

Financial System Strategy 2020



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“Access to Finance for SMEs”
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Presentation Outline

1. Introduction
2. Sources of funds for MSMEs
3. Global examples of raising finance dedicated to MSMEs
4. Microfinance banks in Nigeria
5. Suggested policy initiatives



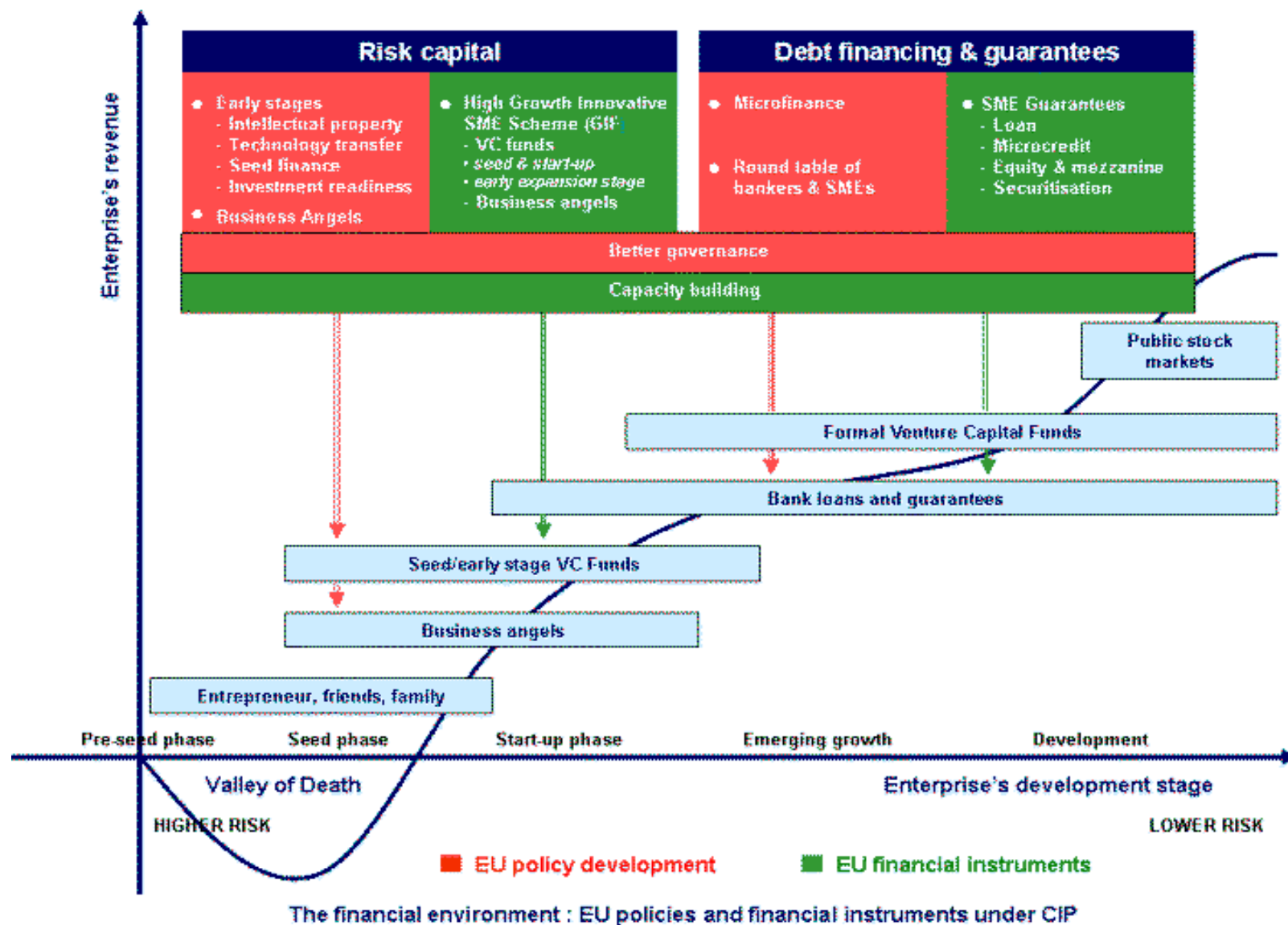
Introduction

- Number of MSMEs in Nigeria..
 - 7 million according to a CBN study of the informal sector
- Average yearly funding required...
 - guestimate of N50,000 average each
- Total finance required:
 - N350bn very conservative estimate (\$3bn)



