May 29, 2018

Dear Participants,

In the last few years we have devoted significant time in the sessions to discuss our industry, its trends, and the general opportunities and challenges the Financial Inclusion industry is facing. The dominating perspective has been us looking outwards to the industry, sharing our experiences and generating a common vision of the industry as a whole. This year we will continue with a similar analysis in the first part of the Annual Meeting sessions. However, we have not had a chance to take a deeper dive into the specific strategies of the member´s MFIs. Taking advantage of this great community that has generated trust among its members, we will devote part of the third day to analyze several of your cases.

To generate these mini cases, during the past few months we have had the opportunity to interview some of you and write a summary of each business model. It has been a privilege to get to know about you as leaders and about the details of each of your MFIs. We have started our comparative analysis and have found a wide range of approaches to the adaptation of each MFI to its external environment, more so challenging nowadays given the much more competitive and dynamic landscape. We see a great opportunity to engage in a discussion on each one´s competitive strategy as you lead your MFI into the 2020s and more specifically the opportunity to share each one´s challenges leading evolution and transformation. We believe it will be a great opportunity to make explicit our main business hypothesis and share approaches to common challenges. Interestingly, we are finding that, although each MFI has a different competitive strategy approach, there are shared challenges to achieve a successful evolution and transformation.

This document contains a short description of the business model for some of the MFI´s attending the Annual Meeting, they will serve as an introduction to each of the sessions of the third day. Some of the discussion questions for each case will be:

- What is your 3-5 year vision?
- What will make your MFI unique, differentiated and competitive to accomplish your mission and vision?
    - Where are you setting the boundaries of your activities?
    - Which are your segmentation strategies?
    - What is the value proposition that will keep your customers loyal and attract new clients?
    - What are the most important capabilities required to achieve your vision?
    - Which are your most significant challenges leading the evolution and transformation of your MFI?

We are very excited to join you again and make this annual meeting a very valuable learning experience for you in the hopes that you continue to lead in the financial inclusion landscape as we approach the next decade.

Warm regards,

Raúl Velarde
Francisco Arenas

ABA – Egypt

- Established in 1988, ABA is a non-profit non-governmental organization with aims for economic development and improving the business climate through research.
- Its microfinance arm provides loans only for business purposes to the economically active poor.
- By 1994 ABA achieved full financial sustainability.

1. Context

Eqypt - At a glance

GDP Per capita (PPP) **USD 4,503**	Population **96 Million**	Population Density **96/sq. km.**	HDI **Med | 0.691 | 111th**

Adults with an account **33%**	Gap between men & women **12%**	Gap between rich & poor **21%**

ABA - at a glance (December 2017 end)

Loans disbursed: US$ 104.1 million	**Active Portfolio:** US$ 56.274 million
Average Loan Size: US$ 270	**Active Borrowers:** 380,000
Yield: 27.16%	**PAR30:** 0.34%
Market Position: Regional player not national	**Total no of Staff:** 1811

2. Vision and Purpose

Boosting the city of Alexandria industrially, economically and socially, enhancing Alexandria's role as an important business hub in the region by improving workforce education and training, encouraging international business investment and opening new markets thus helping achieve economic prosperity and worldwide recognition.

3. Market

The target market for ABA includes the economically active poor, either home based entrepreneurs or working through outlets such as workshops. Most of the products offered by ABA are sector agnostic and focuses on the delta and the northern areas of Egypt.

4. Competition

There are multiple MFI in the country, none of the have a national coverage.

5. Portfolio

6. Service Delivery Channels

ABA offers all available modes of payment decreed by the Microfinance law in Egypt, client can pay and receive loans throughout any ABA 65 branches, ABA bank accounts spread all over its geographical outreach and nearby Post office and E-Wallets.

7. Value Proposition

- ABA follows a credit plus approach where they provide services in energy, sanitation and also complementary services that assists in partial mitigation of credit risk such as advisory services.
- At its core it provides financial gap coverage augmented with a range of free non-financial services (vocational & managerial trainings, business advisory services, literacy classes, market engagement opportunities and exhibitions), in addition to a life and disability insurance and a bail fund that aids clients in dire situations that challenge them in paying loan installments.
- The NGO arm has established a vocational training workshop and also a development center for soft skills called the Middle East Development Centre.

8. Capabilities

Process and policies: clear and documented manuals for policies and procedures for all ABA business processes – Process Maps for all ABA operations and administration

Intangible assets: Highly qualified Management, Executive committee and Board of directors – Copyrighted in house developed ERP system that services all ABA business operations and administration – 80% of ABA staff are university graduates

People and skills: 1811 Staff (66% operational Staff – 30% women staff)

Infrastructure: 65 branches in 7 governorates – Advanced IT structure that connects all ABA physical structure in a highly secured network and database

- ABA is increasing the use of technology to minimize transaction costs. For higher loan amounts, a new batch of loan officers are being prepared equipped with tablets and credit scoring facilities.
- Currently research is ongoing that looks at the effects of providing larger loans to eligible clients. If the size of microloans is too small, then in theory larger loans can help microenterprises and the microfinance institutions to grow.
- As part of a new directive ABA is focusing on activities that add to the GDP of Egypt, such as industrial service, agriculture and value chains for fisheries where Egypt has a competitive advantage while moving away from sectors such as trade.
- Currently also piloting a new product in micro-equity, where ABA launches into an equity arrangement with cattle owners with an exit planned for five years down the line. Rather than paying interests the clients share the profit from this venture.
- A new ERP module is also being developed that would allow better management of tasks.

