

# The Global Microfinance Investment Congress

Equity Investment & Microfinance

## ASA International

*Dirk Brouwer, Executive Director  
Catalyst Microfinance Investors*

**21 January 2008**

- An USD 125 million investment fund for equity investment in emerging microfinance institutions (“MFIs”)
  - Final closing in February 2008
  - Structured as private equity fund
  - Managed by JV of ASA of Bangladesh and Sequoia of the Netherlands
  - Type of Investors: pension funds (28%), investment funds (43%), private investors (18%), investment manager (11%)
  - Target commercial financial returns
  
- Majority-owned investment in ASA International
  - Establishment and aggressive growth of ‘Greenfield’ MFIs in many of the largest markets in Asia and Africa
  - Ambition to build largest, international microfinance bank with over 5m clients within six years
  
- Strategic equity investments in other emerging, promising MFIs
  - Foster adoption of ‘best practice’ methodology and operating procedures
  - Help achieve rapid growth and optimal efficiency
  - Focus on 30-plus % shareholding of investments in existing MFIs
  - Possible long-term integration with ASA International
  
- Exit by means of sale or IPO of ASA International and any individual investments

# Institutional Capital Crucial for Microfinance Sector

## *Huge demand for capital*

- Estimated 800 million microfinance clients worldwide <sup>(1)</sup>

### Average loan size

### Capital Required

US\$100

US\$ 80 billion

200

160

300

240

400

320

- Small proportion of potential market being served <sup>(2)</sup>

- Aggregate total assets of MFIs US\$ 15.4 billion
- Aggregate total equity of MFIs 2.7
- Total assets investment funds 1.8

## Institutional Capital Crucial for Microfinance Sector

*Global financial assets more than 1,500 times larger than development aid assets and budgets*

Total value of world's financial assets <sup>(1)</sup>	<u>2004</u>	<i>Estimated</i> <u>2010</u>
○ Equity securities	US\$ 33 trillion	US\$ 57 trillion
○ Corporate debt securities	32	61
○ Government debt securities	21	32
○ Bank deposits	34	59
Total assets	US\$ 120 trillion	US\$ 209 trillion
<i>Of which invested in SRI assets in US</i> <sup>(2)</sup>	<i>US\$ 2 trillion</i>	

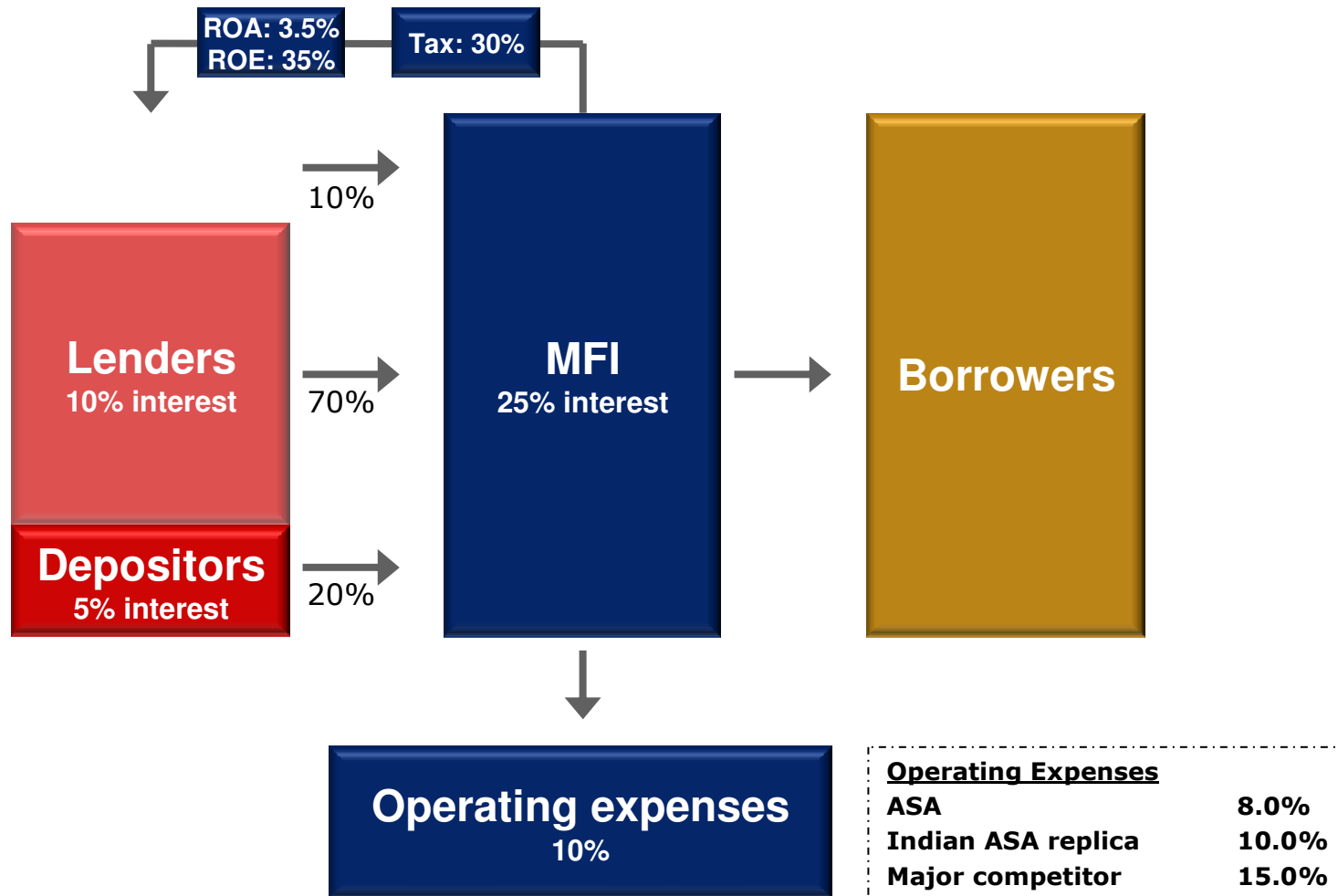
### ■ Total assets of world's development agencies<sup>(3)</sup>

