MICROFINANCE:
Enabling The Power of Ideas & Entrepreneurial Energy for the Other Half

Vinod Khosla
May 2004
Story: 1994
First Inspiration
## SHARE: History

<table>
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<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Active Clients</td>
<td>14,155</td>
<td>30,629</td>
<td>48,868</td>
<td>85,644</td>
<td>132,084</td>
<td>197,722</td>
</tr>
<tr>
<td>Yrly Disbursed</td>
<td>1,921,035</td>
<td>4,651,210</td>
<td>6,047,275</td>
<td>12,868,419</td>
<td>20,358,382</td>
<td>36,479,044</td>
</tr>
<tr>
<td>Cum Disbursed</td>
<td>3,254,810</td>
<td>7,906,020</td>
<td>13,604,790</td>
<td>25,825,362</td>
<td>43,938,060</td>
<td>81,393,506</td>
</tr>
<tr>
<td>Loan Portfolio</td>
<td>1,098,896</td>
<td>2,616,531</td>
<td>4,101,330</td>
<td>6,728,653</td>
<td>10,738,703</td>
<td>18,209,566</td>
</tr>
<tr>
<td>Financial Self Sufficiency</td>
<td>71%</td>
<td>74%</td>
<td>84%</td>
<td>100%</td>
<td>104%</td>
<td>110%</td>
</tr>
<tr>
<td>Cost per $ Loan</td>
<td>0.13</td>
<td>0.09</td>
<td>0.09</td>
<td>0.09</td>
<td>0.08</td>
<td>0.07</td>
</tr>
</tbody>
</table>

Source: Company Information
No. of States-03
No. of districts-20
No. of branches-128
No. Villages- 3000
# SHARE: Dreams

<table>
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<tr>
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</thead>
<tbody>
<tr>
<td><strong>Branches</strong></td>
<td>186</td>
<td>266</td>
<td>346</td>
<td>426</td>
<td>500</td>
</tr>
<tr>
<td><strong>Staff</strong></td>
<td>1728</td>
<td>2486</td>
<td>3215</td>
<td>3945</td>
<td>4622</td>
</tr>
<tr>
<td><strong>Active Members</strong></td>
<td>335,757</td>
<td>505,931</td>
<td>679,093</td>
<td>854,762</td>
<td>1,028,018</td>
</tr>
<tr>
<td><strong>Total Disbursements</strong></td>
<td>59.4</td>
<td>91.5</td>
<td>126</td>
<td>162.9</td>
<td>200.1</td>
</tr>
<tr>
<td><strong>Loan Portfolio</strong></td>
<td>31.2</td>
<td>47.3</td>
<td>64.6</td>
<td>83</td>
<td>101.6</td>
</tr>
<tr>
<td><strong>Self Sufficiency (Financial)</strong></td>
<td>106</td>
<td>110</td>
<td>112</td>
<td>112</td>
<td>112</td>
</tr>
<tr>
<td><strong>Equity ($ Mil)</strong></td>
<td>0.6</td>
<td>0.7</td>
<td>0.7</td>
<td>0.4</td>
<td>0.4</td>
</tr>
<tr>
<td><strong>Pref. Capital</strong></td>
<td>3.3</td>
<td>1.1</td>
<td>1.1</td>
<td>1.1</td>
<td>1.1</td>
</tr>
</tbody>
</table>

Source: Company Information
TARGET:

- SML provides access to financial resources to people excluded from the conventional, formal financial system.
  - *Rural Poor Women;*
  - *Whose asset value is less than Rs. 20,000/- (US $ 444.44);*
  - *Whose per capita income is less than Rs. 350/- (US $ 7.77) per month and*
  - *Who live in poor housing conditions.*
Impact:
Impact Study
(Bath, Sheffield & Sussex Universities – England)

1) 76.8% of the clients experienced significant reduction in their poverty over the last four years of which;
   i. 38.4% moved from Very Poor to Moderate Poor
   ii. 17.6% moved from Very Poor to Not Poor
   iii. 20.8% moved from Moderate Poor to Not Poor

2) 38.4% are in the Non Poor category.

3) 80% witnessed increase in income levels.

4) Women actively participate in family decisions.

5) Most of the members’ children are being sent to schools.

