors are more demanding about reaching breakeven in a three- to four-year timeframe. Several of the holding companies signaled some concern about overly ambitious expectations from DFIs about financial performance in a short timeframe. They see MFIs concentrating in urban centers and a trend toward consumer credit products that is elevating the danger of over indebtedness in some markets.

## The Role of Greenfield MFIs in Market Development

The following section provides insights into market developments associated with the start-up of greenfield MFIs in the DRC, Ghana, and Madagascar.<sup>8</sup> These three markets each have several greenfield MFIs and represent different country contexts in terms of financial sector development. In each country at least two greenfield MFIs have been operational for more than five years, increasing the likelihood that effects of their interaction with the market can be observed. This research shows that greenfield MFIs play various roles in the development of the market for financial services for those at the bottom 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.

The analysis in these markets is largely based on interviews with stakeholders, direct data collection from the greenfield MFIs, and secondary data sources for the microfinance and broader financial sector in each country. While it is difficult to attribute changes in a market comprised of many institutions to the intervention of one or more greenfield MFIs, the authors used mostly qualitative and some quantitative information to examine the effect they have had. Throughout the text, it is indicated where the anecdotal discovery method supports assertions, but also where this may not be the case.

### 4.1 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. In some cases, they also manage a significant number of branches and employ a significant number of employees relative to the financial sector overall. See Table 9.

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 265,714 depositors at the end of 2011, representing approximately 50 percent of all borrowers in the microfinance sector and 65 percent of the depositors served by MFIs.<sup>9</sup> In that year, the microfinance sector counted 146 cooperatives and 16 local MFIs in addition to the four greenfield MFIs. When looking at the mainstream financial sector, the two greenfield MFIs with banking licenses represent a significant market share of loans and deposits. In 2011, ProCredit DRC and Advans DRC accounted for more than 20 percent of all deposit accounts in the commercial banking sector and 13 percent of all commercial bank loans. When adding loan accounts from the other greenfield MFIs, the market share increases to 61 percent of all loans in the financial sector.<sup>10</sup> Their deposit volume and loan portfolio represented about 7 percent of the financial sector. However, more remains to be achieved as the penetration rate remains low overall with only 5 percent of the Congolese adult population banked.<sup>11</sup>

In Madagascar AccèsBanque and MicroCred together held US\$33 million in deposits and US\$35 million in loan portfolio at the end of 2011. This represented only 2 percent and 5 percent of the banking sector, respectively, but in number of deposit and loan accounts the two greenfield MFIs accounted for 25 percent and 17 percent, respectively, of the 11 banks in the system. When compared to the 36 other MFIs in the country<sup>12</sup> the two greenfield MFIs held almost half of the entire microcredit portfolio and close to a quarter of MFI deposit balances. AccèsBanque and MicroCred have clearly contributed to the rapid growth of microfinance in Madagascar, which reached a penetration rate of 21 percent in 2012 compared to 14 percent in 2008. The banking sector (excluding the two greenfield MFIs) reached only 3 percent of the population in 2012 (up from 1.8 percent in 2008).

In Ghana, a more advanced, competitive, and diverse financial sector compared to DRC and Madagascar, greenfield MFIs represented five of the 19 savings and loans com-

8. Greenfields included in the analysis were in DRC: Advans (2009), FINCA (2003), ProCredit (2005), and OI (2010); in Ghana: EB Accion (2008), Advans Ghana (2008), ProCredit (2002), OI (2004), and ASA (2008); and in Madagascar: ABM (2007) and MicroCred (2006). Market analysis has been performed by Yaw Brantuo for Ghana, Hannah Siedek for DRC, and FTHM Conseils for Madagascar.

9. Fund for the Financial Inclusion in DRC (FFM), Synthesis of the political, economic, and financial evolution of DRC. Facility for financial inclusion in DRC. Third trimester 2012. Kinshasa, DRC.

10. Data based on the International Monetary Fund (IMF) Financial Access Survey (FAS) database, which includes information for commercial banks only.

11. FINDEX, [http://siteresources.worldbank.org/EXTGLOBALFIN/Resources/8519638-1332259343991/N4ssaEN\\_08202012.pdf](http://siteresources.worldbank.org/EXTGLOBALFIN/Resources/8519638-1332259343991/N4ssaEN_08202012.pdf), accessed January 2013.

