



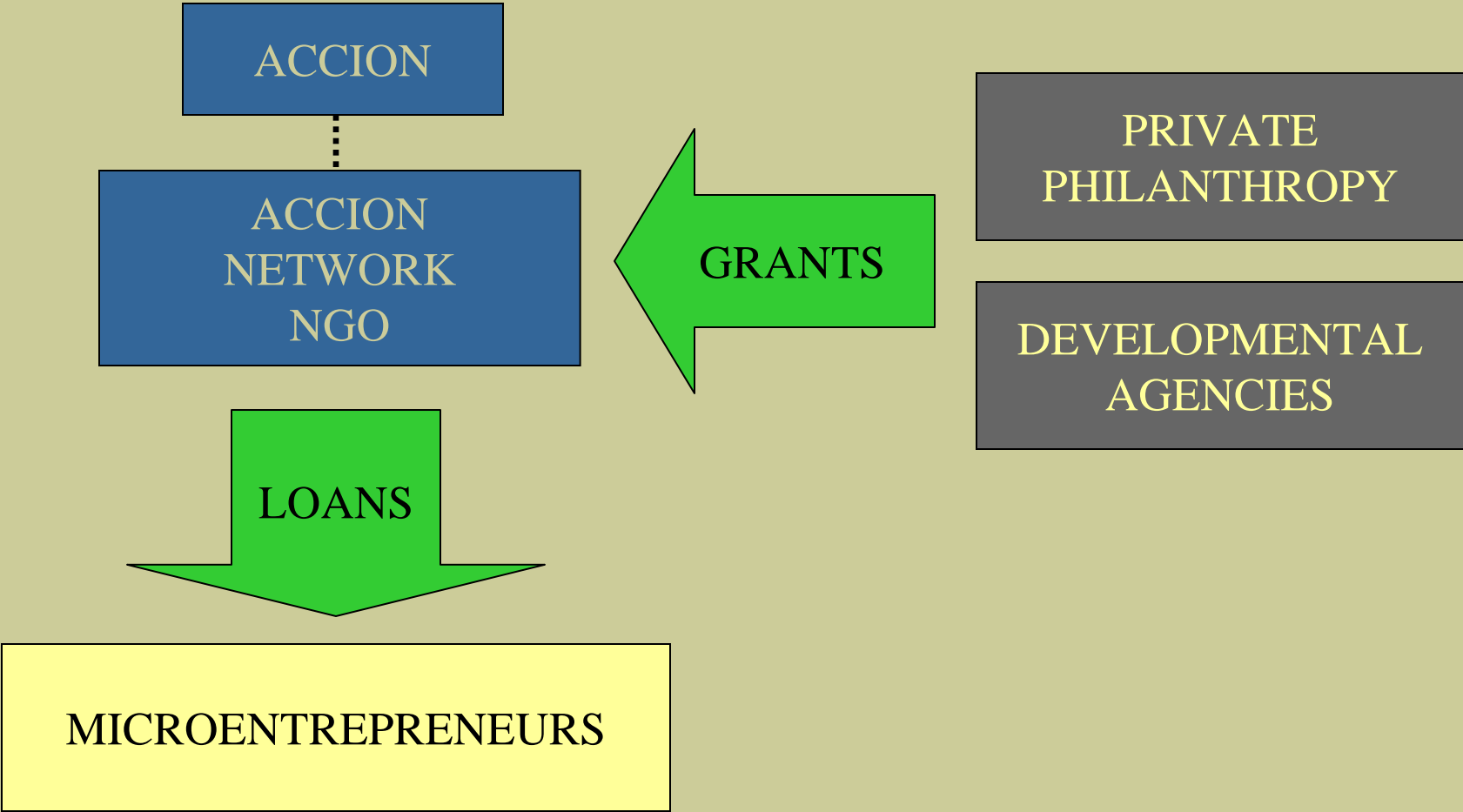
# Commercial Returns & Social Value: The Case of Microfinance