10. Risks

Legal identity as an NGO is an obstacle, which requires it to seek lots of regulatory approvals.

11. Challenges

ABA is undertaking a process of redesigning its value offer, which involves a new segmentation of the market, the launching of different financial and equity solutions, and which involves an important internal transformation.

AL MAJMOUA
المجموعة

Al-Majmoua – Lebanon

1. Context

- A non-profit and non-partisan NGO driven by a strong social mission, Al Majmoua began in 1994 by Save The Children with USAID funding to provide group loans to low-income women entrepreneurs. Eventually Al Majmoua spun-off in 1997 as an independent non-profit MFI.
- Up until 2001, it utilized the group model from Grameen admitting only women. Then since 2002 it started offering individual products to both men and women.

Lebanon - At a glance

GDP Per capita (PPP)	Population	Population Density	HDI
USD 19,128	**6 Million**	**560/sq. km.**	**High | 0.763 | 76th**

Adults with an account	Gap between men & women	Gap between rich & poor
45%	**24%**	**25%**

2. Purpose

Our vision is to be the leader in the creation of an inclusive financial system in Lebanon.

Our mission is to promote sustainable development by improving the economic and social conditions of low-income individuals, especially micro-entrepreneurs and women, through the provision of financial and non-financial services, all over Lebanon.

3. Market

- By and large 90% of the clients do not have a bank account.
- The target segment of clients includes lower middle class to working poor, mostly self-employed or entrepreneurs that rarely have additional personnel in the business.
- There is also a sizable migrant workers in Lebanon that are clients. For example, since 2010 it has extended its portfolio to Filipino workers, becoming the only MFI to offering financial products to migrant workers.
- There is also a sizable refugee population that were being served. It has become one of the only NGOs to work with Palestinian refugees and since 2014 it has started distributing loans to Syrian refugees targeting only women through group loans. However, after objections from the Lebanese government the involvement was scaled down.

4. Competition

- There are officially 9 microcredit institutions, of those 3 are regulated for-profit MFIs and 6 others are NGOS. Al Majmoua is the largest.
- There are other specialized lending entities, known as comptoirs and recognized by the central bank. Historically these were agricultural outlets helping farmers get access to seeds.
- The banking sector is populated by upwards of 75 commercial banks. However, these are not direct competitors of Al Majmoua as they do not serve the bottom of the pyramid. Very few clients are being lost to commercial banks.

- However, there is one big financial services provider run by the political party Hezbollah.

5. Portfolio

Al Majmoua - at a glance (December 2017 end)

Total Portfolio: US$ 72 million	**Active Portfolio:** US$ 72 million
Average Loan Size: US$ 1600	**Active Borrowers:** 72,802
Yield: 30.4%	**PAR30:** 0.48%
Market Position: Largest MFI in Lebanon	**Total no of Staff:** 404

6. Service Delivery Channels

- 28 branches across the country.
- Credit officers travel to the communities and the applications are generally filled at the place of business. However, disbursement is made at the branch through bank checks.
- The instalment payments used to be handled at banks as well. However, since then through a post office partnership the reach of instalment payment points has been increased to 1500. This has allowed the clients to receive and repay loans close to their homes or work and reduced clients' transportation time and costs.

7. Value Proposition

Al Majmoua offers its clients the convenience to quickly access loans in 3 days, without upfront fees, clearly explained loan conditions and slightly lower interest rates than the competition. Currently its product prices are one of the most competitive in Lebanon, that has been achieved through intensive focus on efficiency gains which were then transferred over to the clients. Additionally, customer service helps Al Majmoua stand out as along with credit products it also offers non-financial services that ranges from helping entrepreneurs with vocational training and business development to gender awareness, rights and confidence trainings offered to both its borrowers and non-borrowers.

8. Capabilities

Al Majmoua has been financially sustainable since 2003 and currently has more than 50% market share. With around 28 branches, 300 credit officers, and a recent partnership with the national post office that has expanded points of sales to 1500, Al Majmoua enjoys tremendous reach across the country. It has also invested in a large network of agents and is the only MFI to disburse loans through agents.

Additionally, Al Majmoua successfully formalized its client protection procedures by being one of the early endorsers of the SMART campaign, and by updating its operations manual that includes guidelines on acceptable collection practices and instructions on sharing with clients their rights and responsibilities. A call center responsible for handling inbound and outbound calls for sales, promotion and customer care, exit and satisfaction studies have been set up in 2017. All of this signifies its push for customer centricity where it has been investing a lot of effort into understanding its clients.

9. Funding Structures

There are currently no funding restrictions. The major source of funding for the near future will continue to be unsecured loans. However, as Al Majmoua might have to transform into a regulated NBFI, the potential for having equity shareholders could be an additional source of investments.

10. Risks

- There is significant cross lending and over-indebtedness due to aggressive lending operations in a small market.
- Unstable political environment. Lebanon already went through a war in 2006 and the political situation is again unstable.
- There is a lack of proper regulatory framework, and mobile money and technological innovation is not part of the government agenda when it comes to telecom activity.
- Intervention from the government on what segments to expand to, such as refugee population.

11. Challenges

What is the current climate in Lebanon for opportunities for digitization of your operations - in terms of regulation, telecom activity, fintech startup activity?

