INVESTMENT THEME:
ACCESS TO FINANCE

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ACCESS TO FINANCE

Overview

Microfinance and related inclusive financial services have been at the forefront of social development since the 1970's. The success of Grameen Bank in Bangladesh gave credibility to the notion that, with the right risk mitigating strategies, financial services to the poor can have a significant impact on the development of whole communities. Additionally, advances in technology have allowed for the expense associated with traditional banking channels and physical cash management to be significantly reduced. According to a recent study by McKinsey & Company, "fully 80 percent of Sub Saharan Africa's adult population doesn't use formal banks or semiformal microfinance institutions to save or borrow money—the highest such proportion in the world."[i] Most adults cited lack of revenue as the primary hurdle; cost, distance and documentation were also frequently mentioned as barriers to formal accounts.[ii]

Yet, accessing financial services is critical to linking low-income people with the formal economy. While versions of microfinance have existed throughout history, the modern concept of microfinance was conceptualised by Muhammad Yunus in the 1970's. Today, microfinance has grown by leaps and bounds, serving 150 million clients globally.[iii] In Sub Saharan Africa, microfinance serves a growing population, estimated at 16.5 million depositors and 6.5 million borrowers.[iv]

Although microcredit is often viewed synonymously with microfinance, the term (and the more general term "inclusive finance") comprises a wide range of products and services. These include microcredit as well as savings, insurance and fund transfers. Microfinance providers also include a diverse set of players, including informal financial services providers, member-owned organisations, non-governmental organisations (NGOs), and formal financial institutions. Microfinance has recently come under criticism due to rising levels of indebtedness in poor countries, often attributed to the unsecured lending associated with microcredit. This has led some to distinguish microfinance institutions that are "savings-led," using savings as a precursor to lending.

Microfinance relies upon the lowering of risks and costs associated with administrating small transactions. Grameen Bank introduced the approach of using savings groups, which uses a peer model to encourage repayment and lower default rates. Other microfinance approaches combine the purchase or financing of income-generating assets (such as a sewing machine or a goat) with ongoing training and capacity building to mitigate risk and maximize the impact of microfinance on poverty alleviation. The application of mobile technology, through mobile payments and transfers, branchless banking, and administrative support, has begun to revolutionise the sector, removing the "brick and mortar" costs that have traditionally been associated with the financial services sector.

Microfinance has yet to prove its effectiveness in alleviating poverty, but it has come to be seen as a critical tool in mobilising other developmental services that can lift people out of poverty. Experience has shown that "microfinance can deliver positive effects only when it is combined holistically and

MICROFINANCE IN SUB SAHARAN AFRICA

Adult population without access to financial services:
~80%

Adults who send or receive domestic remittances:
48%

Credit taken from family and friends vs a formal finance institution:
41% versus 6%

Active deposit0rs:
16.5 million

Active borrowers:
6.5 million

Adults with a mobile money account:
12% (compared with 2% globally)

integrated effectively with other economic and social programmes to meet the diverse needs of the poor and help lift them from poverty.[v]

Investment Opportunity

The formal financial services sector in Africa has received substantial foreign investment in recent years, largely due to growth and financial reform. According to Ernst & Young, financial services leads the way in African private equity investment, constituting the highest value of investment and the highest number of exits.[vi] Investment into microfinance institutions (MFIs) is also growing, albeit from a much smaller base.

Private investment is particularly needed for African microfinance. Microfinance companies in Sub Saharan Africa rely heavily on short-term deposits to fund operations, and smaller institutions find it difficult to finance growth.[vii] Government funding provides another source of financing, however local debt and equity funding is scarce. Investment into the microfinance space in Africa is still relatively small, constituting only 11% of the global total (2010).

Investments in the microfinance sector are largely channelled through microfinance investment vehicles (MIVs), which include funds, co-operatives, finance companies, holding companies and even crowdfunding initiatives.[viii] Private investment into MIVs is often "blended" with the greater source of public sector funding to allow for different risk and return profiles. As other regions of the world have experienced a slow-down due to economic conditions and higher rates of indebtedness, Africa is a growth market for microfinance investment, growing by 45% (2009) compared to a global growth of 22%.[ix]

Investments into "mobile money" providers and mobile operators moving into banking services are blurring the boundaries between financial services and technology. With 40% of Africans owning a mobile phone, the opportunity for combining mobile technology with financial services is vast. Africa leads in the development of mobile banking services, with 64 million subscribers using mobile payments services.

Challenges in investing in the microfinance space in Africa are significant. As microfinance markets are generally smaller than other regions, it is difficult for larger investors to meet their investment thresholds. African MFIs also underperform compared to other regions with weaker asset quality and higher cost structures. While the region is highly variable, lack of marketing information and infrastructure continues to be an issue. Finally, the regulatory environment (or lack thereof) for MFIs is a barrier to many foreign investors, with unregulated institutions posing a challenge for significant investment.

