



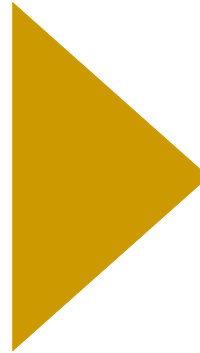
European Microfinance Platform Panel: Scaling Up African MFIs



Scaling Up African MFIs

What does Verdant Capital Do?

- Pan African Investment Bank
- Focused on inclusive financial institutions (MFIs, fintech, specialist banks, etc.)
- Very significant in debt capital markets (around USD 50 – 100 million per annum)
- Also active in mergers and acquisition and equity raising
- Africa only



What will we talk about?


- Availability of financing
 - As per life cycle of institutions
 - By type of financing
- Capital Management
- Role of mergers and acquisitions

Verdant Capital – A Market Leading Franchise in Africa (1/2)



Verdant Capital – A Market Leading Franchise in Africa (2/2)

Namibia 2016




Debt Capital Raise

Sole Advisor and Arranger

ZAR 425 million

Ghana 2016



Debt Capital Raise

Sole Advisor and Arranger

USD 13 million

Zambia 2016



Equity Advisory

Sole Advisor

Lux | Zambia 2015




Debt Capital Raise

Joint Financial Advisor and Arranger

USD 10 million

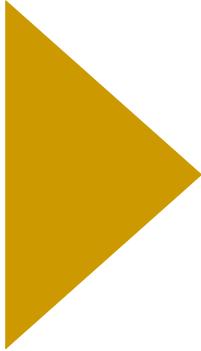
Kenya | Norway 2014



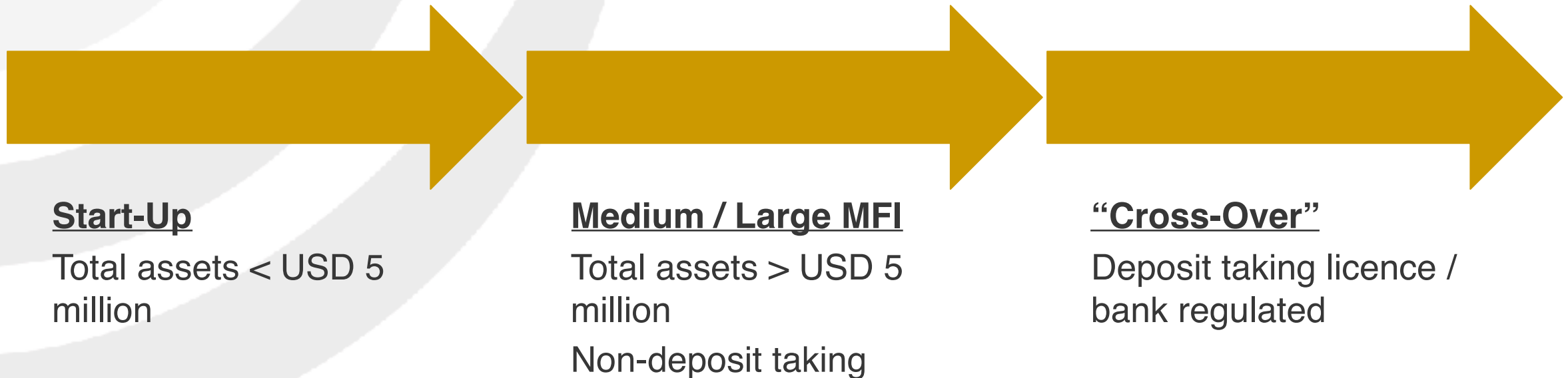
Sole Financial Advisor

Acquisition of stake in HFC

Key Trends in MIV Community

- Growth of assets under management of USD 2 billion in 2007 to USD 13.5 billion in 2017 (*Source: Symbiotics*)
 - Recent years +10% CAGR per year
 - > USD 10 million is the “new” > USD 5 million
- 
- Focus on larger individual deals (*“closer to church; further from God”*)
 - Focus on “new” geographies, eg. to deploy more in Africa (only 10% in 2017) (*Source: Symbiotics*)
 - Focus on broader asset types
 - Student finance
 - Housing finance
 - Fintech (eg. Merchant Credit advances)
 - SME / missing middle