The infrastructure and legislation are well behind in terms of opportunities for digitizing payments and financial services. The Central Bank in Lebanon is tasked to develop and oversee the implementation of all electronic payment streams. Direct intervention in the telecommunications space by the government has made it unlikely that the mobile network operators will be players in the mobile money marketplace. This has made Bank led models the de facto standard in Lebanon. Additionally, the Central Bank in Lebanon has yet to allow the development of branchless banking and basic financial services such as cash in and cash out, transfers are still offered by traditional banks and money transfer firms. Due to regulation restricting the use of mobile money to people holding a bank account, mobile wallets are still severely restricted.

What is your objective in the next five years in terms of digitizing? What efforts are already in place to reach that objective?

Currently in Lebanon no one is trying to provide mobile solutions for the unbanked segments of the market. Available solutions only target clients with bank accounts. Al Majmoua has decided to develop a mobile app for the usage of borrowers and beneficiaries. The mobile app will integrate Non-Financial Services with Financial Services under one platform, targeting our clients' needs and broader financial inclusion. Then mobile app should be designed, tested and piloted before end of 2018.

Additionally, Al Majmoua has been continuously looking for ways to deliver its financial services in a cost-effective manner we have initiated talks with mobile money providers however due to the regulatory restriction we have not yet found the business case to develop further. We are still in talks with potential partners, while working on lobbying the CB to adopt a more comprehensive view of the situation. We are convinced that the use of technology and in particular mobile telephones to deliver basic financial services to the financially excluded poor represents an unprecedented opportunity.

BRAC - Bangladesh

- BRAC began in Bangladesh in 1972 as a limited relief effort for refugees displaced after the 1971 liberation war. Since then it grew to become one of the largest NGOs worldwide.
- It has been ranked the top NGO in World NGOs ranking several times. It is noted for its mix of social enterprises that allows it to be sufficiently independent from donor requirements.

1. Context

Bangladesh - At a glance

GDP Per capita (PPP)	Population	Population Density	HDI
USD 4,561	**162 Million**	**1,106/sq. km.**	**Mid | 0.579 | 139th**

Adults with an account	Gap between men & women	Gap between rich & poor
50%	**29%**	**17%**

2. Purpose

Alleviate poverty by empowering the poor.

3. Market

The upcoming young population in Bangladesh, with their exposure to technology and different financial services are demanding better options and are more interested to compare between services. This is challenging for the current portfolio of its tested and proven products that may be considered as one size fits for all. Right now, there are demands for startup financing, individual loans, and longer-term credit products. Similarly, new savings products are also being demanded that are more structured in nature and build towards important life events such as for education or unforeseen shocks.

4. Competition

BRAC is among the 20 out of 700 or so MFIs that make up 75% of the industry in terms of client outreach and portfolio size. Between its two broad categories of microfinance and small enterprise (SME) products, the SME product faces the most competition due to other MFIs, cooperatives and retail banks. In fact, there may be too many retail banks in the country compared to the size of the economy. These businesses compete directly with the higher ticket MFI products. These retail banks after failing to expand upwards are now focusing on the bottom of the pyramid, with simplified loan terms, easy to understand products that can be disbursed quickly.

5. Portfolio

(December 2017 end)

Total Portfolio: US$ 1.99 Billion	**Active Portfolio:** US$ 1.95 billion
Average Loan Size: US$ 644	**Active Borrowers:** 4.6 million

Yield: 24%	**PAR30:** 1.45%
Market Position: Top 3 in Bangladesh	**Total no of Staff:** 25233

6. Service Delivery Channels

The BRAC service delivery channels are centered around its branches. Each branch acts as the hub for the delivery of microfinance or other NGO/Social enterprise services to its nearby areas. The microfinance credit officers then branch out to the rural communities to hold group meetings and utilize that as a hub for closer customer engagement.

7. Value Proposition:

- Better customer service. Each BRAC branch is staffed with a customer service assistant in addition to regular field staff engaged in service delivery.
- Products that are tailored to the needs of poor households, and their rural or urban contexts.
- Pilot products such as jobholder loans for salaried blue-collar employees that are not serviced by retail banks, and its approach to utilizing technology for service deliver.

8. Capabilities

BRAC is in an enviable position of operational sustainability, due to its mix of nonprofit and for-profit approaches and a strong focus on social enterprises that enables it to cover 80% of its $684 million income. Compared to other NGOs, BRAC has a different altogether ecosystem, with its focus on education, health, WASH, Microfinance, and also mobile money providers like bKash, the retail banking arm BRAC Bank and insurance provider Guardian Life Insurance among many others.

The microfinance program with its enormous footprint of branches and staff in rural and urban Bangladesh, and even in hard to reach areas, has the widest reach of all its programs. In order to leverage this existing infrastructure to provide more and better services, digital solutions are being provided to the staff such as tablets. This would allow BRAC to collect better information on its bottom of the pyramid clients in order to further tailor their services and measure the impact. Additionally, given fintech disruptions around the world, the microfinance team is increasingly looking to develop its agility and adaptability to partner with other organizations and startups.

9. Funding Structures

Since leaving the least developed countries category, the funding situation for some of it NGO arms that do not have a strong social enterprise focus has changed. However, the microfinance operations, remains being financed by lending from mobilized savings, lending from private institutions, lending from the central bank and profits. Currently, due to efficiency gains and scale, the microfinance products pricings have been reduced to 25% for microfinance and 20-25% for SME loans.