	<u>2004</u>
○ Bilateral and multilateral agencies	US\$ 84 billion
○ <i>Of which invested in microfinance</i>	<1%
○ Official Development Assistance	US\$ 79 billion

Notes: (1) McKinsey Global Institute, 2005; (2) SRI Forum, 2005; (3) OECD publications and CMI research, 2006

## Economics of an MFI

*Operating expenses are the single most important controllable expenses for MFIs...*



## Massive Disparity in Levels of Efficiency

*ASA almost twice as efficient as its Bangladeshi peers*

<i>MixMarket 2006 figures</i>	<b>Loan portfolio (USD)</b>	<b>Number of borrowers</b>	<b>Average loan (USD)</b>	<b>Operational Sustainability</b>	<b>Cost per borrower (USD)</b>	<b>Portfolio at Risk 30 Days</b>
<b>Grameen (1983)</b>	<b>482m</b>	<b>6.9m</b>	<b>70</b>	<b>116%</b>	<b>8.4</b>	<b>1.8%</b>
<b>BRAC (1972)</b>	<b>350m</b>	<b>4.6m</b>	<b>77</b>	<b>137%</b>	<b>9.2</b>	<b>3.8%</b>
<b>ASA (1992)</b>	<b>305m</b>	<b>5.2m</b>	<b>59</b>	<b>238%</b>	<b>5.6</b>	<b>1.5%</b>