Availability of Financing – Life Cycle of Financial Institutions



Start-Up

- Key challenge: availability of debt financing to MFI < USD 5 million. Most MIVs start financing at > than USD 5 million
- Catch 22!
- Some investors work with smaller MFIs
- Key challenge is demonstrating
 - High impact (small loans / women / rural / youth)
 - Differentiation

Medium / Large MFI (1/2)

- Sufficient availability of debt financing for well run medium / large MFIs
 - Total assets > USD 5 / 10 million
 - PAR 30 < 10%
 - Suitable leverage
- Availability of local currency funding given hedge providers
- Exposure to wholesale financing as exclusive funding source
- Accumulation of regulatory capital
- Some deposit taking permitted depending on jurisdiction

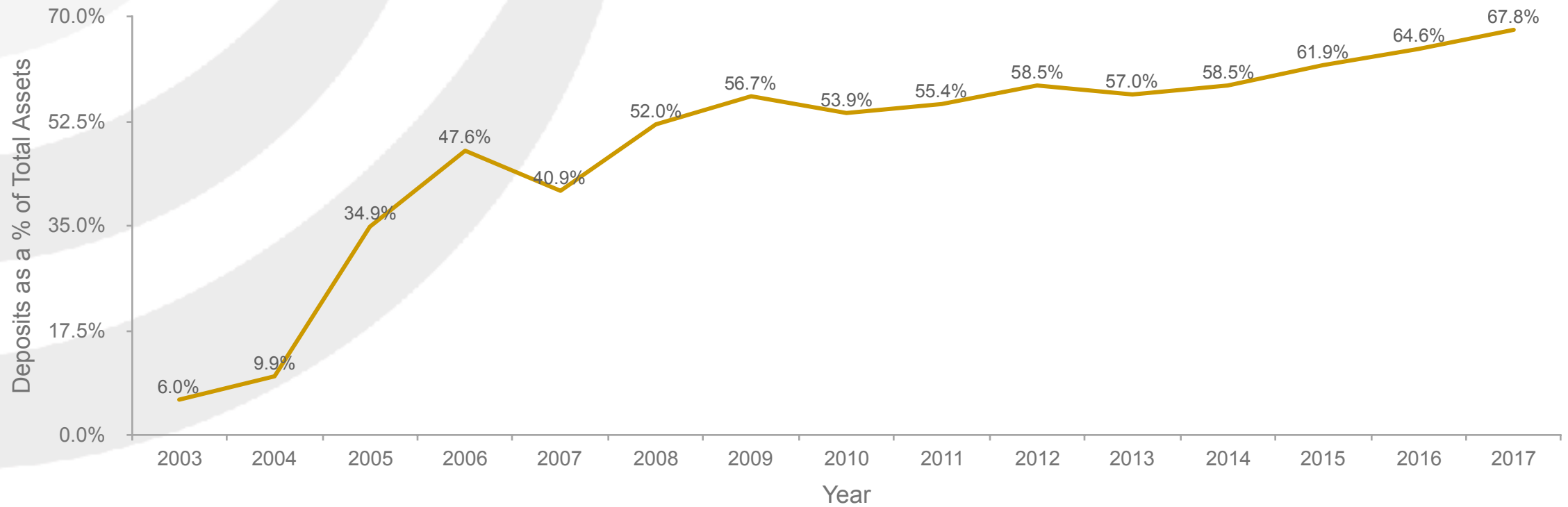
Medium / Large MFIs (2/2)