12. For this market analysis the two greenfield MFIs in Madagascar are compared to the 36 MFIs (five “établissements financier” and 31 “institutions de microfinance agréés”) as their clientele, and methodology is more aligned than with the other nine commercial banks in the country.

**TABLE 9 Market Share of Greenfield MFIs in DRC, Ghana, and Madagascar, 2011**

	Deposits		Loans	
	Total deposit volume (USD)	Number of deposit accounts	Gross loan portfolio (USD)	Number of loan accounts
DRC Greenfield MFIs	141,917,898	317,217	71,005,502	93,640
% of commercial banks and Greenfield MFIs	7.1	21.2	6.7	60.9
Ghana Greenfield MFIs	82,619,026	514,258	90,424,087	149,669
% of commercial banks and Greenfield MFIs	0.9	7.2	1.5	21.7
Madagascar Greenfield MFIs	33,351,084	133,538	35,276,058	37,072
% of commercial banks and Greenfield MFIs	23.4	25.2	4.8	17.3

**Notes:** For the DRC and Ghana, the FAS database includes data for commercial banks only and not data for other financial institutions such as those in Madagascar. To calculate market shares, the data of greenfield MFIs that are not included in FAS have been added to commercial bank data to establish the denominator (FINCA and OI in the DRC and all greenfield MFIs for Ghana). For Ghana the share of loan accounts for greenfield MFIs could be somewhat overestimated as FAS data included number of borrowers for commercial banks only, which tends to be lower than the number of loan accounts.

**Sources:** Greenfield MFIs and IMF FAS database, 2011.

panies.<sup>13</sup> Together the greenfield MFIs served more than 150,000 borrowers and over 540,000 depositors at the end of 2011, which represents around 5.1 percent of all adults or 2.8 percent of the entire Ghanaian population (see Figure 8).<sup>14</sup> Their deposit volumes remain modest as a percentage of the financial sector (in this case, defined as commercial banks plus savings and loan companies) at 0.9 percent but they hold 7 percent of deposit accounts. Similarly, their

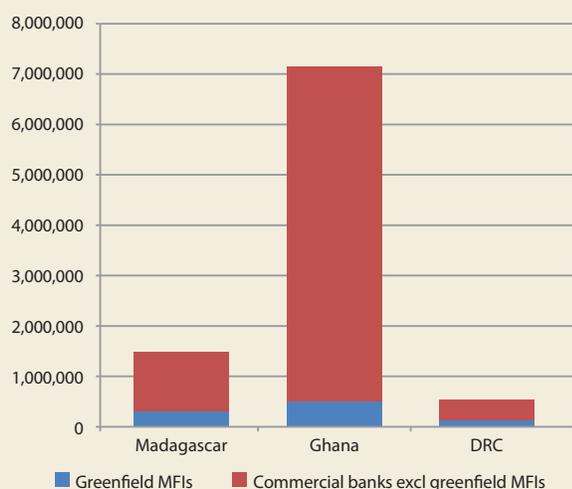
outstanding loan portfolio is modest at 1.5 percent of the financial sector while their loan accounts represent a substantial 22 percent (see Figure 9).

#### 4.2 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

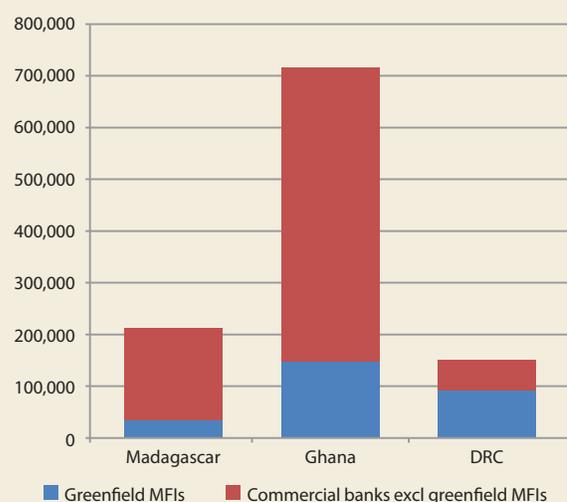
**FIGURE 8**

**Number of Deposit Accounts, December 2011**



**FIGURE 9**

**Number of Total Loans Outstanding, December 2011**



13. At the time of this study, ASA was in the process of transforming from an NGO to savings and loan. For the purpose of the study it has been included among the greenfields, which together are compared with industry data for deposit-taking banks in Ghana (including commercial banks, rural banks, and other banking and quasi-banking institutions).

