

MICROFINANCE:

Enabling The Power of Ideas & Entrepreneurial
Energy for the Other Half

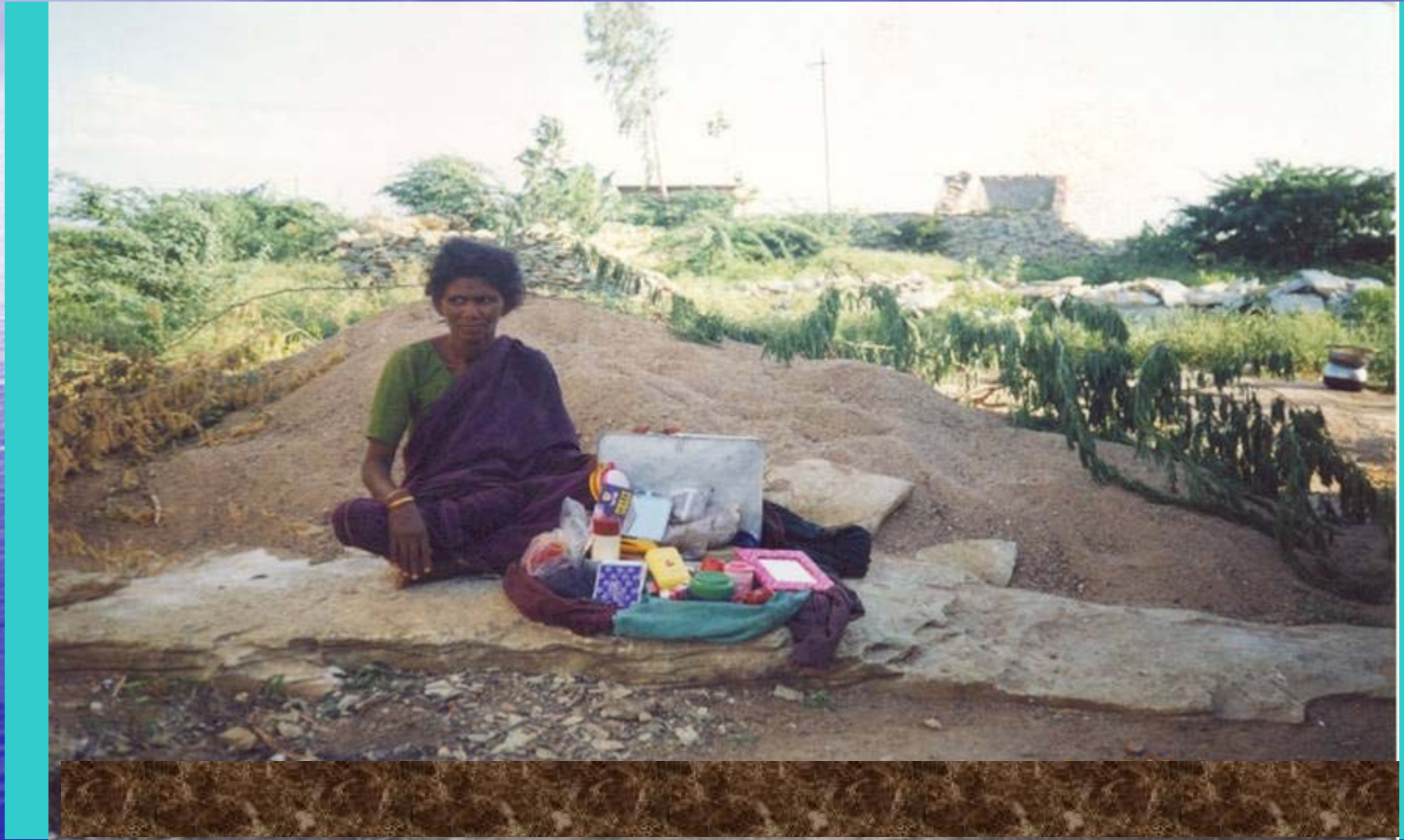
Vinod Khosla

May 2004

Story: 1994



First Inspiration



SHARE: History

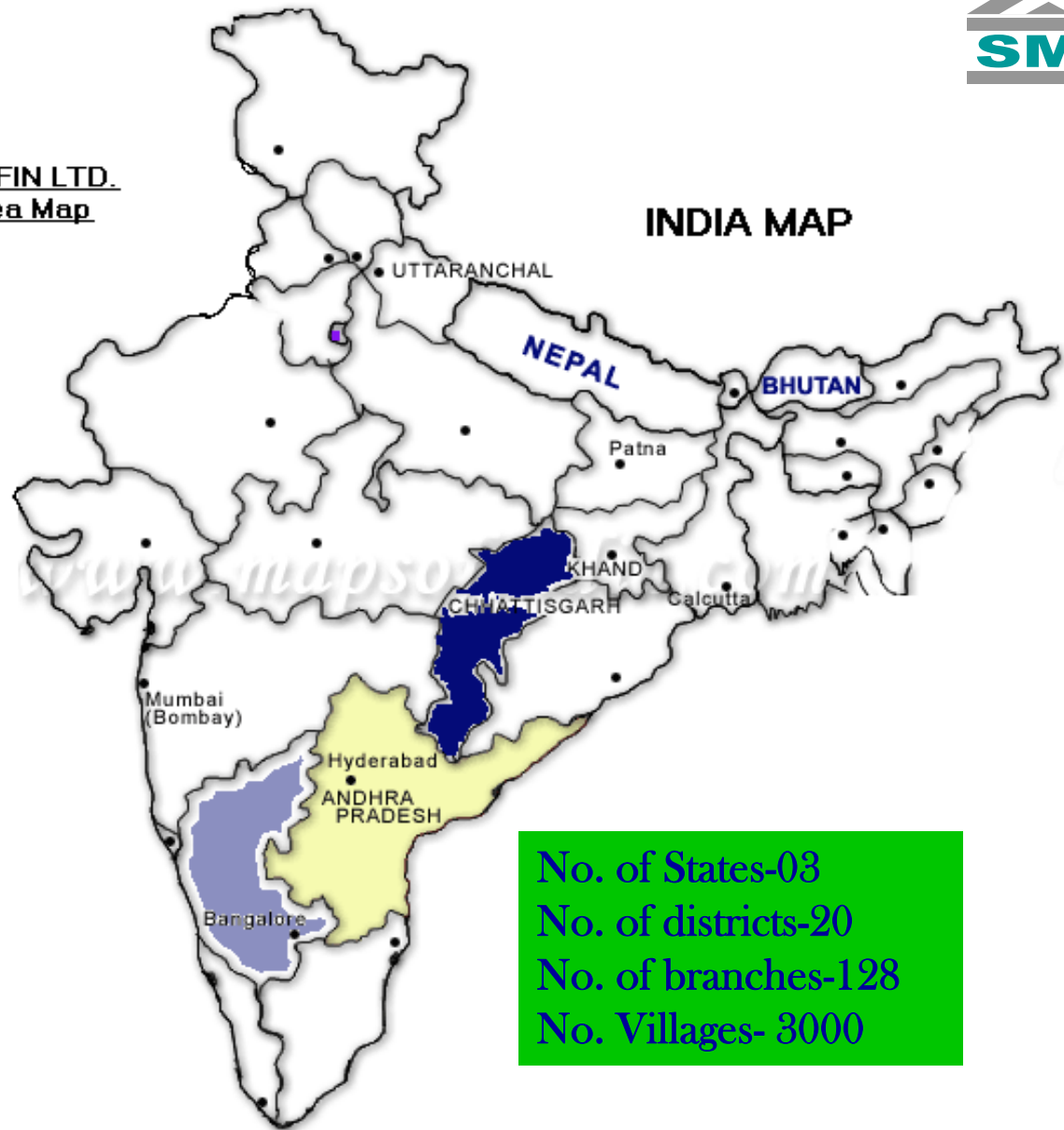
	1998-99	1999-2000	2000-2001	2001-02	2002-03	2003-04
Active Clients	14,155	30,629	48,868	85,644	132,084	197,722
Yrly Disbursed	1,921,035	4,651,210	6,047,275	12,868,419	20,358,382	36,479,044
Cum Disbursed	3,254,810	7,906,020	13,604,790	25,825,362	43,938,060	81,393,506
Loan Portfolio	1,098,896	2,616,531	4,101,330	6,728,653	10,738,703	18,209,566
Financial Self Sufficiency	71%	74%	84%	100%	104%	110%
Cost per \$ Loan	0.13	0.09	0.09	0.09	0.08	0.07