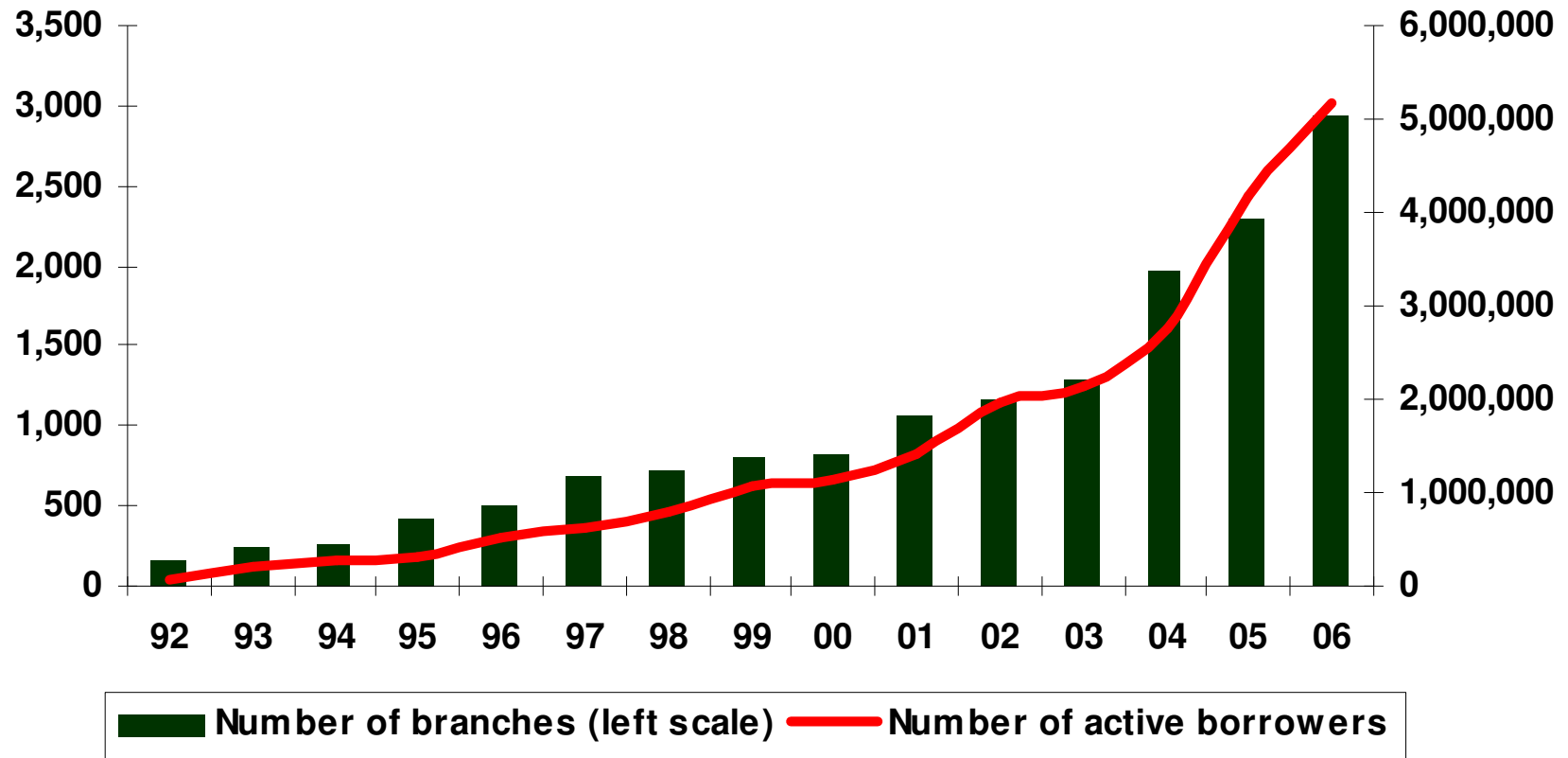
### *ASA has become microfinance leader in 15 years*

- **Founded as NGO in 1979**
  - Initial objective was to empower the oppressed through 'peoples organizations' which were mobilized for social action against exploitation and social injustice
  - Recognizing the important role of women in the family, ASA started to focus on social injustice against women in 1984
  - In the late 1980s ASA started experimenting with microfinance and income generating activities
- **Exclusive focus on microfinance as of 1991**
- **Optimized credit methodology and distribution model throughout the nineties**
- **With exceptional results**
  - Repayment rate consistently above 99%
  - June 2007: 3,327 branches, 22,948 staff, 5.5 million borrowers
  - Highly profitable, growth entirely financed by retained earnings
  - Asian Development Bank called ASA: "The Henry Ford Motor Model of Microfinance"
  - Many MFIs around the world have successfully adopted ASA methodology and received ASA support