14. To put this in perspective, in 2005, all mainstream commercial banks together had an estimated penetration of 5 percent of the overall population. No more current comparative information was available.

and microfinance sectors. According to market participants, the greenfield MFIs have introduced superior human resource practices that positively impact the financial sector. With the exception of a small number of international staff, all 11,600 employed in greenfield MFIs as of December 2012 are nationals. The number of people employed and trained by the greenfield MFIs is therefore becoming significant in relation to the overall financial sector in many countries. In Ghana, greenfield MFIs employed more than 2,000 staff in 2011 while the mainstream banking sector employed 16,000 staff. The two greenfield MFIs in Madagascar have more than 1,000 staff, which represents 23 percent of staff in the microfinance sector and almost 19 percent of banking sector employees. The employees of greenfield MFIs—typically young adults who have little or no previous work experience—receive extensive training in several topics and skills related to credit and banking. Eventually they become attractive candidates for mainstream banks, and their skills gradually are incorporated into the larger market as their careers bring them to other institutions. The positive results to the financial sector from the large investments in staff training and development by greenfield MFIs reduces the potential market distortion from providing TA grant funding to individual institutions.

Greenfield MFIs typically have an intensive and systematic approach to staff selection, recruitment, and training. They spend 3–5 percent of their operating budget on staff development. This is where a significant portion of the initial TA resources is invested. Most greenfield MFIs have company-specific training facilities that offer courses for induction and professional development. They also offer intensive on-the-job training. Many of the people interviewed in the DRC, Ghana, and Madagascar commented on the high quality of the training offered by greenfield MFIs.

Mainstream banks and other financial institutions appear to agree because they frequently try to poach staff from greenfield MFIs. 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. Staff turnover rates reported by the greenfield MFIs varied between 8 percent and 20 percent.<sup>15</sup> For example, Fidelity Bank Ghana hired staff of ProCredit to support its branch roll out. Several of the banks that entered the SME space in the DRC are also run by former ProCredit staff. (See Box 9.)

Staff compensation varies across markets. The greenfield MFIs in the DRC tend to offer less attractive packages than mainstream banks and some MFIs. In contrast, salaries of-

## BOX 9

### ProCredit Young Bankers Program

ProCredit's Young Bankers Program is an intense, half-year training on banking and finance for university graduates with little or no practical work experience. ProCredit reported that its recruiters for the program look for individuals with good analytical, organizational, and communication skills who are capable of solid quantitative analysis, have demonstrated ability to think logically and critically, and can work effectively in teams. Such individuals are also required to show a clear desire and ambition to learn and develop in the profession. Those selected to participate in the program are taught basic mathematics, accounting, and other relevant banking subjects. But more importantly, the training emphasizes both theoretical and practical training with a view to instilling good banking practices and the ProCredit culture and methodologies for doing business. This sort of investment in staff training is complemented, for example, by advanced training in ProCredit's regional training center for middle managers in Macedonia and its international training center in Germany, which provides a three-year part-time training course for senior managers.

**Source:** Yaw Brantuo from interviews and ProCredit website [www.procredit-holding.com]

ferred by greenfield MFIs in Madagascar appear to be higher<sup>16</sup> than the average for the microfinance and banking sectors. According to those interviewed, this has had a notable effect on some of the MFIs in Madagascar, especially ACEP and BNI-CL, which have seen staff leave for better opportunities at the two greenfield MFIs. The greenfield MFIs appear to provide a career bridge between the less formal microfinance sector and the more formal banking sector.

### 4.3 Product and Channel Diversification

Greenfield MFIs tend to be at the forefront (compared to other MFIs) of introducing innovation in low-income retail banking. 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\$1,000. ProCredit attracted large numbers of savers and demonstrated that the Congolese population was able and willing to save. Following this exam-

15. This compares with turnover rates of only 2–3 percent for other MFIs reporting to MIX in the DRC and Madagascar. In Ghana, turnover rates appear to be high (10–20 percent) for most MFIs that reported these data to MIX.