Source: Company Information



SHARE MICROFIN LTD.
Operational Area Map

INDIA MAP



No. of States-03
No. of districts-20
No. of branches-128
No. Villages- 3000

SHARE: Dreams

		2004-5	2005-6	2006-7	2007-8	2008-9
Branches		186	266	346	426	500
Staff		1728	2486	3215	3945	4622
Active Members		335,757	505,931	679,093	854,762	1,028,018
Total Disbursements(\$ Mil)		59.4	91.5	126	162.9	200.1
Loan Portfolio (\$ Mil)		31.2	47.3	64.6	83	101.6
Self Sufficiency (Financial)		106	110	112	112	112

Equity (\$ Mil)		0.6	0.7	0.7	0.4	0.4
Pref. Capital		3.3	1.1	1.1	1.1	1.1

Source: Company Information

TARGET:

- SML provides access to financial resources to people excluded from the conventional, formal financial system.
- *Rural Poor Women;*
- *Whose asset value is less than Rs. 20,000/- (US \$ 444.44);*
- *Whose per capita income is less than Rs. 350/- (US \$ 7.77) per month and*
- *Who live in poor housing conditions.*

Impact:

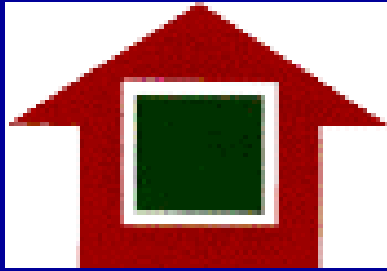


Impact Study

(Bath, Sheffield & Sussex Universities – England)



- 1) 76.8% of the clients experienced significant reduction in their poverty over the last four years of which;
 - i. 38.4% moved from Very Poor to Moderate Poor
 - ii. 17.6% moved from Very Poor to Not Poor
 - iii. 20.8% moved from Moderate Poor to Not Poor
- 2) 38.4% are in the Non Poor category.
- 3) 80% witnessed increase in income levels.
- 4) Women actively participate in family decisions.
- 5) Most of the members' children are being sent to schools.
- 6) 17 different combinations were used as paths out of poverty.



GRAMEEN BANK

- Began in 1976 in Bangladesh
- 3.5 million borrowers
- \$4.4 billion lent
 - 500 types of micro-businesses
 - average amount: \$160
 - peer support and pressure
 - \$4.1 billion repaid
- 120,000 GB families overcome poverty each year (1992 WB survey)



*Prof. Muhammad Yunus,
Founder, Grameen Bank*

Grameen Foundation, USA's Partners in India

- \$2.1 million invested since December 2000
- Quadruple growth from 80,000 to 330,000 borrowers in 3 years

	SHARE	ASA	CFTS	SKS	Grameen Koota	SNEHA	Total
# of Active Clients	197,943	68,781	27,769	21,946	9,083	6,059	331,581
Branches	99	27	17	9	9	4	165
Cum Loans Disbursed (US\$)	71,031,219	14,124,871	11,183,363	5,529,670	1,228,917	1,824,421	104,922,461
Portfolio O/S (US\$)	16,773,450	3,528,145	2,213,363	1,766,496	494,654	483,189	25,259,296
PAR > 30 Days	0%	2.7%	4.44%	0%	0%	0%	

