

Microfinance Institutions and Their Work in Social Impact Investing

Meet the Team



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Led Zeppelin, Oil Crises, and Microfinance

- Muhammad Yunus and Grameen Bank in the 1970s
 - Credit and loans for the rural poor
- Al Whittaker and IIDII (now Opportunity International)
- United States in the 1980s, Canada via credit unions
- Impact investing, 2000s



Microfinance: A Global Phenomenon

- Microfinance as a way of life
 - Microcredit, microsavings, microinsurance
 - Solidarity lending
- Goals of microfinance in developing countries
 - Empowerment of women
- Improved nutrition
- Improved education
- Grameen's success



Successes and Challenges

- Malaysia
 - Amanah Ikhtiar Malaysia (AIM) raised household incomes
- Canada
 - Microfinance institutions in poor communities aren't accessible enough
 - Leads to lending companies taking over, charging high interest
 - Solidarity lending, competing with profit-driven orgs
 - Financial sustainability of the fund vs. graduation to banks
- The Debt Trap



Microfinance Next Door

- Goals of microfinance in developed countries
 - "Graduation" from welfare, improvement in credit
- 8% Americans unbanked
- ACCION
 - 60% borrowers hired others, 2.4 jobs per loan (avg. \$9732) with wages 25% higher than minimum wage
- Alterna
- Improved housing, improved incomes and financial independence



Social Impact Investing Trends in the Global Market

SRI Investing:

Sustainable, **R**esponsible, and **I**mpact investing

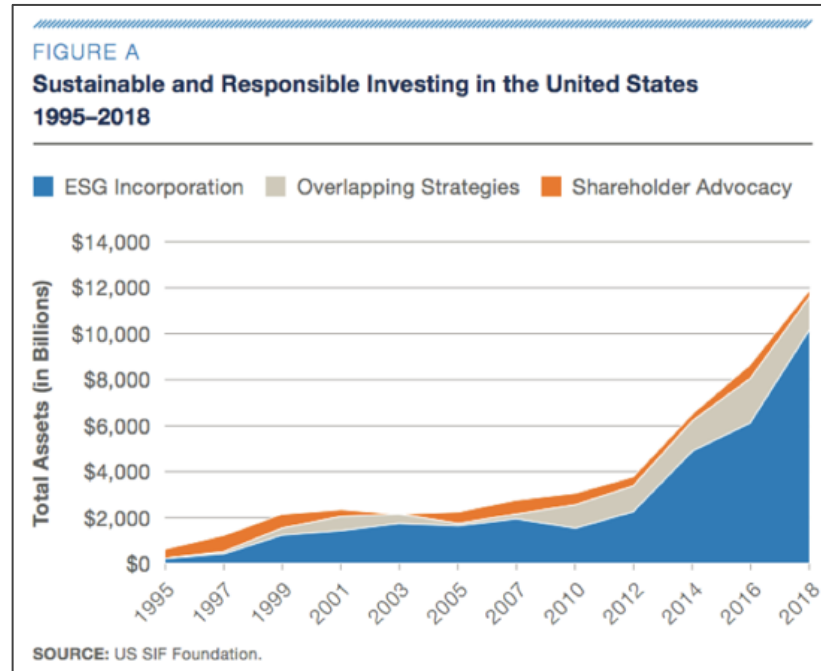
An investment discipline that considers environmental, social and corporate governance (ESG) criteria to generate long-term competitive financial returns and positive societal impact.



ESG Criteria

1. **E**nvironmental Criteria
2. **S**ocial Criteria
3. **G**overnmental Criteria

Effects (According to US SIF)