Michael Chu

HBS Conference on Global Poverty – December 2, 2005

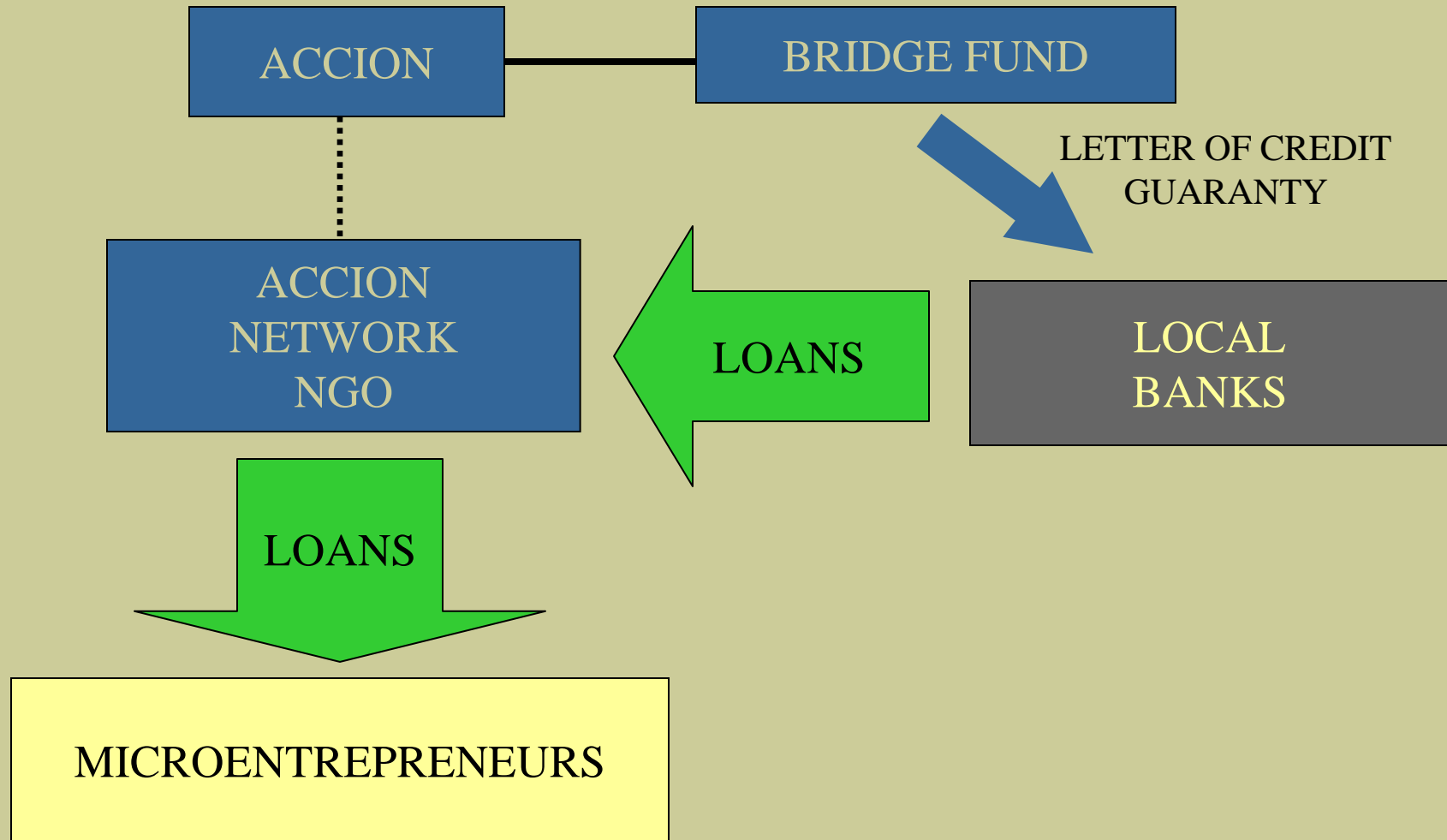
# NGO FUNDING MODEL (c.1973-1985)