GF-USA Results

- Scale up leading MFI in Pakistan (Kashf)
 - 15,000 to 60,000 clients in 20 months
 - GF-USA invests \$356,000
- Guarantee for SHARE securitization
 - Largest in history; only second overall
 - GF-USA invests \$325,000 (doubling past \$)
 - Leverage: 12:1; 25,000 new clients in Q1
- Industry-leading technology projects
 - Replication of Grameen Telecom in Uganda (5,000 phones; 400 in place & 60/month)
 - Village Computing Project in India



Microcredit in India

Shuffling off the buffalo

MUMBAI

High finance benefits the poor

FOR the poorest of India's poor, the securitisation of financial assets might seem arcane, remote and irrelevant. Yet a new approach to microcredit—the lending of tiny amounts of money to people with even tinier assets—is applying the technique to village life.

ICICI, an Indian bank, has just completed two such deals in the state of Andhra Pradesh. In the larger one, it has paid \$4.3m for a portfolio of 42,500 loans from SHARE, a microfinancier. ICICI's Brahmanand Hegde concedes this differs from the more familiar process of securitising car-loans or home mortgages in a number of important ways.

First, SHARE will be responsible for collecting the loans. Nor will the securities be "asset-backed", as is usually the case with car and house financing. The buffaloes, handcarts and other small-business wherewithals that the loans were spent on will remain unencumbered. ICICI will have as collateral instead a "first loss" guarantee of an 8% deposit of the total from the Grameen Foundation, an American charity devoted to propagating microcredit.

Third, there is, as yet, no secondary market for the securities, though ICICI is talking to Crisil, a credit-rating agency, about the prospects for its rating the paper, and is hoping that over time other banks will enter the market too.

All the main parties are patting themselves on the back. ICICI manages to



reach borrowers it could never otherwise approach, and palm off most of the administration on to SHARE. This helps it meet a government-set target of directing 40% of its total lending to "priority sectors", including 18% to farmers. Grameen sees its cash deposit multiply twelvefold on its way to the poverty-stricken borrower.

SHARE's boss, Udaia Kumar, seems chirpiest of them all. He secures a new source of funds, off SHARE's balance sheet, at a cost that is three to four percentage points cheaper than it pays for a bank loan. This will help him meet his aim of increasing his number of borrowers from under 300,000 now to 1m, a target that will, he reckons, require \$62.5m in new funds. He says that 99% of his clients have never tried to run a business before, and are uneducated and illiterate. Their children may have better luck.

Strategic Plan 2004-2008

- Three Goals
 - 5m new borrowers
 - Half Out of Poverty
 - Champion 3 innovations
- Total Fund-raising Goal: \$80 million (private: \$56m)
- Total leveraged: \$255 million



DREAM the DREAMS!

