

# Microfinance and private sector development in Africa

Loïc De Cannière  
Incofin

**incofin**

African Diaspora Investment Forum

Brussels, 30 June 2006

# What is “microfinance”?

- Financial products for the poor
  - Credits
  - Savings
  - Remittances
  - Insurance
  - Leasing,..
- Small amounts
- Not offered by traditional banks due to
  - High transaction costs
  - No collateral

# Microfinance globally

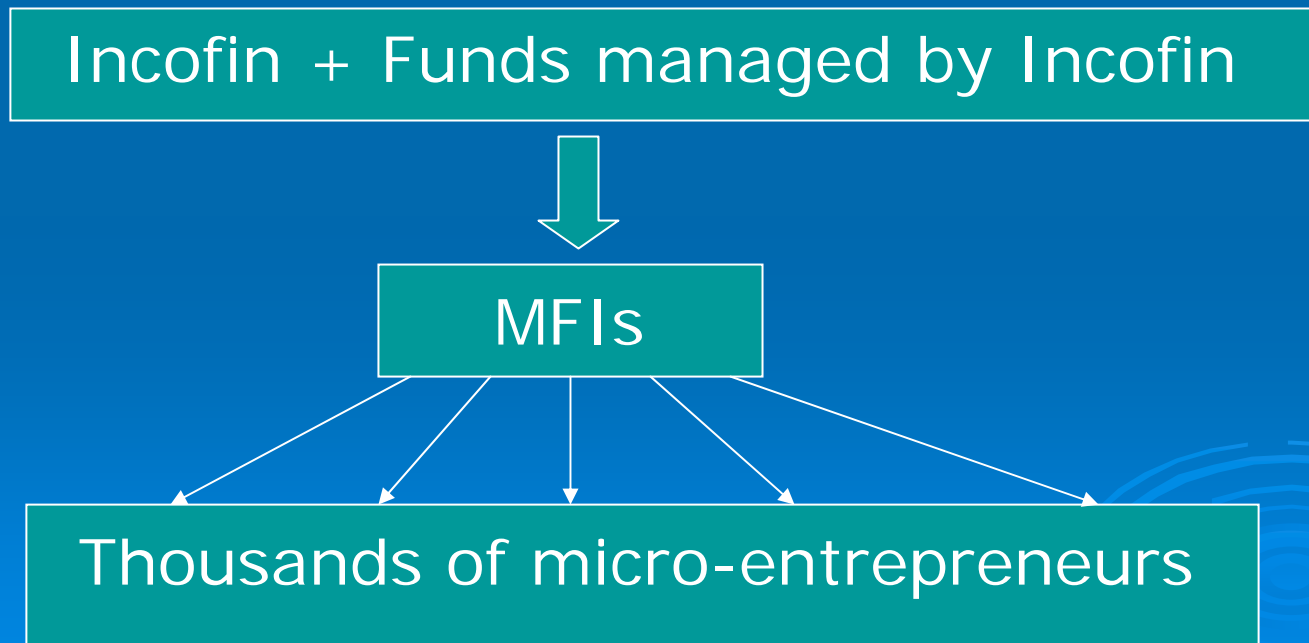
- From 7 million clients in 1997 to 90 million clients today
- Potential: 400 to 500 million clients
- 5% of microfinance clients get out of extreme poverty every year
- 80% women
- Average credit: 600 USD
- Some 10,000 MFIs worldwide

# About Incofin (1)

- What: A socially responsible investment company for developing countries
- Legal form: Belgian co-operative company
- Mission: Incofin supports local entrepreneurship in developing countries as a instrument of poverty alleviation. Incofin focuses on investments in MFIs.
- Who: Approx. 250 shareholders
  - Large Corporates
  - Employers' organizations
  - Trade unions
  - Foundations +private persons
- Funds under management: 20 million €

# About Incofin (2)

- Working method: Incofin (and funds managed by Incofin) invests in microfinance institutions (MFIs) who offer financial services to micro-entrepreneurs and in SME funds



# Overview investments Incofin



Tanzania: Akiba Commercial Bank  
Uganda: UML, CMF  
Kenya: KWFT

Nigeria: LAPO  
Ethiopia: Wasasa  
Benin: Padme

# Example from the Incofin portfolio: UML (Uganda)

- Licensed MDI
- Figures December 05:
  - 92,044 clients
  - 31,145 borrowers
  - 23 branches
  - 323 staff
  - Portfolio: 10.7 m euro
  - Average loan: 444 euro



# Microfinance in Africa: Survey (1)

- The Microfinance Information eXchange (Mix) analysed 163 African MFIs with:
  - 6.3 million savers
  - 2.4 million borrowers
  - 1.3 bn USD total assets
  - 0.7 bn USD savings
  - 20 largest MFIs represent 70% of clients
  - 45% were created in last 4 years

Source: See [www.themix.org](http://www.themix.org): Overview of the Outreach and Financial Performance of Microfinance Institutions in Africa

# Microfinance in Africa: Survey (2)

- Portfolio quality relatively good
- Dynamic MFIs but:
  - Low return (high operational costs)
  - Many small co-operatives and unregulated MFIs

# An investor's view on the African MFI industry (1)

- MFIs are supporting private sector development among micro-entrepreneurs.
- Evident contribution to poverty alleviation
- Huge market remains un-explored. Market penetration of MFIs is low compared to Latin America and Asia.
- Only a few African countries provide adapted regulatory framework.
- Large presence of traditional Savings and Credit Co-operatives, but too often isolated from modern microfinance methodology.

# An investor's view on the African MFI industry (2)

- African MFIs are under-represented in Microfinance Investment Funds due to:
  - Low return of MFIs
  - Difficulties to extend local currency loans or to hedge exchange rate risks
  - Political risks
  - Insufficient management quality
  - Too many cases of fraud
  - Unsatisfactory legal security