



US Microfinance at the Crossroads: Virtual Roundtable on Scale and Sustainability

April 17, 2013



AEO's goals for this conversation

- **Promote an industry-wide dialogue**
- **Explores choices and tradeoffs**
- **Identify practitioners and other stakeholders interested in continued engagement**



Scale & Sustainability Roundtable: Our Thanks!



Conduct of the session: (Virtual) Roundtable Discussion

Context setting followed by facilitated dialogue

Join the conversation! Here's how:

- “Raise your hand” and/or use the chat function

Conference controls

- *6 to mute your line
- *7 to un-mute



Need technical help? Send an email to:

jackie.orwick@aspeninst.org



Scale & Sustainability Virtual Roundtable: Participants

Joy Anderson, Criterion Institute
John Arensmeyer, Small Business Majority
Leslie Benoiel, Entrepreneur Works
Daniel Betancourt, Community First Fund
Shannon Bond, Shannon Bond Advising
Rob Boyle, Justine PETERSEN
Rosemary Bratton, Wyoming WBC
William Burckart, Impact Economy
Mike Caslin, Rising Tide Capital
Phyllis Cassidy, Good Work Network
Lisa Christian, Women's Initiative
Beverly Coffey, North Dade Comm. Dev. FCU
Rebecca Ehrenberg, VEDC
Keith Ernst, FDIC
Sheri Flanigan-Vazquez, Justine PETERSEN
Esther Fraser, Rising Tide Capital
Patricia Harris, The Edge Connection

Mary Houghton
Laura Kozien, Accion U.S. Network
Gary Lindner, PeopleFund
Laura McKinley, Georgia Coastal FCU
Caitlin McShane, Opportunity Fund
Nell Merlino, Count Me In
Brandon Napoli, VEDC
Karen O'Mansky, Self-Help
Celina Pena, Accion Texas Inc.
Claudia Viek, CAMEO
Mike Wall, Greater Newark Enterprises Corporation
Tracy Ward, Self-Help Credit Union/Self-Help Ventures Fund
Eric Weaver, Opportunity Fund
Patricia Williams, Callouch/Williams & Associates
Gina Wood, Bipartisan Policy Center



US Microfinance at the Crossroads: Authors



Ira W. Lieberman
Founding CEO, CGAP Secretariat
The World Bank



Jenifer Mudd
Consultant to The Calvert
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Scale & Sustainability Roundtable: Discussants & Moderator



Joyce Klein
Director
FIELD



Connie Evans
President & CEO
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Tammy Halevy
SVP, New Initiatives
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Key Questions Explored in the Report

- **Scale:** Is demand sufficient for the microfinance sector to scale?
- **Financial Sustainability:** what institutional models are working well?
- **Pricing:** are federal and regional authorities, donors, creditors allowing microfinance providers to price their products and services appropriately?
- **Non-profit MF providers:** is there potential to commercialize the existing sector?
- **Low-income Credit Unions:** is there potential to scale up these institutions?
- **Emerging for-profit institutions:** can they help bridge the financing gap that exists in service to underserved micro-entrepreneurs?
- **International experience:** are there lessons which can be applied to the U.S. microfinance sector?



Types of Microfinance Providers: U.S.

Segment	Description
Not-for-Profits	<ul style="list-style-type: none"> • Provide loans, training, TA directly • Some complex: offering loans for small businesses, affordable housing, community facilities, credit-building products, IDAs • Many are CDFI loan funds
Credit Unions	<ul style="list-style-type: none"> • LICUs, CDCUs (some CDFIs) • Very little industry data on extent of micro-lending (loans below \$50k)
Emerging-for-Profits	<ul style="list-style-type: none"> • Targeting <ul style="list-style-type: none"> – Main Street businesses (On-Deck Capital) – Consumers, some of which use funding for business purposes (Progreso Financiero) – Low-to-moderate income micro-entrepreneur market (Confianza, OUR Microlending) – Small business customers (Sam's Club)
Alternative Lenders	<ul style="list-style-type: none"> • Payday lenders, check cashers, pawn shops (plus new entrants like ZestCash)



Source: Lieberman, Mudd, Goodeve. "US Microfinance at the Crossroads (September 2012)



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International Microfinance: Lessons Learned (1 of 2)

- **High growth rates** allowed for large client outreach, increased impact, rapid expansion
- **Emphasis on financial sustainability / appropriate pricing** ensured:
 - Decreased dependence on capricious donor funding
 - Interest rates and fees sufficient to:
 - Cover all costs
 - Generate a reasonable return on assets and equity; and, therefore
 - Access to diverse sources of funding from depositors, capital markets, private investors, etc.
- **Product development started with credit product**, followed by introduction of other microfinance services once MFIs reached financial sustainability