16. In Madagascar this is reported to be 20–100 percent higher, depending on the function. For example, a loan officer with two years of experience and a baccalaureate received an average salary of US\$120 in an MFI, US\$150 in a mainstream bank, and US\$210 in a greenfield MFI.

ple, other banks, such as Rawbank and BIAC, relaxed their account-opening requirements, and the number of deposit accounts in the DRC has grown from 30,000 in 2005 to 1 million in 2012. Similarly, Malagasy MFIs adapted their internal procedures, processes, and IT systems to keep up with the new greenfield competition, evidenced by the reduction in loan processing times from weeks to five days.

In Ghana and the DRC, greenfield MFIs were the first to introduce new technologies in banking for low-income populations. EB-Accion, Opportunity, and ProCredit introduced ATMs in Ghana, which were previously available only at commercial banks. EB-Accion Ghana and Advans Ghana, for their part, have introduced mobile deposit collection (using cell phones for instant verification) to offer clients additional convenience and to compete with traditional “susu” collectors. In the DRC, ProCredit established the first ATMs, and mainstream banks soon followed. Clients in the DRC now have access to point-of-sale (POS) devices at over 300 locations, facilitating the withdrawal of funds and cashless purchases.

Some greenfield MFIs have pioneered the development of financial services that are perceived as particularly risky and challenging in their markets, such as microinsurance and ag-

ricultural finance. OI started an agricultural finance program in Ghana in 2010 with a pilot credit scheme for cocoa farmers. It now serves 9,000 farmers and has introduced geographic information system (GIS) technology to more accurately map the smallholder farmers (see Box 10).

In a few cases, the success in SME lending of greenfield MFIs has attracted other providers into this market segment. According to observers in the DRC, the performance of ProCredit, which reached financial sustainability in three years, triggered banks such as BIC and TMB to downscale and serve the SME segment. To acquire the necessary expertise, they relied on former employees from ProCredit to roll out these services. In Madagascar, Bank of Africa (a shareholder of MicroCred) and BFV-Societe Generale (a shareholder of AccèsBanque Madagascar) have started to modestly downscale in the past two years. Whereas five years ago Malagasy SMEs were not served at all, there is now an increased offer of services from a range of financial institutions.

#### **4.4 Standards and Good Practices**

Greenfield MFIs can play an important role in market development by demonstrating professionalism and good practices. Evidence of this is not easy to establish but some signs

#### **BOX 10**

### **Greenfield Banks Pioneering with Smallholder Finance**

Smallholder finance is typically avoided by mainstream banks and considered too risky. Several of the more mature greenfield MFIs, such as ABM in Madagascar and OI in Ghana, have piloted agricultural finance products to address this gap.

After four years in operation, AccessBanque Madagascar launched an agricultural loan product “Agro loan” for smallholder farmers who mix subsistence farming with some production of cash crops. ABM uses a cash-flow-based methodology and adapts its loan terms to the farmers’ needs with variable monthly payments (according to client’s cash flow) and a principal grace period, if needed. The pricing of the loan is similar to a microenterprise loan. By 2012, ABM had extended 1,700 agro loans, which represented around 7 percent of its clients and 2.4 percent of the loan portfolio. The average loan size was around US\$419. ABM offers this product in a radius of 25 km around the branches because loan supervision requires close monitoring. ABM has a dedicated team of agricultural loan officers that receives in-house and external training on the topic and receives slightly higher compensation than the enterprise loan officers because of their specialization. This

**Sources:** Agrifin (2012) and Yaw Brantuo.

methodology is now in the process of being transferred to AccessBank Tanzania.

OI Ghana piloted an agricultural finance program in 2010 with an input credit scheme using 536 cocoa farmers in the Ashanti region. By 2012 OI Ghana was serving about 9,000 farmers across six administrative regions of Ghana. OI Ghana is introducing the use of GIS technology to more accurately map the locations of smallholder farmers to enable them to accurately determine the areas under cultivation and avoid over or under use of agro-inputs, which has negative impact on the yield. In Ghana, where agricultural finance is only 6 percent of the loan portfolio of the entire banking sector and the quality of these loans are below industry average, a breakthrough in this area could impact the sector.

While AMB and OI’s experiences are still at a small scale, their performance is watched carefully by others. Experiences such as these of ABM and OI could potentially provide results that would widen the overall contribution of the banking sector to the domestic economy and positively impact the lives of the rural population, which is still severely underserved.

are nevertheless visible. Greenfield MFIs generally apply high standards related to transparency with clients and are also often active contributors to national credit reference bureaus. Also, greenfield MFIs have on several occasions advocated changes on behalf of the microfinance sector, to enhance transparency, raise standards, and improve the quality of regulations. See Box 11.