## ASA of Bangladesh

*Average annual growth of 34% last fifteen years*

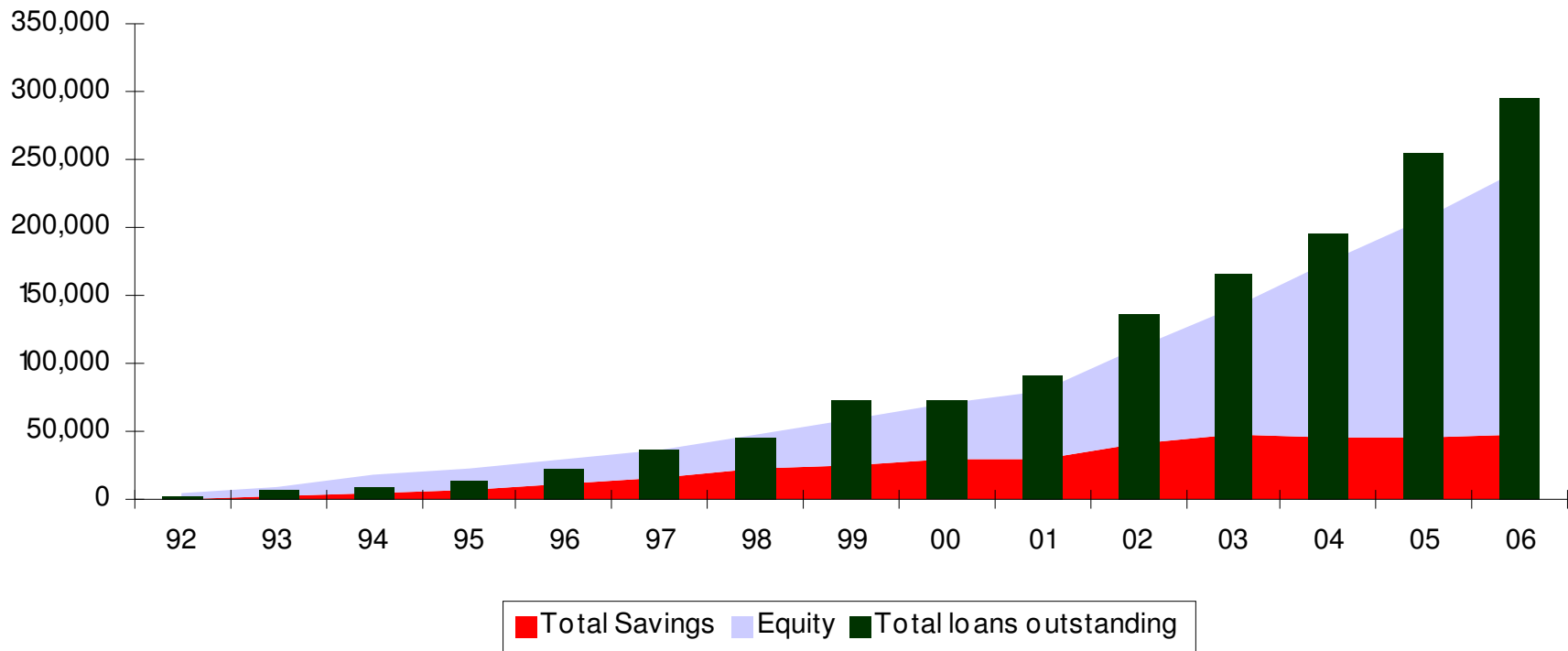
*June-07: 3,327 branches, 22,948 staff, 5.5 million active borrowers*



## ASA of Bangladesh

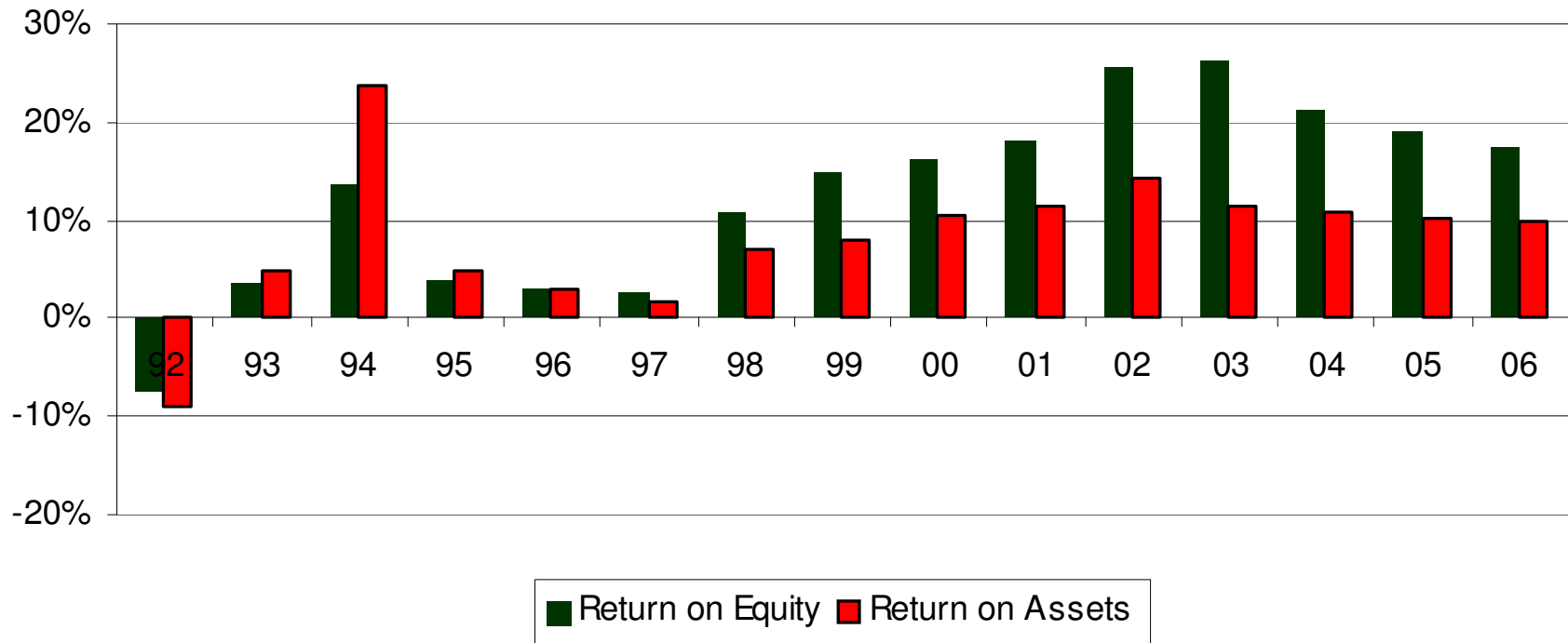
*Profits & retained earnings fully finance growth*