Source: Lieberman, Mudd, Goodeve. "US Microfinance at the Crossroads (September 2012)



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International Microfinance: Lessons Learned (2 of 2)

- **Targeted, productive use of donor funds to build capacity** enabled “best-in-class” MFIs to achieve sustainability over time.
- **Adoption of emerging technologies** spurred development of multiple product delivery methods: branchless banking, debit/hard cards, mobile banking to serve poor clients, including rural poor.
- **Regulation of NBFIs and MF banks** led to deposit mobilization, improved governance
- **Improved Governance** strengthened oversight of new products & expansion, enhanced risk management



Source: Lieberman, Mudd, Goodeve. “US Microfinance at the Crossroads (September 2012)

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Conclusions: Current State of Microfinance Sector

Segment	Assessment
Not-for-Profits	<ul style="list-style-type: none"> • Mission driven and providing a host of services • Not currently scalable • Remains fragile due to dependency on subsidized funding, much of which subject to budget appropriations / CRA regulations
Credit Unions	<ul style="list-style-type: none"> • Financially sustainable • Regulated • Potential to scale if able to access secondary capital or grow through mergers / acquisitions • Question as to what extent they are currently reaching micro-entrepreneurs
Emerging-for-Profits	<ul style="list-style-type: none"> • Technology allowing them to reach less dense areas of underserved populations • Able and willing to charge appropriate interest rates --- goal to achieve profitability • Private, commercial-rate financing • Potential to scale and become viable market players
CDFI Bond Guarantee	<ul style="list-style-type: none"> • Opportunity to target most viable institutions in all three classes



Source: Lieberman, Mudd, Goodeve. "US Microfinance at the Crossroads (September 2012)



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Scale & Sustainability Roundtable: Discussants & Moderator



Joyce Klein
Director
FIELD



U.S. Microfinance: Snapshot of the Status Quo

Microloans Disbursed and Outstanding in FY2010						
	Mean	Median	Minimum	Maximum	Sum	n
Number of Microloans Disbursed	79	20	1	4,153	12,457	159
Dollar Amount of Microloans Disbursed	\$672,311	\$230,000	\$500	\$22,481,156	\$104.2M	155
Dollar Amount of Microloans Outstanding	\$1,006,300	\$545,683	\$800	\$7,441,799	\$132.8M	132



Source FIELD at Aspen



Where we agree



- Need for significant investment to build the capacity to scale
- Importance of data – microTracker
- Need for new business models



Where we agree



- Definition of sustainability and relation to subsidy
- Role of CDFIs/mission-based lenders in the U.S.
- Product segments



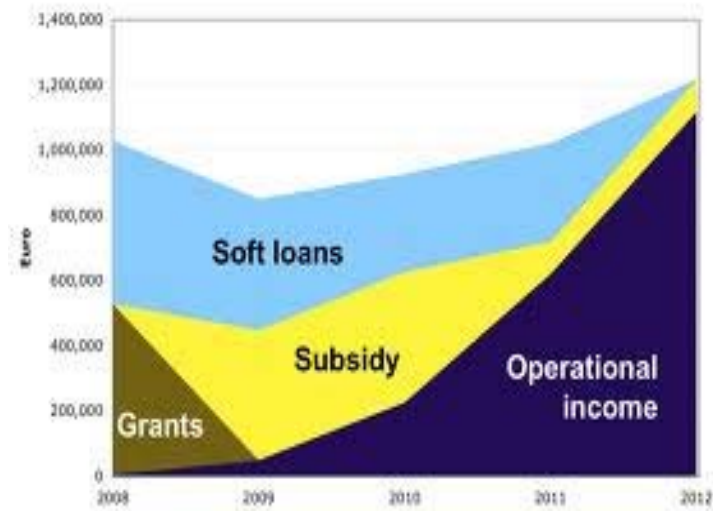
Scale & Sustainability Roundtable: Discussants



Connie Evans
President & CEO
AEO



Financial Sustainability: Goals



U.S. Microfinance: Current Costs & Self-Sufficiency

Costs and self-sufficiency rate in FY2010						
	Mean	Median	Minimum	Maximum	Top performers	n
Operational cost rate	.43	.47	.10	\$8.01	.32	25
Operational self-sufficiency	30%	21%	0%	75%	33%	26
Short-term Financial self-sufficiency	26%	19%	0%	56%	28%	26