Several holdings endorse the Client Protection Principles,<sup>17</sup> and train their staff to operationalize these principles. In the DRC, Advans and ProCredit led the way in more transparency toward their clients, and now Rawbank and BIC, two traditional commercial banks, also publish their prices and terms on their websites. In Ghana, market actors interviewed found greenfield banks to be more open and transparent in their dealings with their clients. This view is supported by the availability of client-oriented material on the websites of greenfield MFIs and the clearly visible pricing information posted in the banks. In Madagascar, Accès-Banque Madagascar is one of only two MFIs that publish effective interest rates for their clients.

Greenfield banks comply with reporting to the credit bureau or are, depending on the country context, actively participating in exchange of credit references among institutions operating in the same market. The holding companies highlight the importance of this for sound credit risk management and responsible finance.<sup>18</sup> In Cameroun, for example, where Advans built its first greenfield MFI, the bank started a credit information exchange that now involves 12 MFIs. In Ghana greenfield MFIs are all active providers and users of credit reference information, as required by law. In Madagascar, greenfield MFIs (which are licensed as commercial banks) willingly report to two credit bureaus: one for banks and one for MFIs. This dual reporting creates a bridge between the larger microfinance sector and the banking sector, enabling the clients of these two greenfield

MFIs<sup>19</sup> to have potential access to financial services from entities in both sectors.

Finally, some greenfield MFIs contribute to the development of market infrastructure and a more favorable regulatory environment by participating in the banking or MFI associations in their country. ProCredit in the DRC was instrumental in negotiating a liquidity ratio in favor of the microfinance sector with the Central Bank.<sup>20</sup> Advans Cameroun contributed training material on know-your-customer requirements to the Central Bank for a workshop provided to all MFIs in the country. In Ghana, greenfield MFIs played a role in lobbying for measures to allow savings and loans companies to clear checks and engage in foreign currency denominated transactions.

#### BOX 11

### ASA International, an Impact Investment Pioneer in Transparency

ASA International is among the first funds and holding companies to be rated by the Global Impact Investment Rating Service (GIIRS). The rating provides an independent judgment of social and environmental impact, practices, policies, and achievement and covers the holding, investment fund (CMI), as well as the underlying investments, ASA's greenfield MFIs in Asia and Africa. While the rating is preliminary and not public, it provides ASA a benchmark relative to other impact investing companies. In 2012 ASA received a rating of 161 points out of a total of 200, which ranks it among the top quintile of the early GIIRS-rated companies, the so-called Pioneers. ASA envisages to regularly update its rating and is currently undergoing a follow-up rating.

Source: GIIRS (2012) and GIIRS website ([www.giirs.org](http://www.giirs.org)).

17. The Smart Campaign website ([www.smartcampaign.org](http://www.smartcampaign.org)) lists Access, Accion, Advans, BRAC, FINCA, MicroCred, OI, and Swiss Microfinance holding as endorsers as well as some of their individual affiliates in SSA.

18. In Ghana XDS Data Ghana noted that the greenfield MFIs were among the few financial institutions that undertook direct and extensive due diligence of the credit reference system before signing on. Executives of greenfield MFIs undertook onsite visits to observe reliability, safety, and adequacy of the equipment and related processes of their facilities.

19. Other MFIs do not have access to the bank credit bureau.

20. The liquidity regulation in the DRC was defined in such a way that current and savings accounts needed to be covered by the same liquidity even though savings accounts were four times less liquid. ProCredit DRC demonstrated this with actual data in discussions with the Central Bank following which the ratio was revised to 60 percent for current accounts and 40 percent for savings accounts.





## SECTION 5

### Conclusion

The greenfield model has come a long way in a short time in SSA. While there is a range of microfinance providers in SSA, the proliferation of greenfield MFIs expands the commercial end of the spectrum with regulated, deposit-taking institutions focused on microenterprises and small businesses. In most countries there are gaps in every segment of the market. Many greenfield MFIs address the broader micro and small business segments, while many existing MFIs tend to cater to microenterprise alone. Holding companies have established promising institutions in very difficult markets, including post-conflict markets such as the DRC, Cote d'Ivoire, and Liberia. While many greenfield MFIs are still young, there are signs of solid institution building for the longer term and positive effects on local markets.