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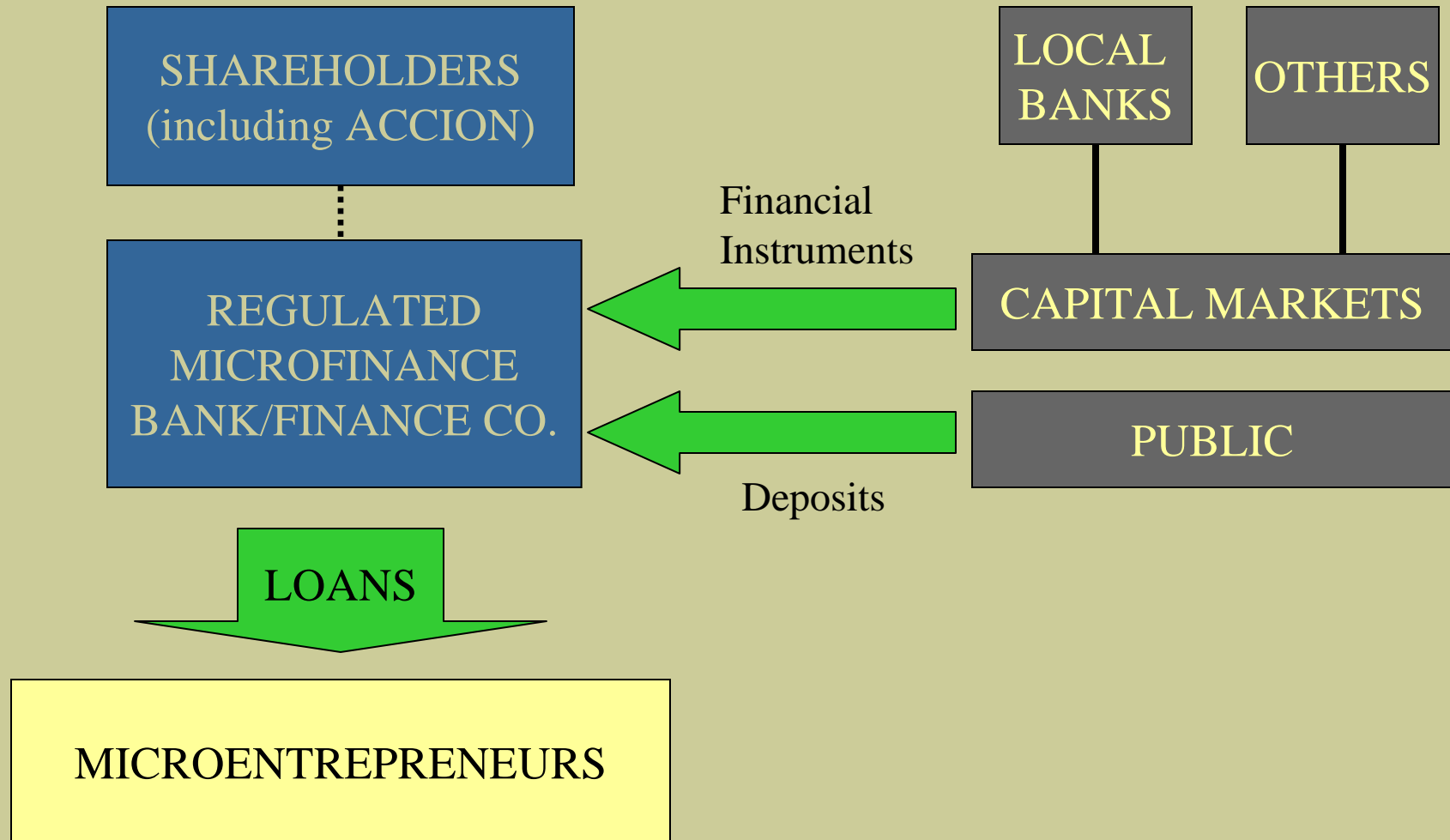