Sources of Finance for MSMEs

- **Equity based finance**
 - Promoters funds
 - Family and Friends
 - Business angels
 - Venture capital
 - Capital markets
- **Debt based finance**
 - Microfinance banks
 - Universal banks
- **Non bank Intermediaries**
 - NGOs
 - ROSCA
- **Quasi finance**
 - Guarantees
 - Performance bonds
 - Tax savings





Sources of finance :- status and outlook

Type of finance	Current pool size	Outlook on rate of growth
Promoters friends and family fund	Est. less than 1% of requirement (link to GDP per capita \$1,050)	
Business angels	Information not available	Possible growth with continuous economic growth
Venture capital funds	SMEEIS N40bn with 17bn invested as at Dec 2006 (12bn in 2005; 42% growth) (CBN report)	Steady growth
Capital market	2nd tier market To introduce 3rd tier	Limited especially in view of competition with larger companies.



Sources of finance :- status and outlook

Type of finance	Current pool size	Outlook on rate of growth
Debt- Universal banks	1% of total credit goes to Micro and small businesses	While consolidation has increased the pool of finance available, the rate of growth of credit to SMEs will not be rapid.
Debt – Microfinance banks	N14bn credit from community banks and MFIs as at 2004	Microfinance policy objective is to increase the credit to MSMEs 25 times from 0.2% of GDP to 5% of GDP
Quasi funds	Information not available	Growth can be achieved within a conducive environment
Non bank intermediaries	NGOs MFIs N2bn	Possible decline



MFIs: providing finance for MSMEs

- **In my view microfinance banks provides the largest growth potential for finance available for on lending to MSME**
- **Followed by Venture Capital specifically the SMEEIS scheme**
- **Globally, a bank loan is still the principal source of external financing for an MSME (European union survey of SMEs in the region 2005)**
- **Microfinance banks could grow to become as large as universal banks in terms of total assets and credit**
 - **Certainly larger in terms of clients served**
- **With focus on MSMEs and operating within the framework of normal banks, MFBs have the opportunity to mobilize finance for on-lending to MSMEs**



Mobilizing finance: examples

▪ Equity

- **Compartamos in Mexico 2007 (Member of Accion International network)**
 - **\$468m for 30% of Compartamos through an IPO**
 - **The biggest deal in micro capital to date**

- **Equity Bank Kenya 2006**
 - **KSH6.3bn (\$94m)**
 - **Current valuation KSH21.7bn (\$326m)**

- **Bank Rakyat Indonesia (Persero) Tbk. is the oldest and largest bank in Indonesia. Established 16 December 1895 (112 years ago) 30% of its stock IPO in 2003**



Mobilizing finance: examples

▪ Debt (Bonds)

- **BlueOrchard Finance, a Swiss microfinance fund management company, has raised \$450m for onlending to MFIs world wide. Partners include mainstream banks such as Credit Suisse, Morgan Stanley, JPMorgan, Citi, Dexia and BBVA,**
- **Launched in partnership with Morgan Stanley in 2007, BOLD 2 is a CDO (*Collateralized Debt Obligation*, or an obligation depending on a basket of loans).**
- **The CDO includes several types of bonds. The senior bonds are: A (44 million dollars) and B (16 million dollars), their Standard & Poor's ratings are: AA and BBB respectively.**
- **BOLD 2 was oversubscribed and closed at 110 million dollars, which will finance 20 microfinance institutions in 12 countries: Azerbaijan, Bosnia, Cambodia, Colombia, Georgia, Kenya, Mongolia, Montenegro, Nicaragua, Peru, Russia and Serbia. The funds will enable some 70,000 very low-income people to develop their micro businesses.**



- **SKS Microfinance in India has announced a \$44m (Rupees 1.8bn) financing partnership with Citibank**
 - **The world's first Triple A rated local currency securitization of microcredit receivables, for BRAC in Bangladesh , a six year US\$180 million equivalent program**
 - **BRAC is the world's largest national Non Government Organization (NGO) with over five million borrowers (mostly women) and 100,000 employees**
- **Fund managers**
 - **CGAP (Consultative Group to Assist the Poor) estimate that specialized microfinance investment funds have invested \$1.2billion in MFIs**



Growth of commercial microfinance 2004 - 2006

- Elizabeth Rhyne and Brian Busch carried out a study for the Council of Microfinance Equity Funds (CMEF) in September 2006

- **Key highlights**
 - **222 microfinance institutions in 2006 that are regulated, commercial, shareholder owned institutions up from 124 in 2004**

 - **Total number of clients reached by these institutions 11 million up from 3 million in 2004**