10. Risks

- Increasing number of MFIs. Currently there are around 700 registered MFIs, and countless more unregistered ones and local cooperative societies.
- The lack of a proper credit bureaus for MFIs, that prevents them from tracking multiple lending and over indebtedness.
- TelCos are increasingly offering products that emulate financial services.
- Former NGOs are now increasingly entering the microfinance space.

11. Challenges:

- Trying to understand operational costs and how much each product line costs.

What is the current climate in Bangladesh for opportunities for digitization of your operations - in terms of regulation, telecom activity, fintech startup activity?

With widespread adoption of mobile money, telco activity, and increasingly super platforms such as Alipay entering Bangladesh, and Google and Whatsapp entering the payments market in neighboring India, the opportunities and drive for innovation are definitely going to increase. This also completely aligns with government digitization objectives.

However, the real problem lies in the mobile money ecosystem where the customer has to cash out their mobile money before they can start using it in the real world. Paying directly to a vendor from their mobile and leaving the money digital is not yet an option.

What is your objective in the next five years in terms of digitizing? What efforts are already in place to reach that objective?

Currently the leadership is focused on building the internal BRAC capacity, where rather than having an IT division that only troubleshoots daily problems, they want a technology division that will proactively think about emerging technological solutions, scan the world for innovative examples, and bring them back to Bangladesh.

Product Portfolio

Credit:	Microfinance (Dabi), SME Loans (Progoti)
Savings:	General Savings (paired with loan products), Fixed Deposit Savings
Insurance:	Credit Shield Insurance
Remittance:	N/A

BANCOSOL - Bolivia

1. Context

Bolivia is an example of microfinance development. Total loans in the country amount to 23 billion dollars out of 35 billion of GDP. One third of those loans are micro credit. The industry has a wide range of operators and competitors.

GDP Per capita (PPP) 3,104.96 USD	Population 10.9 Million	Population Density 10.05/sq. km.	HDI High | 0.674 | 118th

Adults with an account 41.8%	Gap between men & women 24%	Gap between rich & poor (GINI index) 45.8 (2015)

The industry faces a strong regulatory context. 2013 gave birth to the new Law of Financial Services. It requires that 60% of the loan portfolio is composed of loans to the production/manufacturing sector. Interest rates are regulated, 60% of the bank´s loan portfolio has to be at a rate no higher than 11.5%, the other 40% of the loan portfolio does not have an interest rate cap. Furthermore, net income tax was increased from 25% to 50%. The government is against the banks with high returns.

The regulatory context impacts significantly competitor´s strategies. With traditional transaction costs banks cannot be profitable or survive in the MF industry. Most of Bancosol´s competitors have migrated to larger loans to compensate their income.

Instability and organizational change. Bolivia is a very unstable country. Bancosol is used to this kind of changes so there is an internal culture that change is normal. The bank has transitioned from one product and group lending to multi-product. Before, changes were marginal but now the rate of change is much faster and the changes are more profound.

Bancosol at a glance

Transformation. Bancosol has 2,500 M dollars in assets, 400 branches, 2,900 employees, 4,500 dollars/loan. This scale can give us some competitive advantage but adopting transforming the organization is a big challenge.

2. Mission, Vision and Strategic Guidelines

To be the Bank that provides the opportunity to have a better future for the lower income sectors, through access to high quality integral financial services.

To be the leader of reference and best innovator of microfinance nationally and internationally, promoting the development, progress and quality of life of people with lower incomes.

Given the highly regulated context these are the strategic guidelines:

- Maintain focus on the micro business sector, keep faithful to our Mission
- Transformation to an integral Business Model, with an integrated offer of financial services

- Innovation and Technology to improve operational productivity and efficiency
- Attract, develop and retain the best talent
- Generate a ROE higher than the industry average

3. Market

Given and insufficient labor force demand many of our customers are microentrepreneurs looking to generate sufficient income to cover their basic needs. These clients have minimal assets, very low education level, and only empirical knowledge. According to industry analysts, the microcredit industry in Bolivia serves more than 1.2 million people, with a total portfolio of more than USD 7.5 billion.

4. Competition

Bancosol has 5 main competitors but it the leader of the segment.

Bancosol has generated alliances with operators. The government has allowed them to handled electronic wallets with a 100% of funds in reserve.

5. Selected Key Indicators

BancoSol

In thousands of dollars

Selected data	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17
Assets	1,114,156	1,290,435	1,436,691	1,593,654	1,771,961
Liabilities	1,020,628	1,174,050	1,296,671	1,430,275	1,578,438
Equity	93,528	116,386	140,021	163,379	193,524
Gross loan portfolio	934,244	1,060,038	1,172,497	1,304,781	1,456,432
Number of clients	232,766	251,162	251,512	251,952	260,479
% loans past due more than 30 days	0.66%	0.96%	1.00%	0.86%	0.75%
% of controlled loan portfolio	-	28.46%	38.75%	44.93%	52.58%
OBLIGACIONES TOTALES CON EL PÚBLICO	755,380	844,076	944,880	1,024,316	1,064,000
Number of savings accounts	705,112	802,803	885,214	960,388	1,030,225
N° DPFs	12,930	10,533	10,801	11,113	11,838
Total # of customers (lenders and borrowers)	638,529	724,246	795,370	862,415	925,436
Administrative expenses / average loan portfolio	10.63%	9.22%	8.91%	8.02%	7.47%
Administrative expenses / average assets	8.80%	7.74%	7.32%	6.51%	6.14%
Provisions / loans past due	732.74%	569.68%	526.04%	555.52%	577.50%
Regulated equity	118,333	139,597	155,557	169,950	191,972
CAP (COEFICIENTE DE ADECUACIÓN PATRIMONIAL)	11.99%	12.60%	12.49%	12.24%	12.43%
Financial income	152,799	184,684	192,878	200,341	215,825