# ACCESSING LOCAL BANKS (c.1985-1990s)

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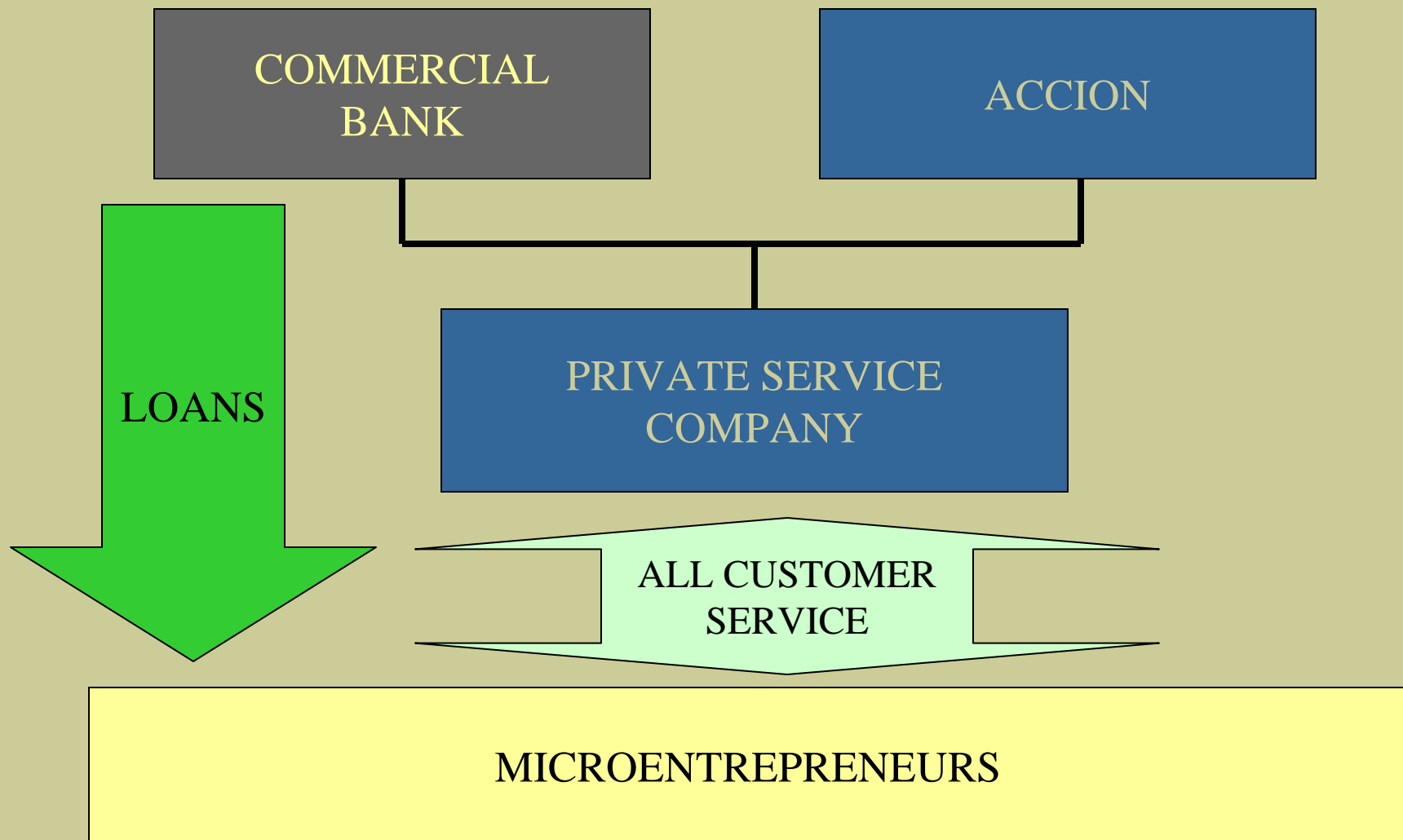