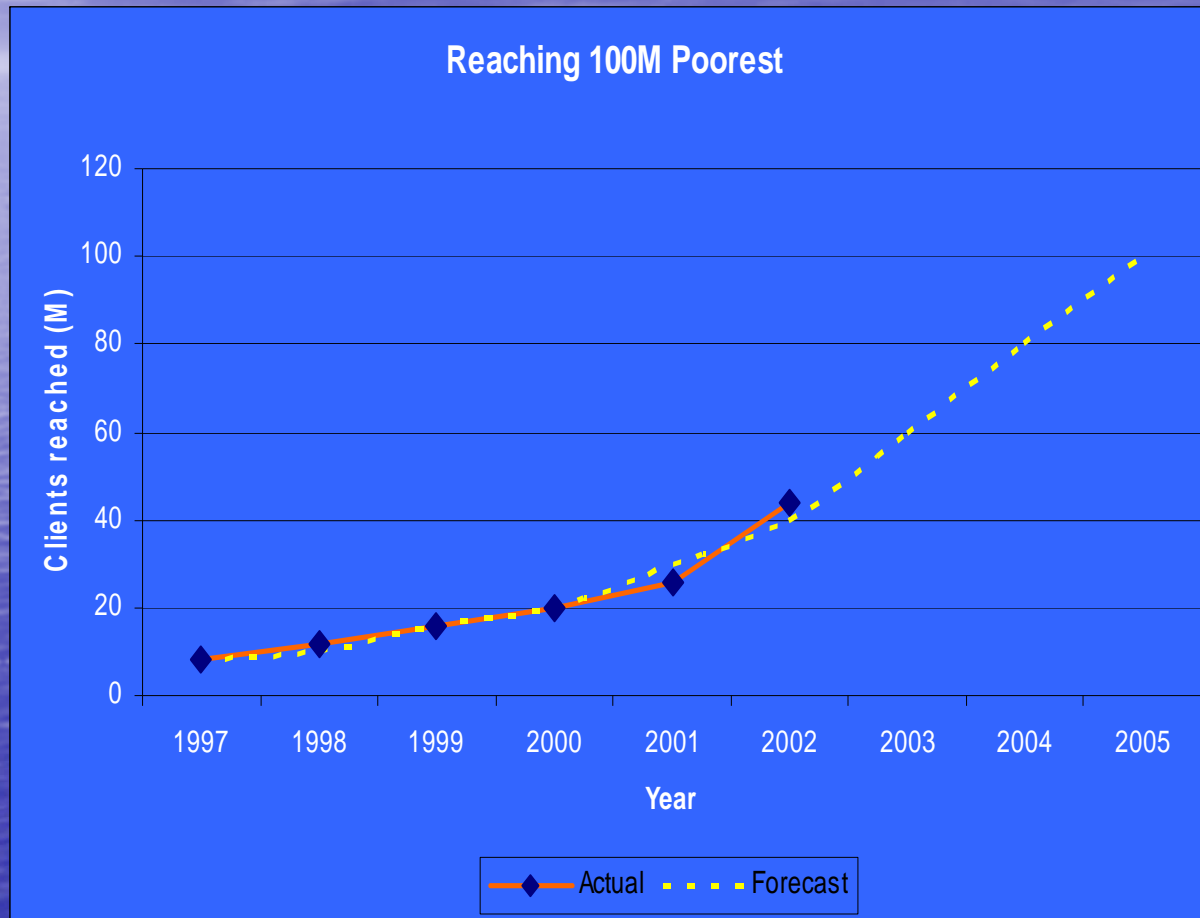
- Microcredit Summit 1997
 - Reach the Poorest
 - Empower Women
 - Build Financially Self-Sufficient Institutions
 - Positive Measurable Impact

- 100m by 2005 (x5)

Remove The Myths

- The poorest are too costly to reach & motivate
- Institutions for the poor cannot be financially self-sufficient
- Such institutions will only add a debt burden to the poor

Impact



Source: The State of the Microcredit Summit Campaign Report 2003

Impact:



Exponential Growth:

		Institutions Reporting	Clients Reached (Mil)	"Poorest" Clients Reached (mil)
Dec-97		618	13.5	7.6
Dec-98		925	20.9	12.2
Dec-99		1065	23.6	13.8
Dec-00		1567	30.7	19.3
Dec-01		2186	54.9	26.9
Dec-02		2572	67.6	41.6

Source: The State of the Microcredit Summit Campaign Report 2003

Exponential Growth:

Size of Institution (in terms of clients)	Number of Institutions	Combined Number of Clients	%
> 1 million	8	13,545,168	32.56%
100,000 - 999,999	25	6,414,155	15.42%
10,000 - 99,999	222	5,961,996	14.33%
2,500 - 9,999	410	1,958,777	4.71%
< 2500	1904	1,003,372	2.41%
Networks	3	12,711,310	30.56%

Source: The State of the Microcredit Summit Campaign Report 2003

Economic Basis

- Ratings
- Professional Boards
- Audit Functions
- Market Cost of Funds
- Incentive Compensation
-and much more

Sustainability



Notes:

- Operational Self-Sufficiency (OSS) is the ability of a MFI to meet all its operational and financial costs out of its income from operations
- Financial Self-Sufficiency (FSS) measures the extent to which its income from operations covers operating costs after adjusting for all forms of subsidy and the impact of inflation

Source: M-CRIL Microfinance Review 2003

Capitalism Scaled?