Financial expense	25,615	32,311	39,147	40,723	42,932
Gross financial income	**127,185**	**152,374**	**153,731**	**159,618**	**172,893**
Net uncollectibles	2,445	15,665	8,551	7,135	7,066
Other net operating income	1,570	2,278	2,348	3,546	4,982
Administrative expenses	88,551	91,371	99,011	98,970	102,847
Income tax	13,195	17,391	16,914	25,129	29,144
Net Income	**24,504**	**26,509**	**32,681**	**32,774**	**39,611**
ROA	**2.4%**	**2.2%**	**2.4%**	**2.2%**	**2.4%**
ROE	**32.0%**	**25.8%**	**26.5%**	**22.5%**	**23.0%**
Branches	399	436	442	446	508
Employees	2,827	2,740	2,779	2,810	2,947

6. Service Delivery Channels

Bancosol has a variety of delivery channels: Agencies, mobile agencies, correspondents, ATMs, Internet banking, mobile app for banking and SMS banking.

7. Value Proposition

From mono-product to multi-product. Bancosol started with a group lending model but has now evolved to a wide range of products: working capital, investment, housing, consumer, small company loans. Many of the services can be paid by phone generating additional income via commissions. Our focus and next challenge is achieving cross sales.

Accessibility. One of the innovations was to take the services and the institution to clients in remote areas and also with mobiles agencies (in fully equipped trucks). Bancosol has a network of 500 branches or attention locations.

Relationship. Bancosol differentiates from their competitors with a warm and kind treatment of their customers.

8. Capabilities

Innovation and technology: Appsol for mobile banking transactions. App for the credit advisor for immediate credit decisions, Sol Net for the integral product offer, non-financial correspondents to reduce transaction costs, CRM allows the advisor to have an integral view of the customer.

9. Funding Structure

The main financial asset of Banco Solidario S.A. it is the loan portfolio, which averages 81% of the total assets. The structure of the funding is distributed according to the following detail: Obligations with the Public 76% composed of Savings Banks that reach 27% and Fixed Term Deposits (DPFs) with a 49% participation both with respect to the total of liabilities, obligations acquired with other entities of financial intermediation 12%, Financing through Banks of 2nd Floor 3%, subordinated obligations 2% and Bank Bonds 7%. The Shareholders' Equity as of 04/30/2018 is composed as follows: Social Capital with 70% (131 Million US $), Reserves with 24% (46 Million US Dollars) and accumulated management results with 6% (11 million dollars)

10. Risks
What are the risks that can affect the profitability or the business model at risk? "• Strategies risks? The greatest strategic risk is focused on the changes that are presented in the customer market, as a result of regulatory changes related to portfolio quotas in the productive sector that financial institutions must have (60% of the loan portfolio oriented to finance the sector) " "• Regulatory compliance risks? None that is significant for the Bank " "• Operational risks? Internal and external fraud, as well as external events, unrelated to the institution. " "• Financial risks? Interest rate risk, for the regulation of control of interest rates in active operations of the productive sector, long-term fixed-rate credits. "

11. Challenges
Over regulation demands operational efficiency. To compete Bancosol has to focus on reducing transaction costs, therefore, fintech technologies bring that promise. To keep operating, other competing banks have migrated to a different segment to increase their average loan size and their income.

The fintech strategy is a challenge. Bancosol has made an alliance with Finconecta (BID) and has established an in-house innovation area. However, it has been a challenge to obtain significant results with radical innovations that come from within the organization. Furthermore, the ones that are successful usually are external from the banks. The ones that we have incorporated in the bank come from outside the bank. It is a challenge to have the right answer and not feeling obsolete. We are already multiproduct bank and many services can be paid with the phone, therefore, we are generating significant income via commissions. We are now focusing on cross sales. With simple technologies we are advancing, such as the app for the salesforce and credit scoring. We are ahead introducing these innovations.

Economics and Transaction costs. We see as a fundamental capability being able to reduce the transaction costs. Nowadays we are at 2 dl/transaction, vs 10 Cents/transaction on the ATMs and .01 dlls/transaction online. We should be able to take advantage of how smart phones have reduced access costs and barriers to financial services. So far Bancosol has been able to reduce cost without letting employees go. Although the bank performance is satisfactory, they are motivated by the customer. We used to grow at a 30% yearly rate. Now we ask ourselves, where is the client going to be in three years?

Organizational culture. An important challenge is to approach change the bank has older more rigid executives at the top of the organization and at the branch level the personnel is younger and more flexible. Although there are those who resist change, they are the smaller part of the personnel. In this transformation effort we want lots of participation and ideas.

Radical changes. Some of our more radical changes are going paperless, approve loans in the field, and virtual disbursements which for a micro entrepreneur is of high value.

Core Challenges.

How do we generate and implement change? we ask for new ideas but the people are immersed in the day to day activities. How do I stay close to the customer and at the same time digitize?