# REGULATED MICROFINANCE INSTITUTION

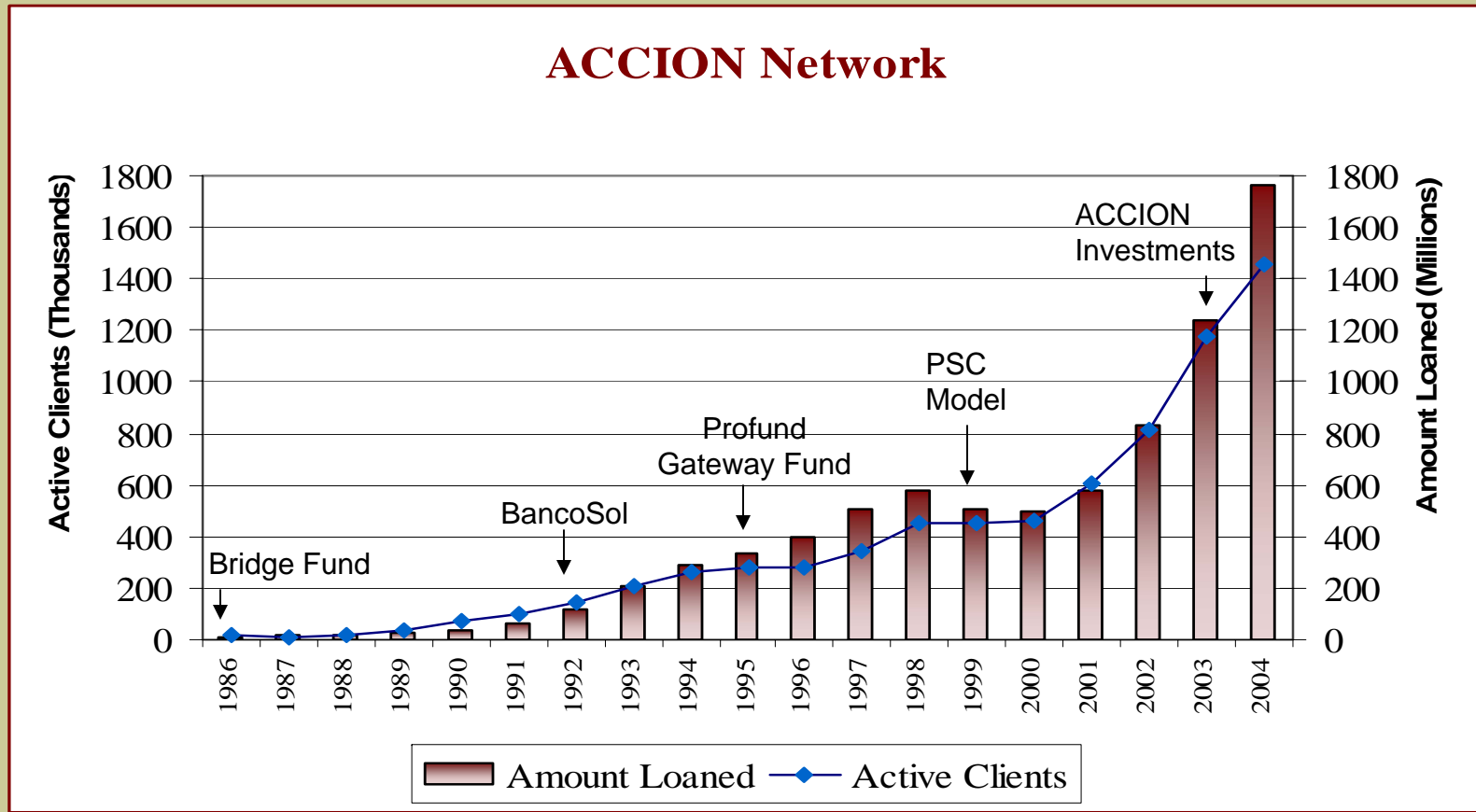


# REGULATED MICROFINANCE INSTITUTION

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# LINKING TO CAPITAL MARKETS



Source: ACCION International

# BUSINESS & GLOBAL POVERTY

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Two fundamental questions:

- Can a social enterprise be a business?
  - Market returns: equal/superior to commercial enterprises with same risk profile
- Can a business create social value?
  - How does it create social value?

These are the key measurements for business at the BoP

# MICROFINANCE: COMMERCIAL RETURNS

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Legitimate commercial market:

- Equal or superior returns vs conventional banking
  - Throughout emerging markets
- Access to capital markets, on commercial basis
  - Regulated banking, bonds, public listing
- New asset category for equity investing
  - Profund: 1<sup>st</sup> microfinance equity fund
  - Complete investment cycle: first quartile results

Successful business can access global capital markets

## FINANCIAL PERFORMANCE 2002-2004

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<b>MICROFINANCE INSTITUTIONS-LAT.AM.</b>	<b>ROE</b>
Compartamos - Mexico	52.2%
Credife (Bco.Pichincha) - Ecuador	50.9%
Confia Banco ProCredit - Nicaragua	39.3%
Banco del Trabajo - Peru	33.8%
Findesa - Nicaragua	32.0%
Fundacion WWB - Cali	31.5%
Bangente - Venezuela	29.0%
<b>CONVENTIONAL BANKS- LATIN AM..</b>	<b>11.2%</b>

Source: Marulanda & Otero, *Profile of Microfinance in Latin America*, Worldscope

# MICROFINANCE: SOCIAL VALUE

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Key measure for all business at BoP: Impact on

**Disposable income (DI) of the poor**

1. *Stretches DI*: Goods & services at lower prices
  - MF vs moneylender: Thousands % vs 20s%
2. *Expands DI*: Goods & services not available
  - Beyond WK loans & simple savings
3. *Increases DI*: Growth of economic activity
  - Directly & indirectly