Holding companies and their shareholders have found ways to leverage the greenfield business model to address some of the primary challenges in advancing access to finance in SSA. The small size of nascent financial markets, high costs of doing business, uneven regulatory frameworks, and inadequately skilled human resources in many SSA markets benefit from an approach where practices can be standardized and costs can be shared. Through network structures and common practices, holding companies are able to transfer knowledge and learning from one greenfield MFI to another, leveraging the investment in human resources and skills across borders. Their structured approach and heavy focus on human resources development has been a key success factor in their ability to create sustainable institutions in some of the most frontier markets in SSA. Greenfield MFIs have kept risks and losses relatively low thanks to rigorous training of staff, consistent application of tested methodologies, and strong commitment to strict quality and service standards.

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. Market analysis in the DRC, Ghana, and Madagascar has shown that greenfield MFI practices have often been transferred to other market participants by example and through staff movement. Even though attribution remains a difficult issue, it appears, especially in less-developed financial markets, that greenfield MFIs play a pioneering role in expanding the financial access of microenterprises, small businesses, and low-income households.

Where does the model go from here? The number of greenfield MFIs has grown rapidly in the past 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. Some have populations too small to sustain a commercial institution (many island nations), some are unstable and in conflict (Somalia), some have a combination of these issues (the Central African Republic), and some have limitations on foreign ownership in the banking sector (Ethiopia). And in almost every country, peri-urban and rural populations still struggle to access financial services.

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 that present challenges for traditional bricks-and-mortar expansion models. Likewise, their product development is pushing the boundaries at both ends of the spectrum with a focus on SME lending at one end and payment, credit, and deposit services for the mass market at the other.

Another possible development is that some holding companies will develop greater appetite and capacity to acquire existing MFIs and small business banks. So far this has been a rare occurrence indeed, as the holding companies are usually apprehensive about the costs and risks involved in the acquisition of other entities. However, it is possible that a dearth of attractive greenfield opportunities will create incentives for some holding companies to consider such options, particularly if they feel they have a strong network of MFIs that could support the operational aspects of such an approach.

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. Apart from the pressure that this

creates, it will also generate questions about the continued role of DFIs in greenfield networks, with some arguing that there is a continued role (e.g., by helping achieve mass market reach) and others arguing that the DFI role has largely been fulfilled and that there is time to realize some financial returns.

The shareholding of greenfield MFIs has been very stable so far, but it is possible that the market will see more movement in the ownership of these entities going forward, particularly if local investors start taking a greater interest. It is also possible, though not very likely, that the market could see sales of entire greenfield entities if they are not deemed to fit the future strategy of the network. In some cases, DFIs have pursued a dual-stage exit, swapping shares from the local subsidiaries into the holding. The diversification provided by a holding company portfolio presumably makes the investment more liquid and potentially easier to exit through a sale of shares to new holding investors or the potential exit through an initial public offering (IPO) in the capital markets. Finally, there is the (even more remote) possibility that a major reshuffle

could occur as a result of an IPO at the holding company level, at which point many DFIs may exit their investments in both the holding company and greenfield MFIs.

The greenfield MFI model is a complement to other strategies for increasing access to finance, such as reform of existing institutions without a holding structure and bank downscaling. The next few years will be very telling about the ability of greenfield MFIs to leverage their foundation and achieve scale, and for holding companies to replicate and sustain the success of their model in other markets, particularly in a context of diminishing funding for TA. Undoubtedly they will find themselves compelled to develop new methods, capacities, and practices to stay relevant and competitive in the microfinance space. This is already evident in the increasing level of investment directed toward technology-based solutions and alternative delivery channels. At the same time, it is also likely that many of these greenfield MFIs will increasingly begin to compete with commercial banks for mass market customers and those in the SME space. The financial landscape in Africa is poised to become much more interesting.



## Methodology

### ***Definition of Greenfield MFI***

Greenfield MFIs are defined for the purpose of this publication as institutions that are newly created without pre-existing infrastructure, staff, clients, or portfolios and use standard operating procedures disseminated by a central group, often a holding company. 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.