6) 17 different combinations were used as paths out of poverty.
• Began in 1976 in Bangladesh

• 3.5 million borrowers

• $4.4 billion lent
  - 500 types of micro-businesses
  - average amount: $160
  - peer support and pressure
  - $4.1 billion repaid

• 120,000 GB families overcome poverty each year (1992 WB survey)
Grameen Foundation, USA’s Partners in India

- $2.1 million invested since December 2000
- Quadruple growth from 80,000 to 330,000 borrowers in 3 years

<table>
<thead>
<tr>
<th></th>
<th>SHARE</th>
<th>ASA</th>
<th>CFTS</th>
<th>SKS</th>
<th>Grameen Koota</th>
<th>SNEHA</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td># of Active Clients</td>
<td>197,943</td>
<td>68,781</td>
<td>27,769</td>
<td>21,946</td>
<td>9,083</td>
<td>6,059</td>
<td>331,581</td>
</tr>
<tr>
<td>Branches</td>
<td>99</td>
<td>27</td>
<td>17</td>
<td>9</td>
<td>9</td>
<td>9</td>
<td>4</td>
</tr>
<tr>
<td>Cum Loans Disbursed</td>
<td>71,031,219</td>
<td>14,124,871</td>
<td>11,183,363</td>
<td>5,529,670</td>
<td>1,228,917</td>
<td>1,824,421</td>
<td>104,922,461</td>
</tr>
<tr>
<td>(US$)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Portfolio O/S (US$)</td>
<td>16,773,450</td>
<td>3,528,145</td>
<td>2,213,363</td>
<td>1,766,496</td>
<td>494,654</td>
<td>483,189</td>
<td>25,259,296</td>
</tr>
<tr>
<td>PAR &gt; 30 Days</td>
<td>0%</td>
<td>2.7%</td>
<td>4.44%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>
GF-USA Results

- Scale up leading MFI in Pakistan (Kashf)
  - 15,000 to 60,000 clients in 20 months
  - GF-USA invests $356,000

- Guarantee for SHARE securitization
  - Largest in history; only second overall
  - GF-USA invests $325,000 (doubling past $)
  - Leverage: 12:1; 25,000 new clients in Q1

- Industry-leading technology projects
  - Replication of Grameen Telecom in Uganda (5,000 phones; 400 in place & 60/month)
  - Village Computing Project in India
Strategic Plan 2004-2008

- Three Goals
  - 5m new borrowers
  - Half Out of Poverty
  - Champion 3 innovations

- Total Fund-raising Goal: $80 million (private: $56m)

- Total leveraged: $255 million
DREAM the DREAMS!

- Microcredit Summit 1997
  - Reach the Poorest
  - Empower Women
  - Build Financially Self-Sufficient Institutions
  - Positive Measurable Impact

- 100m by 2005 (x5)

Source: The State of the Microcredit Summit Campaign Report 2003
Remove The Myths

• The poorest are too costly to reach & motivate

• Institutions for the poor cannot be financially self-sufficient

• Such institutions will only add a debt burden to the poor

Source: The State of the Microcredit Summit Campaign Report 2003
Impact

Source: The State of the Microcredit Summit Campaign Report 2003
Impact:
## Exponential Growth:

<table>
<thead>
<tr>
<th></th>
<th>Institutions Reporting</th>
<th>Clients Reached (Mil)</th>
<th>&quot;Poorest&quot; Clients Reached (mil)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec-97</td>
<td>618</td>
<td>13.5</td>
<td>7.6</td>
</tr>
<tr>
<td>Dec-98</td>
<td>925</td>
<td>20.9</td>
<td>12.2</td>
</tr>
<tr>
<td>Dec-99</td>
<td>1065</td>
<td>23.6</td>
<td>13.8</td>
</tr>
<tr>
<td>Dec-00</td>
<td>1567</td>
<td>30.7</td>
<td>19.3</td>
</tr>
<tr>
<td>Dec-01</td>
<td>2186</td>
<td>54.9</td>
<td>26.9</td>
</tr>
<tr>
<td>Dec-02</td>
<td>2572</td>
<td>67.6</td>
<td>41.6</td>
</tr>
</tbody>
</table>

Source: The State of the Microcredit Summit Campaign Report 2003
**Exponential Growth:**