- Challenges of “wholesale-only” funding model
- “Being an MFI is as much about borrowing as lending”
- Diversity of funding types
 - MIVs
 - DFIs
 - Local markets? Depends of the stock exchange and pension fund rules in the jurisdiction
 - Local banks
- Risks
 - Risk event in local market and “flight to quality” in local market
 - IFRS and Basel III impact on lending from banks
 - Pure timing issues: refinancing is “lumpy” – potential mismatch with amortisation payments (need to keep on making loans in order to manage opex)
 - Concentration risk – small number of lenders across the board (eg. two big holders of local bonds, one bank, two international investors)

“Cross-Over”

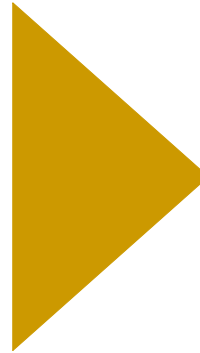
- Deposit-taking MFB
- Bank-regulated (eg. Equity Bank, UT Bank)
- Deposit mobilisation is a long-term strategy (eg. Capitec, after 5-years, deposits were 40% of total assets)
- In some markets, deposits are just wholesale products for companies / HNIs

Deposit Taking – Capitec as a Case Study



Capital Management

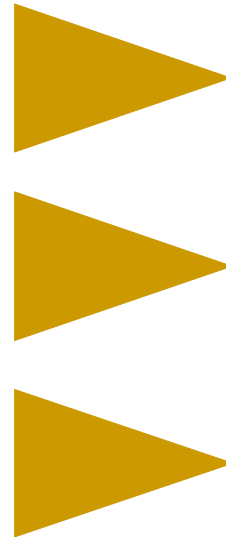
- CAR > 25% for wholesale funded institutions is typically a minimum set by funders
- CAR > 15% is minimum in most African countries (for banks)



- How do you grow your equity / capital to grow your total assets?
 - Organic growth?
 - Private equity: more difficult under Basel III
 - Hybrid: role to play?
 - IPO market?

Organic Growth in Equity

Return on Equity >
Growth in Risk
Weighted Assets⁽¹⁾
Return on Equity <
Growth in Risk
Weighted Assets⁽¹⁾
CAR Constant⁽¹⁾



CAR 

CAR 

Growth in Risk
Weighted Assets = ROE

- I call the above the “E = MC²” of financial institutions!
- Catch 22: need scale in order to exploit cost economies in order to generate profits

(1) Assume no dividends

Overview of Capital Qualification under Basel II and Basel III (1/2)

	T2C	
	Basel II	Basel III
Tenor	Minimum 5-years	Minimum 5-years
Call Option	Permitted after 5-years	Permitted after 5-years
Capital Amortisation	Over last 5-years of life	Over last 5-years of life
Step-up or Incentive	Permitted	Not permitted
Regulatory Permission to Call	No	Yes
Replacement Capital at Call	Not required	Required
Subordination	Subordinated to depositors and creditors	Subordinated to depositors and creditors
Payment of Coupon / Dividend	Contractual	Contractual
Dividend Blocker Permitted	N/a	N/a
Principal Loss Absorption	No	No

Overview of Capital Qualification under Basel II and Basel III (2/2)

	AT1C	
	Basel II	Basel III
Tenor	Perpetual	Perpetual
Call Option	Permitted after 5-years	Permitted after 5-years
Capital Amortisation	None	None
Step-up or Incentive	Permitted	Not permitted
Regulatory Permission to Call	Yes	Yes
Replacement Capital at Call	Not required, but typically call only permitted if the institution has sufficient capital	Required
Subordination	Subordinated to depositors, creditors and subordinated creditors	Subordinated to depositors, creditors and subordinated creditors
Payment of Coupon / Dividend	Discretionary	Discretionary and non-cumulative
Dividend Blocker Permitted	Permitted	Permitted, but only until dividend on AT1C is paid
Principal Loss Absorption	No	Mandatory in distress scenario

IPOs in Inclusive Financial Institution Sector / MFIs in Africa (1/4)

- In the last 10 years there has only been about 20 IPOs in the inclusive financial services sector in the whole of SSA
- A key lesson is that transaction sizes of USD 20 M or more are required to generate reasonable after market liquidity