Digitally capturing information and analyzing it is still very hard, therefore customers are more faithful to the credit officers

Gentera / Compartamos Banco - México

Initiated in 1990 as a non-profit NGO offering group loans to women in small businesses, Compartamos eventually turned itself into a regulated finance company in 2000, that enabled it to receive a full banking license, and organize a record breaking IPO that raised US$ 467 million in 2007, valuing the company at more than US$1.5 billion during that time. In 2010 Compartamos was incorporated into the Gentera group to bring a corporate structure to the company. Currently Gentera is one of the best performing MFIs in the world and the largest in Latin America.

1. Context

Mexico - At a glance

GDP Per capita (PPP)	Population	Population Density	HDI
USD 20,028	123.6 Million	61/sq. km.	High | 0.762 | 77th

Adults with an account	Gap between men & women	Gap between rich & poor
37%	8%	18%

2. Vision and Purpose

To eradicate financial exclusion.

3. Market

The Mexican market for credit comprises around 11 million customers out of which Compart Amos serves around 3 million. This segment comprises mainly the middle and the lower middle class that are also underbanked or unbanked.

Although Compartamos initiated with group loans for women, where the group structure mitigated the risk, eventually men began demanding these loans. Consequently, Compartamos began restructuring the groups to allow for men to join or begin men only groups.

Additionally, in the Mexican context clients that are unbanked are more difficult to serve as they have an inherent distrust of institutions and have alternative savings methods that are informal loan clubs called Tanda.

4. Competition

The biggest three competitors to Compartamos by number of clients in Mexico are Banco Azteca, CAME, and Tee Creemos. No other competitor in Mexico has digital products. However increasingly telecom companies have begun to provide credit like products such as small loans, and fintech startups that are entering the market offering payments. Amazon for example has entered the Mexican e-commerce market and began offering cash payments services that bypass the need for making payments online that is a huge hurdle in Mexico. Amazon is already working with local convenience stores to get their products to the masses and ensure loans for these products. Facebook is also planning to enter the market with remittance services. These giant tech companies are at an advantage here regarding payments and lending as people are more trusting of companies like Amazon and Facebook, compared to other lending and payments institutions in the market.

5. Portfolio

(December 2017 end)

Total Portfolio: US$ 1,631.43 US Millions	**Active Portfolio:** US$ 1,578.23 US Millions
Average Loan Size: US$ 538.9 USD	**Active Borrowers:** 3,027,179
Yield: 66.2%	**PAR30:** 3.26%
Market Position: Market leader in Mexico	**Total no of Staff:** 22,318

6. Service Delivery Channels

Comprising of own branches numbering at around 250, that are either in very populated areas or in strategic locations more convenient to the customers, Compartamos also maintains a network of promoters that are tasked with sales, and a network of agents that are mainly local grocery stores, or Oxo convenience stores, where customers can deposit their savings and loan repayments. Customers typically pay back the instalments at partner banks. Additionally, Compartamos has online and web banking options and call centers.

7. Value Proposition

The Compartamos value add for its customers is that it provides a relevant, comprehensive and simple product through convenient channels, ensuring warm treatment and quality of service. These services range from working capital loans to group and individual loans.

8. Capabilities

As part of the Gentera corporate group of companies, Compartamos along with the other arms of Gentera provides an ecosystem of lending, microinsurance, remittance services and much more. With 725 service offices, 268 branches, and a network of agents as promoters at the community level, Compartamos itself enjoys a wide reach in the Mexican economy.

The agent structure only performs the role of sales and does not manage any cash. To increase convenience for customers that had to invest time and money to go to banks to make payments, Compartamos equipped local stores in the community with the ability to receive payments.

9. Funding Structures

94% of its income comes from interest payments, and the rest from commissions on payments and insurance. The main costs come from human capital due to the very labor-intensive business model. The funding structure at 4Q17 was, capital 43.1%, long term debt 32.9%, development bank 17.2%, deposits 6.8%

10. Risks

- Government risk: With the change of government some candidates have proposals focused on lowering the maximum in rates.
- Strategic risk: Competition in the sector is getting stronger as they try to copy and improve the business model. Additionally, the number of fintechs grows every day, offering competitive and low-cost services.
- Financial risk: An increase in the interest rate by the Central Bank.
- Operational risk: Delays in loan renewals and non-performing loans.

11. Challenges

How to continue growing in a competitive market without compromising on important KPIs such as customer numbers and loan defaults.

The challenge of being public and continue to be accountable to shareholders while also pursuing their social mission.

As competition poaches the best customers, the challenge is to how to finetune the product in terms of pricing for example that would retain these customer. Higher average product prices attract more competition to the market.

How to incorporate technology and digital opportunities into the organization.

What is the current climate in Mexico for opportunities for digitization of your operations - in terms of regulation, telecom activity, fintech startup activity?

The constant increase in the use of digital media demands solutions that can quickly adapt to new

technologies to facilitate access and improve customer experience.

What is your objective in the next five years in terms of digitizing? What efforts are already in place to reach that objective?

Improve the lives of the unbanked and underbanked through financial, personalized and digital solutions

Lift Above Poverty Organization (LAPO) - Nigeria

- Established in the late 1980s as a non-governmental organization, LAPO is a pro-poor financial institution committed to the empowerment of pro-poor Nigerians.
- In 2000 LAPO turned into a state microfinance bank in Edo state, and in 2012 it was approved to become a national microfinance bank.
- From 10-15 branches in the 2000s, LAPO has expanded to around 474 branches. It currently also has a presence in 33 out of 36 states, making it the largest microfinance bank in Nigeria.