Source FIELD at Aspen

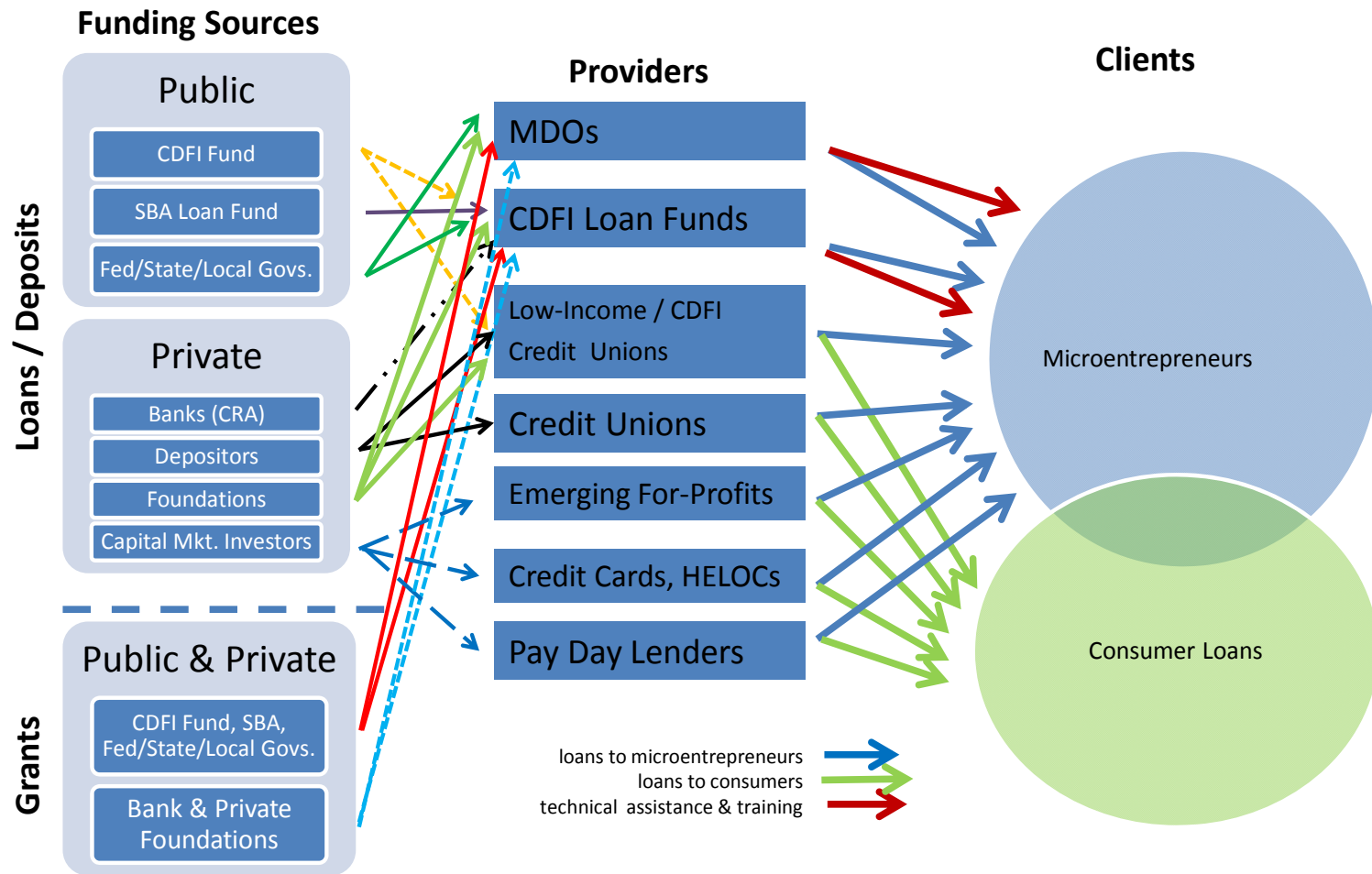


Financial Sustainability: Tradeoffs





U.S. Microfinance: Resource Flow Map



Source: Lieberman, Mudd, Goodeve. "US Microfinance at the Crossroads (September 2012)"



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Pricing?

Good question

U.S. Microfinance: Pricing

- FDIC Guidelines: Max rate 36%
- Scale Academy Lenders: Max rate is 18%
- SBA Loans: Max rates and fees capped



Source FIELD at Aspen; AEO analysis



Effect of High Rates on Small Loans is Simply Optics

Table 1: Effect of Interest Rate on Monthly Loan Payments

Interest Rate	Loan Size and Term			
	\$1,000/6 mos.	\$2,500/1 yr.	\$25,000/3 yr.	\$25,000/5 yr.
50%	\$191.80	\$268.96	\$1,352.85	\$1,140.12
36%	\$184.60	\$251.16	\$1,145.09	\$903.00
17%	\$175.03	\$228.01	\$891.32	\$621.31
8%	\$170.58	\$217.47	\$783.41	\$506.91
Difference 50% vs. 8%	\$21.22	\$51.49	\$569.44	\$633.21

⁵ Creditcards.com calculates a weekly average credit card rate based on rates for the 100 most popular credit cards in the U.S.; see <http://www.creditcards.com/press-releases/CreditCards-Weekly-Credit-Card-Rate-Report-April-27-2011.php>, (accessed April 27, 2011).