Takeovers and mergers were not included, nor were some subsidiaries of OI and FINCA that started as NGOs many years ago and did not have data available from the start of their operations. Also, at that point in time, they weren't part of a network governed by a holding company.

Ecobank is the only commercial African bank included in the sample. Some other large commercial banks, such as Equity Bank and UBA, which also provide microfinance services, have expanded to other countries. However, these institutions do not focus exclusively on the MSE market and have not created a separate structure to distinguish their microfinance operations as Ecobank has made it more complicated to separate comparable date. Therefore, these banking groups have not been included in the study.

### ***Data from African Greenfield MFIs and Life Cycle Performance Analysis***

Eleven holding companies provided detailed performance data throughout the life cycle for 30 of the 33 African greenfield MFIs created in SSA since 2000. ProCredit Angola, Ghana, and Mozambique are not included in this detailed analysis as ProCredit Holding did not provide performance data for these banks by institutional age. The holding allowed the authors to use data available for two of their banks (DRC and Sierra Leone) that were readily available. ProCredit Ghana was included in the market development research (see below). Data for ProCredit Sierra Leone are included only for the period in which it was owned by ProCredit, from 2007 until 2010, when it was sold to Ecobank.

The 30 greenfield MFIs included in the research represent various types of institutions. A majority are licensed and regulated deposit-taking institutions, ranging in legal structure from commercial banks to savings-and-loan companies to specialized deposit-taking MFIs. A few started taking deposits a couple of years after their creation, and a few re-

mained credit-only MFIs, mobilizing compulsory savings, but not taking voluntary deposits from clients other than their members.

Performance of the greenfield MFIs is evaluated by institutional age (as opposed to calendar year) to evaluate progress and maturation from start-up, regardless of the year operations were initiated. This way, conclusions can be drawn at different stages of institutional development: foundation (preparation and first year of operations), institutional development (generally year two through breakeven), and scale-up (from financial breakeven onward). Among the 30 institutions in the sample, five are in the foundational stage, 11 in institutional development stage, and 14 in scale-up stage. The number of greenfield MFIs in the sample for the different performance indicators and ratios therefore gets smaller closer to the month 60 timeline.

Performance data are presented as simple averages unless otherwise indicated to display the performance of a typical greenfield MFI. When outliers appeared to distort the simple average, weighted averages have been used (e.g., in the case of return on assets and return on equity).

### ***Performance Benchmark with MIX Young Africa***

In Section 1 the performance of greenfield MFIs has been benchmarked to the MIX index for "young" MFIs in Africa, which comprises 58 institutions, four to seven years old. All but five of these institutions are deposit taking, with a deposit base ranging from \$30,000 to \$22.6 million (\$2 million on average) and gross loan portfolio ranging from \$2,000 to \$24 million (\$2.7 million on average). The greenfield MFI subjects of this paper were removed from the benchmark population.

### ***Market Share Analysis of the DRC, Ghana, and Madagascar***

Greenfield MFIs that were included in the market level analysis in the DRC, Ghana, and Madagascar presented in Section 4 are (with their year of creation): DRC: Advans (2009), FINCA (2003), ProCredit (2005), and OI (2010); in Ghana: EB Accion (2008), Advans Ghana (2008), ProCredit (2002), OI (2004), and ASA (2008); and in Madagascar: ABM (2007) and MicroCred (2006).

To determine the market share of these greenfield MFIs—in terms of deposits, gross loan portfolio, number of depositors, and number of loan clients—the greenfield MFI data

collected for this study were compared to data available in the IMF FAS database 2011 data. In addition, some comparisons were made with the microfinance sector or financial sector as a whole, depending on data availability.

### ***DRC***

For the DRC the FAS database includes data for commercial banks only and not for the rest of the financial institutions. To calculate market shares, data of greenfield MFIs that are not included in FAS (i.e., FINCA and OI) have been added to commercial bank data to establish the denominator. For deposit accounts, FAS contained data for all deposit-taking institutions, so this market share reflects the share of all greenfield MFIs of the entire financial sector.

For the comparison with other MFIs, the market share analysis relies on data collected by the Fonds pour l'inclusion financiere en RD Congo (FPM). FPM reported 146 cooperatives, 16 local MFIs, and six international MFIs and microfinance banks (including the greenfield MFIs in the sample) and three universal banks providing microfinance.