US Centered Banks that applies ESG strategies

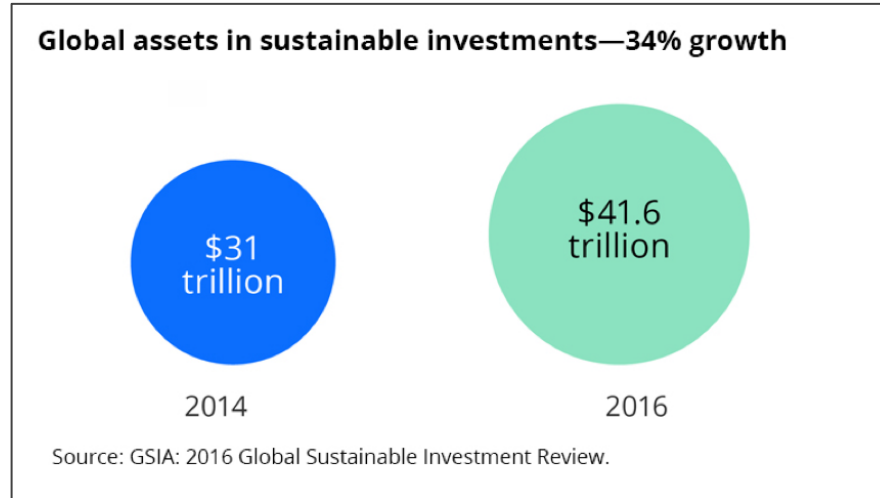
Wells Fargo

Sector	Environmental & Social Issues	Sector	Environmental & Social Issues
Consumer Staples	Food safety, responsible marketing, packaging lifecycle management, environmental and social impacts of ingredient supply chains	Information Technology	Supply chain management, data privacy and security, recruiting and retaining a diverse workforce, energy management
Consumer Discretionary	Fair labor practices, product lifecycle environmental impacts, product sourcing and marketing, energy management, data privacy	Materials	GHG emissions, hazardous waste management, safety and environmental stewardship of chemicals, product design for use-phase efficiency, employee health and safety
Energy	Green House Gas (GHG) emissions, biodiversity impacts, community relations and rights of indigenous people, worker safety	Real Estate	Energy management, water management, management of tenant sustainability, climate change adaptation, design for tenant health and well being
Financials	Financial inclusion, transparent information and fair advice to customers, employee incentives and risk taking, integration of ESG into the investment process	Telecommunications	Environmental footprint of operations, data privacy and security, competitive behavior
Healthcare	Safety of clinical trial patients, access to medicines, bribery, product safety (recalls and lawsuits)	Utilities	GHG emissions, workforce health and safety, end-use efficiency and demand, grid resiliency
Industrials	Energy management, product safety, fuel economy, and emissions of products		

Source: Sustainability Accounting Standards Board and the SII Team.

US Centered Banks that applies ESG strategies

Chase





US Centered Banks that applies ESG strategies

BoA:

BoA officially launched an impact investing program in 2013 to meet rapidly growing client demand for investments that have a positive impact on society or the environment without sacrificing performance.



Accuracy of Data

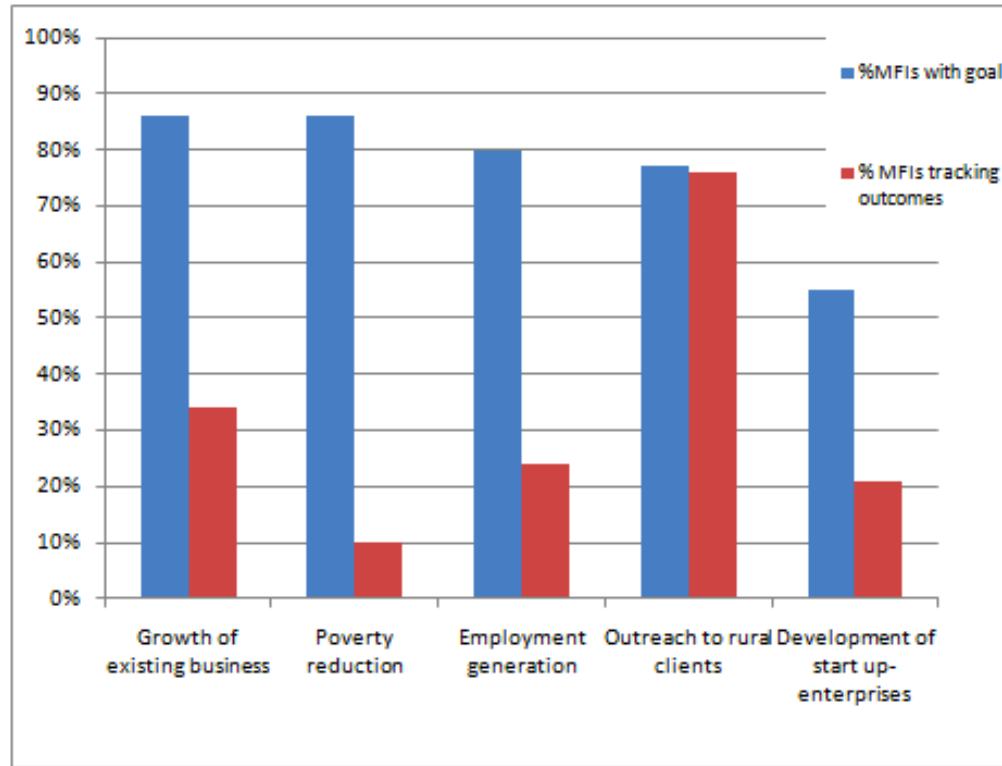
The individuals representing each organization and responding to each respective survey may change from year to year, which can lead to subtly different interpretations of some survey questions.