1. Context

Nigeria - At a glance

GDP Per capita (PPP)	Population	Population Density	HDI
USD 1,819	**185.9 Million**	**197.2/sq. km.**	**Low | 0.514 | 152nd**

Adults with an account	Gap between men & women	Gap between rich & poor
40%	**24%**	**25%**

2. Vision and Purpose

LAPO is a pro-poor financial institution committed to the social and economic empowerment of low-income households through provision of access to responsive financial services on a sustainable basis. Its mission is to improve lives.

3. Market

40.1 millions of Nigeria's 96.4 million adults, representing 41.6 percent, were financially excluded. The financial exclusion of women is more extreme than the male population.

Nigeria being a densely populated country with majority low income but entrepreneurial earners, LAPO's target market is the low-income micro and small enterprises. These micro and small enterprises need access to credit and other financial services to bring their efforts to life.

4. Competition

At 31 December 2016, Nigeria's financial sector comprised 21 commercial banks, one non-interest bank, four merchant banks and over 4,000 other financial institutions. The microfinance banking subsector is regulated by CBN, with the operations of MFBs governed by the Revised Microfinance Policy Framework for Nigeria ("RMPFN")[1]. There are three types of MFB: local, regional and national.

As at May 2017, there were 991 MFBs licensed by CBN, with eight (including LAPO) operating as National MFBs, 104 as State MFBs, and 879 as Unit MFBs.[2]

Due to a huge influx of entrants into the microfinance sector, there are around 900 Microfinance banks, all licensed by the central bank of Nigeria. However, LAPO is the leading MFI in the country. Alongside the MFIs there are the commercial banks and the unregulated credit houses that are also competing with LAPO.

[1] Nigeria Bank Analysis | Public Credit Rating
[2] Idem.

Another convenient service that has traditionally remained in Nigerian markets are the drift collectors, that mainly provide savings services. This allows the clients to build credit discipline and also using commitment mechanisms helps them save. The fact that the drift collector comes to the clients to collect their savings also adds to the convenience.

5. Portfolio

Loan Portfolio: US$ 144.6 US Millions	**Deposits**: US$ 76.6 US Millions
Active Borrowers: 2,631,977[3] (91% women)	**PAR30:** 5.8[4]%
Market Position: 18.3 % Market leader in Nigeria	**Total no of Staff: 6,392[5]**

6. Service Delivery Channels

- LAPO has branch oriented operations. Alongside it also began an agent banking network which is growing but not as expansive as its branches yet. These agents are usually small local shops selling beverages, clothes etc.
- Agents are there to provide service to clients in places where there is no LAPO branch. However, agents can only collect deposits and cannot make disbursements.

7. Value Proposition

- LAPO's extensive reach is a factor that adds to its value to its clients, as almost every community currently has a LAPO branch.
- As well as providing ease of access to credit, LAPO immensely values its relationship with their clients.
- Lower interest rates.
- LAPO has a wide range of product portfolio as opposed to its competitors.
- LAPO portfolio includes agriculture, education and traditional microcredit products. LAPO also offer loans for housing, solar energy.
- Flexible group lending capabilities
- Responsive bouquet of products to meet diverse customer's needs
- Enhanced client relationship management
- Social programs to address the non-credit causes of poverty (health, financial literacy, legal aid, paternal responsibility, disinheritance, domestic violence…)
- Micro-business training

8. Capabilities

- Appropriate targeting tool for finding the right customers, and measurement methodologies for impact of service evaluation
- Full trained staff on topics as business management, career choice and health.
- LAPO have deployed an important educational capability, to offer education on different topics
- LAPO is committed to increase the female ratio of employees, in order to develop a more emphatic and learning organization

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[3] Idem.

[4] August&Co 2018 Financial rating.

[5] August&Co 2018 Financial rating

9. Funding Structures

LAPO Mfbs funding structure at FY16 comprised: equity capital (23.7%), customer deposits (48.2%), and borrowings (28.1%)[6].

10. Risks

- Alongside an increase in the price of commodities the economic situation in Nigeria is not great.
- There is a reputational risk for LAPO being the largest and the most well know MFI in Nigeria and the name of LAPO becoming a generic name for credit. Due to the influx of new players into the MFI sector, these new entrants' use of force to intimidate non-paying clients are being blamed on LAPO.

11. Challenges

There are several technology initiatives: the introduction of an ATM debit card, new tablets for support the agents, for example.

[6] Idem.

SogeSol - Haiti

- In 1995, Haiti's banking sector went through reforms that saw the central bank lift interest rate limits on loans and lower the reserve rate requirements on banks. This allowed the banks to reach micro and small entrepreneurs, that were previously not economically viable.
- Following these reforms in 2000, Groupe Sogebank - the largest financial institution in Haiti - set up its microfinance subsidiary SogeSol. Currently Groupe Sogebank owns seven subsidiaries, including SogeSol, each one specialized in a banking service.
- SogeSol's shareholding is distributed among Sogebank (50.18%), Accion International (9.64%) and individual shareholders (40.18%).