Source: S&P Capital IQ, SNL

IPOs in Inclusive Financial Institution Sector / MFIs in Africa (2/4)

Date	Target	Country	Sub-Sector	Deal Value (USD M)	Average Daily Trading Value (USD M)
16-Nov	Agricultural Development Bank	Ghana	Diversified Banks	96.4	-
12-May	Transaction Capital	South Africa	Consumer Finance	83.2	0.273
08-Oct	The Co-operative Bank of Kenya	Kenya	Diversified Banks	69.2	0.254
11-Jun	Bank of Kigali	Rwanda	Diversified Banks	63.0	-
08-Jul	National Microfinance Bank	Tanzania	Diversified Banks	50.6	0.004
16-Jul	Société Ivoirienne de Banque	Côte d'Ivoire	Diversified Banks	43.8	0.07
13-Apr	Capricorn Investment Group	Namibia	Diversified Banks	38.7	0.1
08-Sep	Zambia National Commercial Bank	Zambia	Diversified Banks	31.1	0.827

IPOs in Inclusive Financial Institution Sector / MFIs in Africa (3/4)

Date	Target	Country	Sub-Sector	Deal Value (USD M)	Average Daily Trading Value (USD M)
08-Sep	UT Bank	Ghana	Diversified Banks	23.7	0.001
07-Jun	Finbond Group	South Africa	Consumer Finance	20.6	0.041
16-Jun	MyBucks	Luxembourg	Consumer Finance	15.2	0.004
09-Mar	CRDB Bank	Tanzania	Diversified Banks	14.2	0.13
15-Feb	Mwalimu Commercial Bank	Tanzania	Diversified Banks	12.3	-
14-Oct	Bank Of Africa-Senegal	Senegal	Diversified Banks	11.1	0.019
17-Feb	I&M Bank (Rwanda)	Rwanda	Regional Banks	10.8	-
14-Aug	Madison Financial Services	Zambia	Insurance / Microfinance	10.1	0.002

IPOs in Inclusive Financial Institution Sector / MFIs in Africa (4/4)

Date	Target	Country	Sub-Sector	Deal Value (USD M)	Average Daily Trading Value (USD M)
13-Aug	Omoluabi Mortgage Bank	Nigeria	Mortgage Finance	10.0	0.002
16-Aug	Access Bank (Ghana)	Ghana	Diversified Banks	6.8	0.003
10-Jan	Bank of Africa - Côte d'Ivoire	Côte d'Ivoire	Diversified Banks	6.0	0.024
08-May	DCB Commercial Bank	Tanzania	Diversified Banks	4.4	0.002
15-Nov	GetBucks Microfinance Bank Limited	Zimbabwe	Consumer Finance	3.2	-
13-Aug	Maendeleo Bank	Tanzania	Diversified Banks	2.5	-
15-Jul	Mucoba Bank	Tanzania	Regional Banks	2.3	0.001
14-Oct	Mkombozi Commercial Bank	Tanzania	Regional Banks	2.2	0.001
15-Jun	Yetu Microfinance	Tanzania	Consumer Finance	1.4	0.001

Drivers of M&A

- Cross border expansion: Africa 54 countries; India is one!
- Domestic consolidations – motivations:
 - New “products” (asset classes)
 - Deposit mobilisation capacity (not the panacea!)
- Private equity (investments and exits)
 - Many specialist PE investors are raising their second or third fund – need to demonstrate exits
- Fintech

No Aadhaar for Africa!

	India	Sub Sahara Africa
Population	1.3 billion	1.0 billion
GDP per capita	USD 1 709	USD 1 450
Land mass	3.0 million km ²	23.6 million km ²
Number of countries	1	54
Government	Democracy since independence in 1947	Average tenure of democratic government: 19 years ⁽¹⁾

Challenges in India are the same but magnified in Africa

(1) Largest 5 economies: South Africa, Nigeria, Sudan, Angola and Ethiopia

Source: S&P Capital IQ, The Economist, World Bank