Challenges aside, the growth potential for the microfinance and broader financial inclusion sector in Africa remains positive. Private investment can be particularly catalytic in this sector, as it can be used to mobilise greater investment through public sector funders. The sector is ripe for innovation as former barriers to financial inclusion are surmounted by technology, allowing low-income groups with no previous access to financial services to "leapfrog" into products and services designed for their needs.

INDUSTRY SEGMENTS & KEY PLAYERS

Microfinance institutions
Informal providers, member-owned organisations, NGOs and commercial institutions

Microfinance investment vehicles (MIVs)
Funds, co-operatives, finance companies, holding companies

Technical assistance providers
Non-governmental organisations (NGOs)

Formal financial services providers
Banks

Technology developers and providers
Mobile money providers, technology start-ups

Mobile operators
Mobile phone companies

Insurers
Micro-insurers, intermediaries, underwriters

Financiers
Governments, development finance institutions (DFIs)

Regulators
Government bodies, inter-governmental bodies

Information transparency
Ratings and benchmarking providers

CASE: EDULOAN

Overview

Eduloan is an education finance specialist operating in southern Africa, with a commitment to making education affordable and accessible to all individuals. Eduloan provides loans to school, university and college students who are not able to access government grants or student financing through the formal banking sector. Since 1996, the company has provided 750,000 loans with a value of over ZAR 4 billion. 96% of the loans are to black students, and 57% of loan recipients are women.

Business and Impact Model

Eduloan's educational loans cover course fees, textbooks, registration fees, and technology/study equipment (such as laptops). Eduloan also provides fund and bursary (scholarship) administration services which assists students and bursars with managing funds, training, cashless payments and class attendance tracking. Eduloan's business model creates a direct relationship between the education institution and Eduloan. Study fees are paid directly to the institution and are repaid through salary deduction. Critically, an employed person must act as surety on the loan and usually acts as the principal client.

Investment

Futuregrowth currently owns an indirect stake of 8.8% in Eduloan. The investment allowed Eduloan to grow the student loan book, effectively increasing the number of students that could be assisted with cheaper study loan alternatives.

COMPANY PROFILE	INVESTOR PROFILE
Company: Eduloan **Website:** www.eduloan.co.za **Legal structure/ownership:** Private company **Industry segment:** Educational financing **Business model:** Low interest microloans to students to further tertiary education ; repayments are redeployed to finance new loans **Countries:** South Africa **Customers:** More than 750,000 people have been reached with greater than ZAR 4 billion in study loans disbursed	**Investor:** Futuregrowth, a specialist investment company which manages the full range of interest bearing and developmental investments in an ethical and sustainable way **Website:** www.futuregrowth.co.za **Investment type:** Equity **Investment size:** Not available **Investment date:** 2006 **Investment return:** +/- 20% return on equity

CASE: ZOONA

Overview

Zoona helps communities thrive by enabling emerging entrepreneurs to become Zoona Agents so that consumers can send and receive money when they need to most. The company has grown to become the leading money transfer service in Zambia and Malawi, with over 1.5 million active consumers, 1,500 agent outlets, and 8 million completed money transfers.

Business and Impact Model

Zoona operates through a network of “Zoona Agents”, independent franchisees who facilitate over-the-counter money transfers for consumers. Each agent is provided with a branded kiosk, an account on Zoona’s transaction platform, a float financing facility, and business support. “Senders” give cash to an agent to initiate a money transfer and pay a fee above the principle amount. “Receivers” are notified via SMS and can withdraw the cash instantly and for free at any Zoona Agent in the country. The fee is divided automatically between the sending and receiving Agents with Zoona retaining a margin. Zoona’s social impact is central to the business, presenting a much-needed alternative to the expense and time spent on cash money transfers: “Boniface Mwale used to travel to Petauke to pay his K150,000 (£20) school fees, spending K150,000 on transport along the way, but now he can send money to his child for a K8,000 (£1) fee.”

Investment

In February 2012, Zoona closed a “Series A” round of funding for US$4 million, including US$3 million from impact investment funds Omidyar Network and ACCION Frontiers. This investment has allowed Zoona to scale its operations considerably, doubling its agent network and increasing its monthly transaction value by more than 10x in 3 years.

COMPANY PROFILE	INVESTOR PROFILE
Company: Zoona **Website:** www.ilovezoona.com **Legal structure/ownership:** Private, for-profit company **Industry segment:** Financial services, mobile money **Business model:** Person-to-person money transfers using an agent network where the sender pays a fee and the receiver withdraws for free **Countries:** Zambia, Malawi **Customers:** 1,500 Zoona Agents and 1.5 million consumers (end 2015)	**Investor:** Omidyar Network, an impact investor investing in both for-profit businesses and non-profit organisations with a commitment to advancing social good; ACCION Frontier Investments Group, a venture equity fund that invests capital and technical expertise in companies with novel business models serving people living in poverty worldwide; Sarona Asset Management, an investment firm investing in frontier and emerging markets. **Website:** www.omidyar.com, www.accion.org, www.saronafund.com **Investment type:** Equity **Investment size:** US$3 million **Investment date:** February 2012 **Investment return:** To be determined

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ENDNOTES

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