Microfinance as a multiplier of DI

# PROFIT & GLOBAL POVERTY

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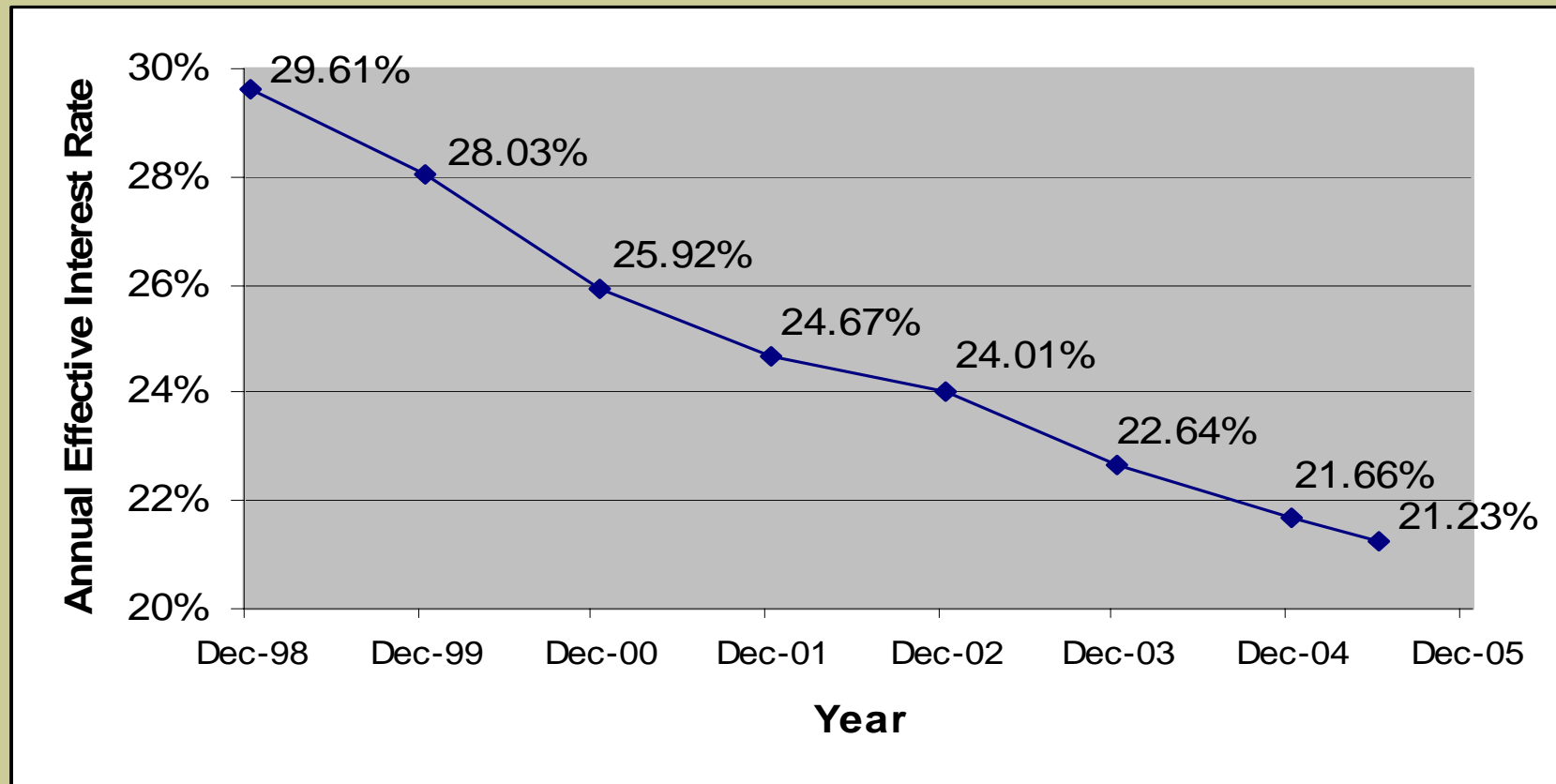
*Profit* is critical to legitimize BoP as part of business