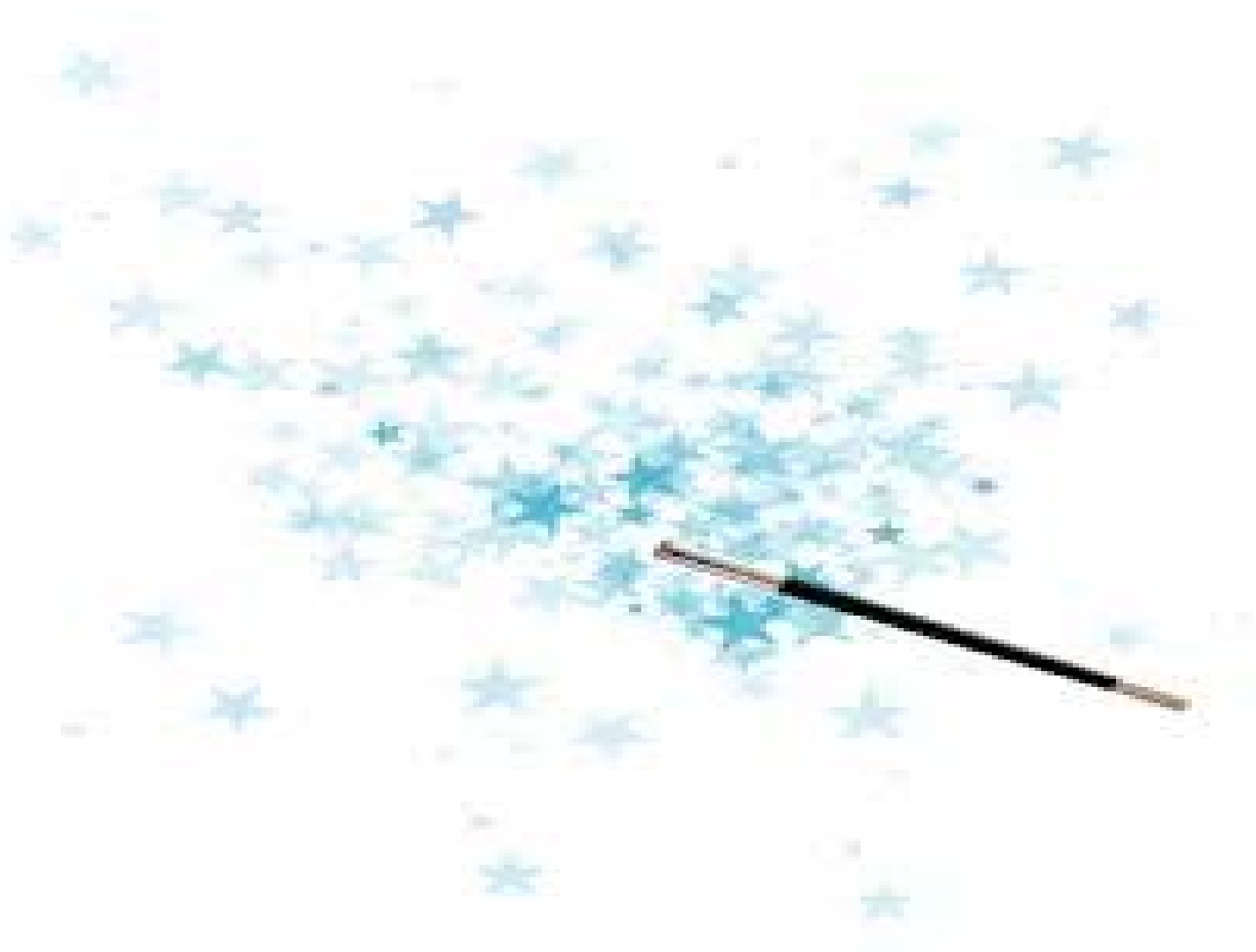


Source: Lieberman, Mudd, Goodeve. "US Microfinance at the Crossroads (September 2012)"



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Continue the conversation in St. Louis!



- **Sustainability in the Making: CEO Conversations** moderated by Eric Weaver, Founder & CEO, Opportunity Fund
- **Evolving Capitalization Strategies: Can New Sources and Structures Present Opportunities?** Panel discussion including Ira Lieberman, Melissa Bradley & Joel Hornstein
- **Connecting Microbusiness & Asset Development:** Daniel Delehanty from Capital One will facilitate conversation including Citi Foundation, Fifth Third Bank and others

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