- Virtuous Pyramid Scheme
- Sustainable
- “Better NOT Best Alternative” Methodology
- Incentive Schemes for Workforce
- Scalability: Commercial basis at ALL levels
- Economic Efficiency from Darwinian Model

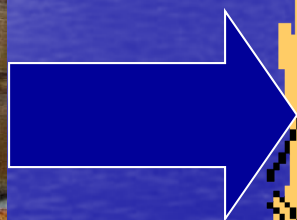
Powers of...

- Entrepreneurship
- Power of Ideas
- Self preservation, Survival & Betterment
- Appropriate Capital
- Appropriate Assistance

Regulation

The background of the slide is a blue-tinted photograph of a vast, calm ocean extending to a clear horizon. The sky is filled with soft, wispy white clouds, and the water's surface shows gentle ripples. The overall mood is serene and expansive.

Securitization: Creating a Secondary Market for Micro-finance



Example: SHARE Securitization

- SHARE sold \$4.3 million of its portfolio to ICICI Bank in Jan 04
 - 42,000 loans from 26 branches as of 10.31.03
 - Continues to act as collection agent
- ICICI discounted the FV of principal and interest of these receivables at 8.75%
- Repayments will all be made by Jan 05
- All future loans originated in these branches will be thru Partnership Model
- Boosts SHARE's ROA and ROE

Benefits of Commercialization

- Investors and lenders demand increased efficiency and transparency
 - New efficiencies can mean lower costs to borrowers
 - Increased transparency and professionalism leading to lower risk of error and fraud
- Tapping into virtually unlimited sources of capital for expansion
- Reduction of time management spends “fund-raising”

Do Good , Do Well

A blue-tinted photograph of a vast ocean under a cloudy sky. The text "Do Good , Do Well" is overlaid in white in the upper left quadrant. The ocean surface shows gentle ripples, and the horizon line is visible in the distance. The sky is filled with soft, white clouds.

Technology's Role:

- ICT for cost management
- ICT as “products”
-?
 - MIT Media Labs
 - UC Berkeley

Debates?

- Sustainability vs MFI+
- Definition of BPL
- Impact Assessment Issues
- Usurious Interest?
- NGO or "For Profit"
- Role of Government
- Role of Big Institutions

Lessons From Silicon Valley

- David or Goliath?
- Process or Passion?
- Help vs Enablement vs "Get out of the Way"
- Entrepreneurial Innovation
- Entrepreneurial Persistence
- Entrepreneurial Capital Efficiency
- Entrepreneurial Energy
- Venture Capital & Venture Assistance

Mix of \$

- Research
- “Programs”
- Impact Assessment
- Equity
- Loans



Comments?

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Risks of Commercialization

- Exclusion of poorest people and areas
 - to reduce perceived portfolio risk among MFI lenders/owners
- Phasing out of complementary services (BDS, credit with education) and social impact experimentation
 - to reduce costs and increase profits
- “Mission Drift”: Overarching poverty reduction objective slowly diluted/lost
- Ownership is increasingly foreign and from traditional banking sector

Risk Mitigation

- Right mix of incentives for MFI loan officers
 - Grameen Bank Five Star System
 - 2 for social impact
 - 3 stars for financial performance
- Apex organizations choice of MFIs
 - Case of SHARE & GF-USA
- MFI choices for key management and governance posts (case of Fonkoze)
- Donors/Investors attention and valuing of:
 - Poverty targeting, poverty impact (monitoring & results), experimentation & complementary services
 - Ensuring that ownership is predominantly local and ideally includes clients themselves

Goal 1: 5m new clients

- 4m from ~12 MFIs
 - Mostly Asian
 - Capacity-building & financing
- Directly Invest \$40m
- Leverage \$240m
- Final 1m:
 - “Seedbed” MFIs (smaller, ensure pipeline for future growth)
 - Latin America, China, Arab World