 - **Approx \$9bn in loan portfolio and \$14bn in assets in 2006 representing an average growth rate of 463% and 454% respectively**

 - **Commercial MFIs in Asia showed the most growth with portfolio increasing by 249% and assets by 281%**



Growth of commercial microfinance 2004 - 2006

- **Key highlights continued**

- **Average leverage (assets to equity) increased from 6.6 times in 2004 to 8.6 times**
- **Number of MFIs with loan portfolios in excess of \$100m has increased to 20 from 2 in 2004 serving a client base 100,000 at least**
- **Number of Commercial MFIs in Africa grew from 28 in 2004 to 52 in 2006**
- **Total MFI equity worldwide in 2006 amounts to \$1.5bn with Africa having 15% of this total**
- **However Africa is only 7% of total asset and total portfolio indicating low leverage of equity**



Factors that contributed to inflow of funds

- **High quality regulation and supervision**
- **Commercial focus, large scale and reach**
 - **Millions of people with microloans**
- **Shareholder owned with strong corporate governance**
Soundness and financial performance of MFIs
- **Strong legal framework and judiciary, consumer protection**
- **Regions witnessing economic growth**
 - **Stable market oriented government**
 - **Conducive policies for foreign direct investment**
 - **Active stock market**



Funding African MFIs

- **Interesting to note that of the 20 MFIs that serve more than 100,000 borrowers, 6 are from Africa whereas no African MFI has a portfolio greater than \$100m**
- **Savings mobilization a key source of funding in Africa on average representing 35% of loan portfolio**



As at May 2007

- **14 fully licensed in Nigeria**
- **CBN has so far received 144 applications from community banks for conversion to microfinance banks**
 - **of which 4 have been granted full licenses,**
 - **64 licenses have been granted “in principle” and**
 - **76 are still being processed.**
- **919 community banks have the opportunity to convert and estimate 50% will succeed in converting**



Suggested policy initiatives: MFBs

Initiatives aimed at MFIs to enable them attract finance

Phase 1 2007- 2012

Governance

- **Regulation and monitoring**
 - **As strong and focused as for universal banks**
 - **Dedicated unit focused on MFBs**

- **Development of a strong self regulating association**
 - **Association of Microfinance Banks in Nigeria (AMBiN) is being formed**
 - **Promotion of transparency and reporting standards (the MIX)**
 - **Code of conduct**
 - **Capacity building**
 - **Infrastructural development for the sub sector**



Suggested policy initiatives: MFBs

- **Institutional capacity**
 - **Methodology for evaluating MSMEs to reduce risk**
 - **Managerial skills and technical competence**
 - **Governance and caliber of directors**

- **MFBs should vigorously pursue savings (currency outside the banking system N458bn)**

- **Remove cap on SMEEIS loans; make it more market oriented**

- **Government as a partner in development**
 - **Tax incentives to simulate venture capital investment in MFIs and SMEs**
 - **MFBs (pioneer industry status)**
 - **Investment allowable for tax or equivalent of capital allowances for fixed asset investments**



Suggested policy initiatives: MFBs

- **Phase 11 (2013-2016)**
- **Legislation should be reviewed to allow pension funds make investment in venture capital funds that will invest in MFIs, and small capitalization companies; securitization**
- **Encourage consolidation after Community Banks' conversion to MFI**
 - **Drive for scale and depth for MFIs not one or the other**
 - **919 MFbs at \$156,000 amounts to \$143m**
 - **However one MFI could raise this amount if it has the required scale and depth (e. g has 400 branches)**
 - **manageable number of MFIs and**
 - **Ability to invest in technology required to reduce transaction cost of MSME lending**
- **Large scale use of Technology to reach the remote areas in Nigeria based on improved infrastructure**



Suggested policy initiatives: MSMEs

Phase 1 2007-2012

- **Credit Bureau Service**
 - Regulation and policy to enhance credibility and integrity
 - Banks should supply info to licensed credit bureau

- **ID policy for all members of society**
 - Biometrics will be key
 - Social number

- **Code of conduct for both financial institutions and SMEs**
 - Required laws and enforcement, contracts and debt recovery etc

- **Improve the educational system**
 - Technical schools
 - Incentives for Research and development
 - Entrepreneurial development



1. Scale: Create Institutions: MFBs with scale and depth

- **Governance and capacity**
- **Regulation**

It is the finance that is micro not the bank

2. Manage Risk: Increase availability of information on SMEs

- **Credit bureau**

3. Empower: Government as a partner in development

- **Infrastructure power, water, roads, internet**
- **High quality educational system**
- **Tax incentives for MFBs**