*Loan portfolio Dec-06: USD 294m  
Retained earnings Dec-06: USD 196m*



## ASA of Bangladesh

*High returns on invested capital*



TOP 50 MICROFINANCE INSTITUTIONS



## ASA of Bangladesh

*Forbes ranked ASA as the #1 MFI in January 2008*

Rank	Name	Country	Scale	Efficiency	Risk	Returns
1	ASA	Bangladesh	14	83	56	40
2	Bandhan (Society and NBFC)	India	108	49	42	1
3	Banco do Nordeste	Brazil	46	27	213	25
4	Fundación Mundial de la Mujer Bucaramanga	Colombia	58	72	193	1
5	FONDEP Micro-Crédit	Morocco	119	26	196	1
6	Amhara Credit and Savings Institution	Ethiopia	56	126	118	42
7	Banco Compartamos, S.A., Institución de Banca Múltiple	Mexico	15	24	295	11
8	Association Al Amana for the Promotion of Micro-Enterprises Morocco	Morocco	17	212	133	1
9	Fundación Mundo Mujer Popayán	Colombia	53	181	141	1
10	Fundación WWB Colombia - Cali	Colombia	27	206	155	4

### *Distinctive model of microfinance - dedicated to high repayment rates*

#### ■ Selection – individual credit assessment

- Provide credit for income-generating activities only
- Loan officer to assess repayment capacity of every individual borrower
- Group members to assess the willingness to repay

#### ■ Discipline

- Group pressure: no joint liability, but strong social controls
- Weekly meetings and collection of deposits and installments
- Immediate visit by loan officer if client fails to pay installment
- Flexible loan products suited to clients' capacity

#### ■ Incentives

- Long term benefits outweighs attraction of running off with first loan
- Graduation principle – good credit record provides access to bigger loans
- Continuous focus on improving products and loan protection through loan, death, and health insurance

## *Greenfield MFIs in Many of the Largest Markets in Asia and Africa*

### ■ Ambitions

- Reach 5 million clients and build loan portfolio between US\$ 500-700 million by 2012
- Build largest and most efficient international microfinance institution in the world within 5-6 years

### ■ Strategy

- ASA Model of Microfinance tailored to local market circumstances
- Focus on major markets with proven track record of ASA success: India, China, Pakistan, Sri Lanka, Indonesia, the Philippines, Nigeria and Ghana
- Operating under the 'ASA' banner and brand
- Wholly-owned with no compromises on efficiency and growth

### ■ Implementation:

- Started and managed by senior ASA staff, including branch managers, supported by strong local leadership
- Rapid branch expansion program
  - Start with 10-50 branches in year one in each core market
  - Growing by 50-100+ % every year thereafter for 3-4 years
- Current operations since October 2007
  - Nigeria: 25 branches, expected to grow to more than 50 by June 2008
  - The Philippines: 25 branches, expected to grow to more than 50 by June 2008
  - Sri Lanka: 20 branches, expected to grow to more than 50 by June 2008
  - Ghana: 10 branches, expected to grow to 25 by June 2008
  - India and Pakistan expected to start disbursements by March 2008
  - China and Indonesia targeted to commence operations in 2008

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