1. Context

Haiti - At a glance

GDP Per capita (PPP) **USD 1,819**	Population **10.8 Million**	Population Density **382/sq. km.**	HDI **Low | 0.493 | 163rd**

Adults with an account **33%**	Gap between men & women **5%**	Gap between rich & poor **25%**

2. Purpose

SogeSol's mission is to promote Haitian entrepreneurship by adapting traditional banking services to the needs of micro and small entrepreneurs and agricultural producers while respecting efficiency and profitability standards.

3. Market

With a weak capacity of the Haitian economy to create jobs and a high propensity for rural migration, new and old migrants have no other choice to find a way of making a living to survive in urban environments than creating a lot of money-making activities that works outside the legal system. Those activities represent 57.1% (EEEI, 2015) of the overall employment in Haïti.

This has created a huge demand for funds that needs to be addressed. And microfinance institutions have started to address this need more aggressively during the 90s with the introduction of some bank affiliates in this sector. The sector is organized around a large number of small entrepreneurs and a small number of PME who are mainly evolving in the commercial sector. And the credit goes where the most vital economic activities are.

4. Competition

- There are 194 MFIs in Haiti, credit unions (80%), NGO (5%), bank affiliates (2%), others (13%).
- Sogesol and 3 other MFIs are the largest in terms of portfolio size representing 45% of the sector in Haiti. 3 of them are bank affiliates: SogeSol, Micro Crédit National and

Mennonite Central Committee. The other one is ACME, an NGO that has evolved into a private limited company.
- Most of the microfinance portfolio in Haiti is concentrated in the wholesale and retail trade sector.

5. Portfolio

Total Portfolio: US$ 38 Million	Active Portfolio: US 34.2 Million
Average Loan Size: US$ 1,440	Active Borrowers: 36,483
Market Share: 26.6%(Portfolio)15.4% (Clients)	PAR30: 6.47%

6. Service Delivery Channels

- Loan officers are the main points of contact, with client acquisitions mainly on the field.
- For particular products like the school loans, Sogesol hires vendors or plays jingles in mobile van or in radio stations to promote this product.
- Clients or prospects can also walk into the branches or sub-agents for service.

7. Value Proposition

- Fast turnover of loan applications, usually 3-5 days.
- Loan officers do not manage cash focusing only on providing service.
- A diversified and evolving product portfolio ranging from consumption to working capital loans.

8. Capabilities

As a Sogebank subsidiary, all of SogeSol's portfolio is included in Sogebank's balance sheet. This allows SogeSol to draw on Sogebank's liquidity for growth. Most of SogeSol branches are rented from Sogebank, that helps keep SogeSol lean on assets.

SogeSol refinanced 75% of its total loan portfolio, after the 2010 earthquake. 92% of the refinanced loans were repaid after 2 years. 3000 members were not accounted for that migrated.

Since 2007 SogeSol has been using credit scores aided by Accion's technical assistance. It is also investing in technology, that would enable it to leave its brick and mortar model. Tablets have been deployed that enable the collection of data directly from the field.

9. Funding Structures

- A contract has been established between the parent company and SOGESOL regarding payment for the management of their portfolio. Sogebank pays to SOGESOL a fraction of the revenue generated from the loans which is calculated thusly: the costs associated with the funding, transactions at its counters and the expenses associated with bad loans are deducted from the interest income accrued daily and the disbursement fees. The penalty fees are also returned to the Institution as they relate to the loans.
- 2016-17 disbursement of USD 44.5 million, was completely funded by Sogebank.
- The cash flow obtained is used to fund its operating expenses and the excess liquidity is placed in Obligations in other financial institutions generating treasury income.
- A typical branch can break even after 2 years but we are not in the brick and mortar model anymore. Therefore, break-even is not necessarily based on number of transactions, but on the volume of loan disbursed and the loan loss expense incurred. The smaller the loan, the more exposed the customer, the more difficult it is to attain break-even. Analysis shows that a loan < of HTG 20,000 or ($300) is not

sustainable. SOGESOL offers a mix of products which allows the SME to subvention the smaller loans.

10. Risks

- Weather: 22% of its portfolio is in Agriculture and it is impacted strongly by hurricane and drought.
- Macroeconomic: consumer loans make up 18% of the portfolio
- Political: Protests can be violent and thus affects our clients' ability to repay.
- Regulatory Compliance: No legal framework yet in Haïti. As a Bank Affiliate we comply to all regulations imposed to the mother company.
- Government Risks: The risk could be in government applying a ceiling to the interest rate, in an effort to please in elections periods. We realize they don't understand the risk and effort associated to serving customers.
- Cash Flow: As Sogesol grows, the risk associated with the cash flow needed for disbursement of loans increases. Sogebank has other affiliates that depend on the same source of funds (deposits from customers) and may do some arbitrage in the future. This is another reason we are considering funding from other sources (Tier 2 capital)
- Interest Rate Risks- The funding costs charged by our parent company and used to determine our income vary depending on the Central Bank 90 days rate. This rate has been stable for the past year. The rate offered to our customers does not vary, but the terms are usually small for an average of 9 months on the total portfolio.

11. Challenges

What is the current climate in Bangladesh for opportunities for digitization of your operations - in terms of regulation, telecom activity, fintech startup activity?

No regulation yet.

One Telecom is particularly active in offering payment solutions

Some incubators have created a window of opportunity to encourage fintechs development and innovation

What is your objective in the next five years in terms of digitizing? What efforts are already in place to reach that objective?

During the next 5 years, our goal is to become paperless and to automate workflows and credit processes. As a matter of fact, we have already developed a process automation for the agriculture segments in our credit portfolio.