- Market returns a must
  - Outstanding returns kick open doors

*Competition*: what reconciles profits & social value

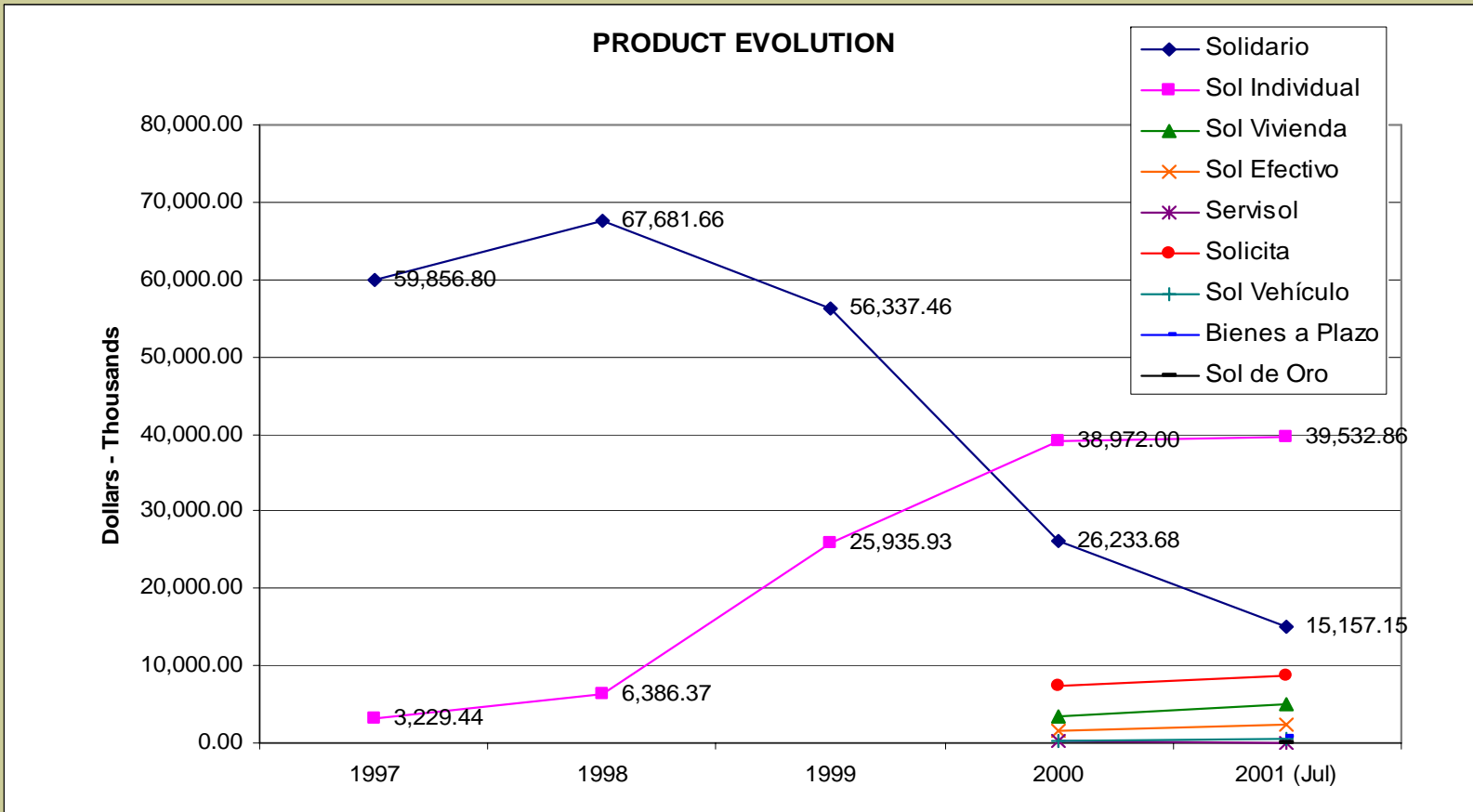
- Lower prices
  - Maximizes choice
  - Improves service
- } for the poor

# MICROFINANCE INTEREST RATES: BOLIVIA 1998-2005



Source: ASOFIN

# BANCOSOL: FROM MONOPRODUCT TO MULTIPRODUCT



Source: BancoSol

# WHY DOES BUSINESS MATTER?

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Poverty is a massive problem

- 3 billion people live on \$2/day

Effective response requires:

- *Scale*: Reaching the entire BoP
- *Permanence*: Ability to last more than 1 generation

**Only business can ensure this:**

- link global capital markets to the poor
- create an industry serving BoP