### ***Ghana***

Also for Ghana the FAS database includes data only for commercial banks data so no data were available for

greenfield MFIs. Their data have been added to commercial banks data to establish the denominator for the calculation of the market shares. For Ghana the number of loan accounts is likely overestimated as FAS data included only number of borrowers, which tends to be lower than the number of loan accounts.

In Ghana the greenfield MFIs are five of the 19 savings-and-loans companies that represent only a very small part of the financial sector. At the time of the study ASA in Ghana was in the process of transforming from an NGO to a savings-and-loan company. In Ghana, data for the greenfield banks are compared with industry data for so-called deposit money banks, including commercial banks, rural banks, and other banking and quasi-banking institutions.

### ***Madagascar***

The FAS database has disaggregated figures for Madagascar facilitating the calculation of the market shares. Both greenfield MFIs are commercial banks. However, for the purposes of the market analysis, they are compared with the 36 Malagasy MFIs (five "etablisements financier" and 31 institutions de microfinance agrees") as their clientele and methodology are more aligned than with the other nine commercial banks in the country.

## List of people interviewed

### *Holdings*

Access Holding, Thomas Engelhardt, Management Board Member  
 Access Holding, Christoph Diehl, Management Board Member  
 Accion International, Brian Kuwik, Regional Head Africa  
 Accion Investments, John Fisher, Vice President  
 Advans, Claude Falgon, CEO  
 AKAM, Mwaghazi Mwachofi, CEO  
 ASA International Holding, Martijn Bollen, General Counsel  
 ASA International Holding, Mischa Assink, Senior Accountant  
 BRAC, Ishtiaq Mohiuddin, Director Microfinance  
 BRAC, Tanwir Rahman, Director of Finance  
 FINCA, Helen Lin, Africa Finance Manager  
 FINCA, Mike Gama-Lobo, Vice President and Regional Director Africa  
 MicroCred, Arnaud Ventura, CEO  
 Opportunity International, Colin McCormack, Head of Africa Operations  
 Opportunity International, Jean-Philippe Nefve, CFO of Global Microfinance Operations  
 EcoBank, Francis Adu-Mante, Managing Director EB-Accion Ghana  
 ProCredit Holding, Helen Alexander, Management Team Member  
 Swiss Microfinance Holding, Thi Hanh, Operations Manager FIDES  
 Swiss Microfinance Holding, Christian Baron  
 Swiss Microfinance Holding, Konrad Ellsasser

### *Affiliates*

AccesBanque Madagascar, Philip Acton,  
 AccessBank Tanzania, Roland Coulon, CEO,  
 Advans Cameroun, Frank Snieders, CEO  
 Advans Cote d'Ivoire, Gregoire Danel-Fedou, CEO  
 Advans Bank DRC, Francois Lecuyer, Directeur Generale  
 Advans Ghana, Cedric Henot, CEO  
 Advans Tanzania, Peter Moelders, CEO  
 ASA Ghana, Mohammed Aourongjeb, Executive Director  
 EB-Accion, Ghana, Frances Adu-Mante, Managing Director  
 FINCA DRC, Ed Greenwood, CEO  
 MicroCred Madagascar, Barnabe Francois, CEO

Opportunity International DRC, Gilbert Lagailarde, Directeur Generale  
 Opportunity International Ghana, Kwame Owusu – Boateng, Deputy/Acting CEO

### *DRC*

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 Michel Losembe, Directeur General Banque Internationale pour l'Afrique Au Congo, President of ACB (Association Congolaise des Banques)

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 William Asare, Bank Examiner, Banking Supervision Department, Bank of Ghana  
 Yaw Gyima-Larbi, Head, Microfinance Unit, Banking Supervision Depart, Bank of Ghana  
 Gloria Quartey, Head, Center for Training and Professional Development, Bank of Ghana  
 Yvonne Quansah, Director, Financial Institutions Sector, Ministry of Finance  
 Bernard Joe Appeah, Principal Consultant, Pentax Management Consulting  
 Emmanuel Owusu, Managing Director/President of Association, Global Access Savings and Loans/ Ghana Association of Savings and Loans Companies  
 Yaw Gyamfi, Executive Secretary, Ghana Network of Microfinance Companies  
 Raymond Mensah, M&E Specialist, Rural and Agricultural Finance Programme (IFAD/Ministry of Finance)  
 Richard Amaning, Executive Secretary, Ghana Association of Microfinance Companies  
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