The Impact of MFIs Internationally

- Lack of sustained revenue
 - Poor organizational management
- On average, MFIs have not been profitable
 - “... discloses that out of 820 MFBs examined, 224 or 27% were found to be “terminally distressed” and “technically insolvent” and had closed shop for at least six months.” - J. Ledgerwood, The World Bank

Poor Track Record of Client Communication





MFI: Portfolio Theory

- Larger commercial banks adopt the portfolio theory as a means to diversify their asset management
 - Invest in different asset classes with different risk rates
- MFIs are unable to diversify risk due to their siloed asset approach



Holding Companies

- Countries such as Nigeria have privatized the micro financing industry
 - International MFIs are often overleveraged
- In the US, many MFIs are subsidiaries of larger institutional firms
 - Holding firms provide additional capital and financial advice



Timing the Interest Payment

- This loan strategy allows MFIs to increase their liquid asset size
- The initial interest payment to the bank can promote a larger pool of clientele
- MFIs are not required to hike their interest rates
- The more capital invested, the more impact on the immediate milieu



How MFIs assess micro businesses and evaluate potential

5 Cs:

1. Character
2. Credit Score
3. Capacity
4. Capital
5. Collaterals



The Result?

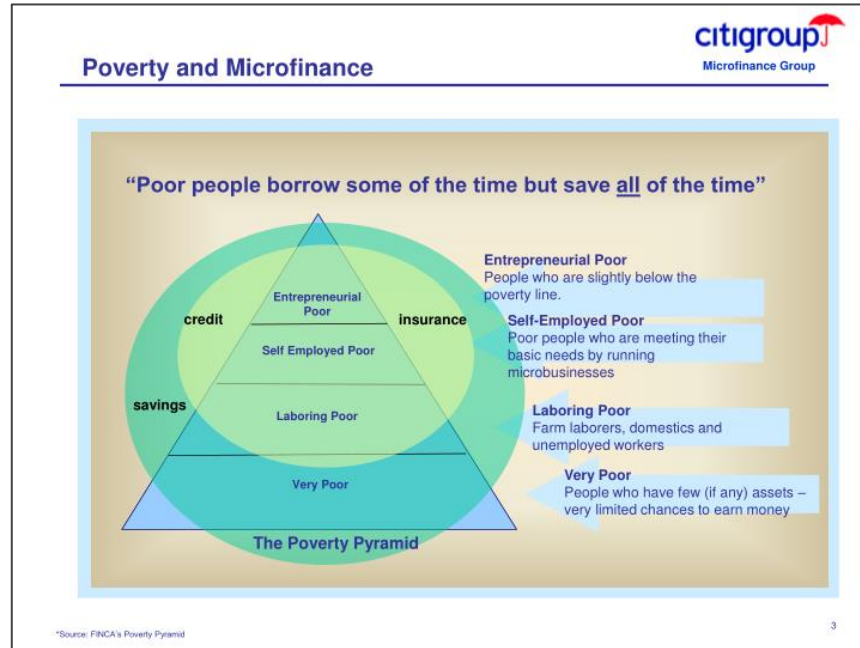
“The small business lending process at most banks today is highly manual and conducted across a multitude of unintegrated systems. This results in a small business lending operation that is inefficient, inconsistent, and expensive.” -- Moody’s Analytics



Larger Financial Institutions

- Mission: “To promote economic progress and improve the lives of people in low income communities around the world.”
- Proposal evaluation:
 - How innovative or influential is the program?
 - What will be the result from this proposed program?
 - How likely is it that the results can be achieved?