<table>
<thead>
<tr>
<th>Size of Institution (in terms of clients)</th>
<th>Number of Institutions</th>
<th>Combined Number of Clients</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt; 1 million</td>
<td>8</td>
<td>13,545,168</td>
<td>32.56%</td>
</tr>
<tr>
<td>100,000 - 999,999</td>
<td>25</td>
<td>6,414,155</td>
<td>15.42%</td>
</tr>
<tr>
<td>10,000 - 99,999</td>
<td>222</td>
<td>5,961,996</td>
<td>14.33%</td>
</tr>
<tr>
<td>2,500 - 9,999</td>
<td>410</td>
<td>1,958,777</td>
<td>4.71%</td>
</tr>
<tr>
<td>&lt; 2500</td>
<td>1904</td>
<td>1,003,372</td>
<td>2.41%</td>
</tr>
<tr>
<td>Networks</td>
<td>3</td>
<td>12,711,310</td>
<td>30.56%</td>
</tr>
</tbody>
</table>

Source: The State of the Microcredit Summit Campaign Report 2003
Economic Basis

- Ratings
- Professional Boards
- Audit Functions
- Market Cost of Funds
- Incentive Compensation
- ...and much more

Source: The State of the Microcredit Summit Campaign Report 2003
Sustainability

Notes:

- Operational Self-Sufficiency (OSS) is the ability of a MFI to meet all its operational and financial costs out of its income from operations.
- Financial Self-Sufficiency (FSS) measures the extent to which its income from operations covers operating costs after adjusting for all forms of subsidy and the impact of inflation.

Source: M-CRIL Microfinance Review 2003
Capitalism Scaled?

- Virtuous Pyramid Scheme
- Sustainable
- “Better NOT Best Alternative” Methodology
- Incentive Schemes for Workforce
- Scalability: Commercial basis at ALL levels
- Economic Efficiency from Darwinian Model
Powers of...

- Entrepreneurship
- Power of Ideas
- Self preservation, Survival & Betterment
- Appropriate Capital
- Appropriate Assistance
Securitization: Creating a Secondary Market for Micro-finance
Example: SHARE Securitization

- SHARE sold $4.3 million of its portfolio to ICICI Bank in Jan 04
  - 42,000 loans from 26 branches as of 10.31.03
  - Continues to act as collection agent
- ICICI discounted the FV of principal and interest of these receivables at 8.75%
- Repayments will all be made by Jan 05
- All future loans originated in these branches will be thru Partnership Model
- Boosts SHARE’s ROA and ROE
Benefits of Commercialization

- Investors and lenders demand increased efficiency and transparency
  - New efficiencies can mean lower costs to borrowers
  - Increased transparency and professionalism leading to lower risk of error and fraud
- Tapping into virtually unlimited sources of capital for expansion
- Reduction of time management spends “fund-raising”
Do Good, Do Well
Technology’s Role:

- ICT for cost management
- ICT as “products”
- ..........?
  - MIT Media Labs
  - UC Berkeley
Debates?

- Sustainability vs MFI+
- Definition of BPL
- Impact Assessment Issues
- Usurious Interest?
- NGO or “For Profit”
- Role of Government
- Role of Big Institutions
Lessons From Silicon Valley

- David or Goliath?
- Process or Passion?
- Help vs Enablement vs “Get out of the Way”
- Entrepreneurial Innovation
- Entrepreneurial Persistence
- Entrepreneurial Capital Efficiency
- Entrepreneurial Energy
- Venture Capital & Venture Assistance
Mix of $ 

- Research
- “Programs”
- Impact Assessment
- Equity
- Loans
Comments?

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Risks of Commercialization

- Exclusion of poorest people and areas
  - to reduce perceived portfolio risk among MFI lenders/owners
- Phasing out of complementary services (BDS, credit with education) and social impact experimentation
  - to reduce costs and increase profits
- “Mission Drift”: Overarching poverty reduction objective slowly diluted/lost
- Ownership is increasingly foreign and from traditional banking sector
Risk Mitigation

- Right mix of incentives for MFI loan officers
  - Grameen Bank Five Star System
    - 2 for social impact
    - 3 stars for financial performance
- Apex organizations choice of MFIs
  - Case of SHARE & GF-USA
- MFI choices for key management and governance posts (case of Fonkoze)
- Donors/Investors attention and valuing of:
  - Poverty targeting, poverty impact (monitoring & results), experimentation & complementary services
  - Ensuring that ownership is predominantly local and ideally includes clients themselves
Goal 1: 5m new clients

- 4m from ~12 MFIs
  - Mostly Asian
  - Capacity-building & financing

- Directly Invest $40m
- Leverage $240m

Final 1m:
- “Seedbed” MFIs (smaller, ensure pipeline for future growth)
- Latin America, China, Arab World