Large Financial Institutions



- \$10.5 million investment through Citi Foundation in 2013

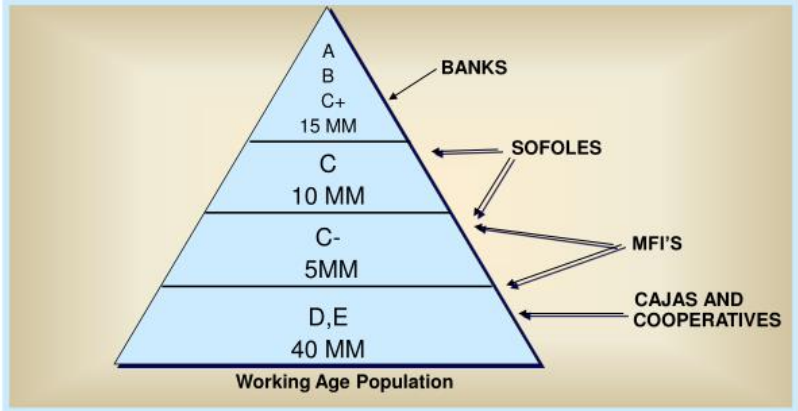


Large Financial Institutions

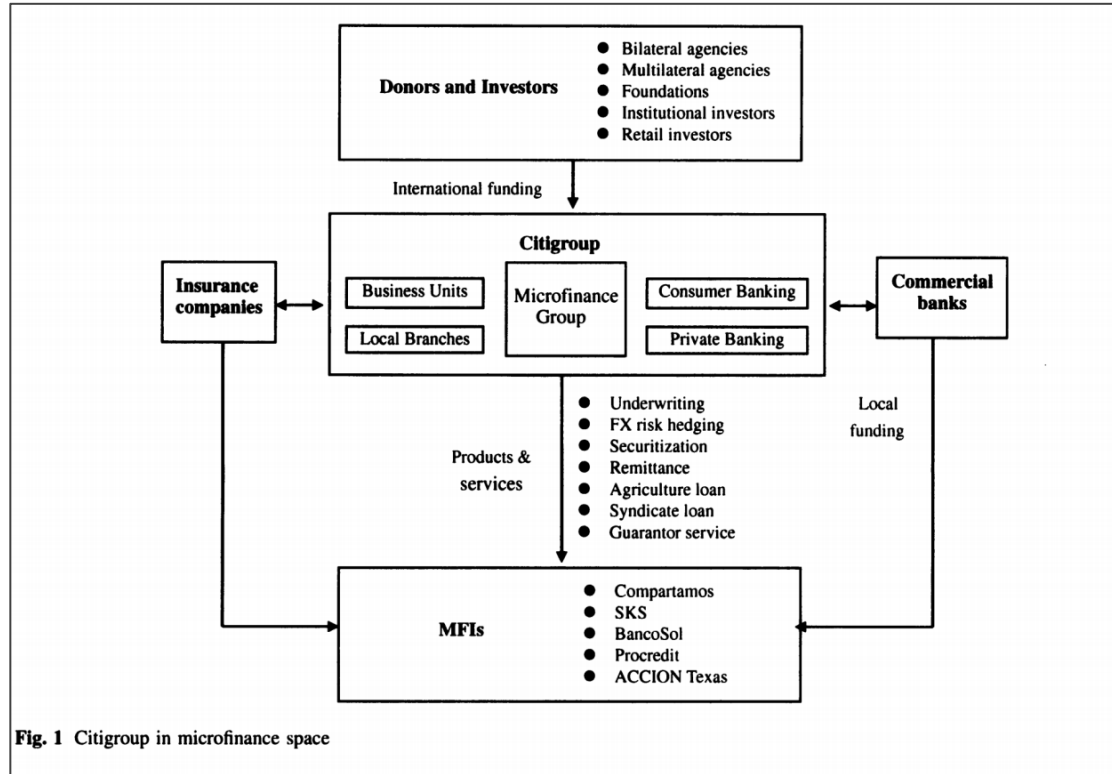
Market Profile – Mexico



- > 14 Consumer Sofoles (Consumer Finance companies) such as Credito Familiar and Compartamos
- > 71 MFIs: Include Sociedades Financieras populares, Asociaciones Civiles and one Sofol. Approved by the Ministry of Economy
- > 680 cajas and cooperatives: Organized in Federations and Confederations



Citi's Structure





Problems with MFIs

- There is still a major problem with running profitable MFI's
- It is very difficult for the institutions to be self sustaining and not require outside capital



MFI Leaders

- FINCA is an example of a microfinance institution that is doing well
- They currently have 800 million dollars under management and give loans out as small as 1000 dollars
- They have also found that the best way to obtain profits is to focus on the social impact
- Companies who **prioritize social impact** tend to be the **most profitable**



Future of MFIs

- There has been a shift from big banks utilizing MF to smaller institutions
- There has also been a major increase in the amount of companies that offer micro financing
- Studies show that business that only work with 100-200 clients are normally most successful
- It is very hard for larger banks to be self sustaining