

## Microfinance at Credit Suisse



Credit Suisse

October 2011

Switzerland: This product can only be offered to qualified investors according to art. 10 para. 3 CISA. This material is personal to each offeree and may only be used by those persons to whom it has been handed out.

# Content

- Microfinance – An Introduction
- Microfinance at Credit Suisse – Linking the Top of the Economic Pyramid with the Base
- Microfinance Social Investments
- Microfinance Research
- Microfinance Fund Solutions
- Microfinance Capacity Building Initiative



# Microfinance Is Retail Banking for Low-Income Households

## Credit



## Working Capital



## Savings



## Insurance



## A Full Range of Financial Services for the Poor

- Microfinance offers low-income individuals access to basic financial services such as loans, savings, money transfer services, and insurance. Traditionally, banks have not considered low-income individuals to be a viable market.
- The basic working units of the industry are the Microfinance Institutions (MFIs). These diverse organizations – sometimes formed as commercial banks, non-bank financial institutions, rural banks, non-governmental organizations (NGOs) or cooperatives – offer a variety of locally-based financial services to poor populations.
- There are an estimated 10,000 MFIs worldwide, most of them very small, serving around 180 mn low-income individuals, which represents a total volume in loan terms of more than USD 65 bn
- MFI clients are typically self-employed, often women, and operate small businesses or household-based enterprises

# Microfinance Contributes to the United Nations Millennium Development Goals

Access to capital is the basis of entrepreneurship, economic activity, and development as well as prosperity

## Microfinance

- Credit
- Saving
- Insurance
- Transfer

## Increases

- Income
- Assets
- Security
- Confidence in the future

## Improves

- Health
- Education
- Nutrition
- Community
- Access to financial services

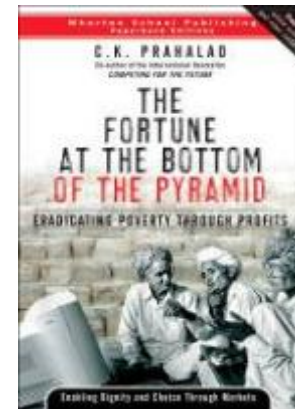
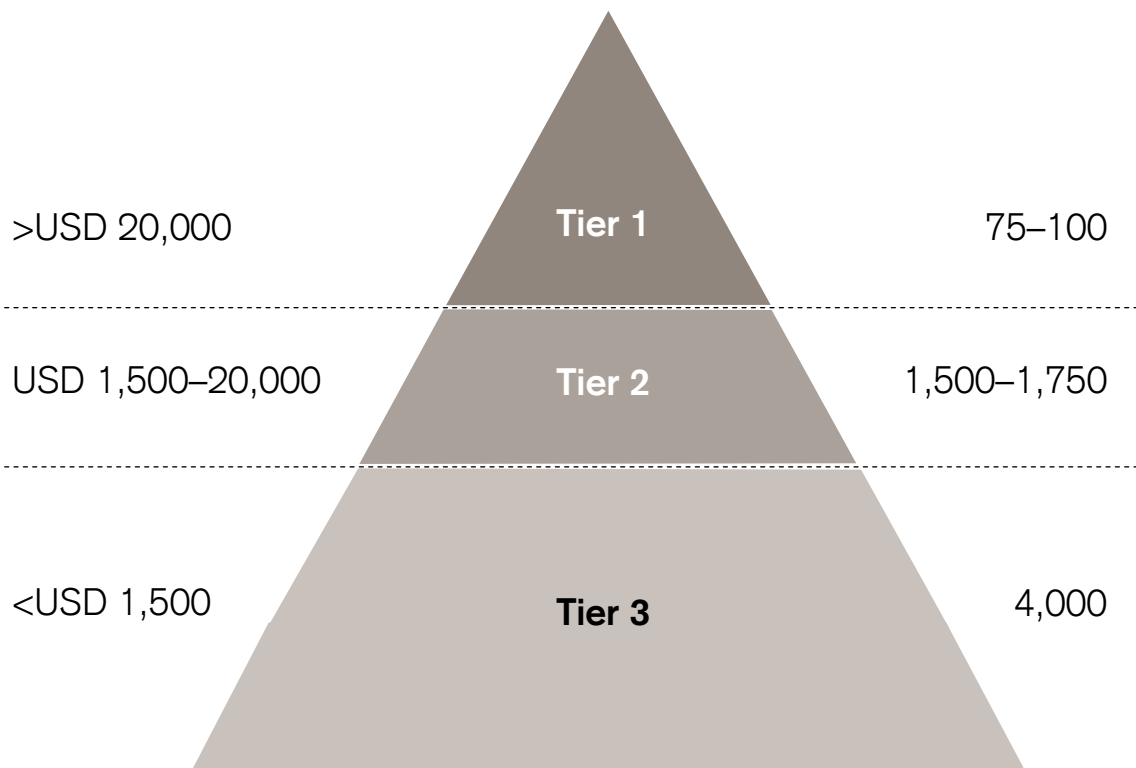
Microenterprises in developing countries

- 80% of all companies
- 20% of gross national product
- Main provider of jobs
- 500 million microentrepreneurs worldwide
- Only 5% to 10% have access to financial services!

# Microfinance Breaks with Conventional Logic

Purchasing power parity  
in U.S. dollars

Population in millions



**“If we stop thinking of the poor as victims and start recognizing them as resilient entrepreneurs, a whole new world of opportunity opens up”  
(Prof. C.K. Prahalad)**

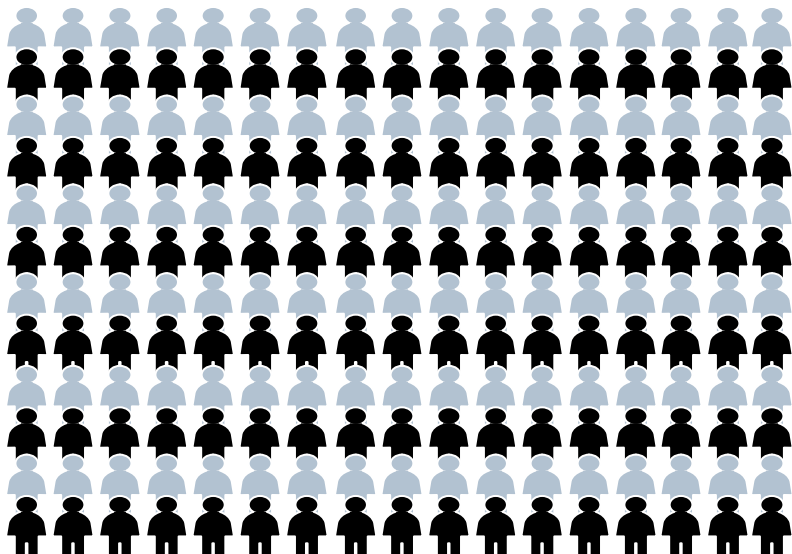
Source: C.K. Prahalad:  
“The Fortune at the Bottom of the Pyramid”

# Potential for Financial Inclusion Is Tremendous

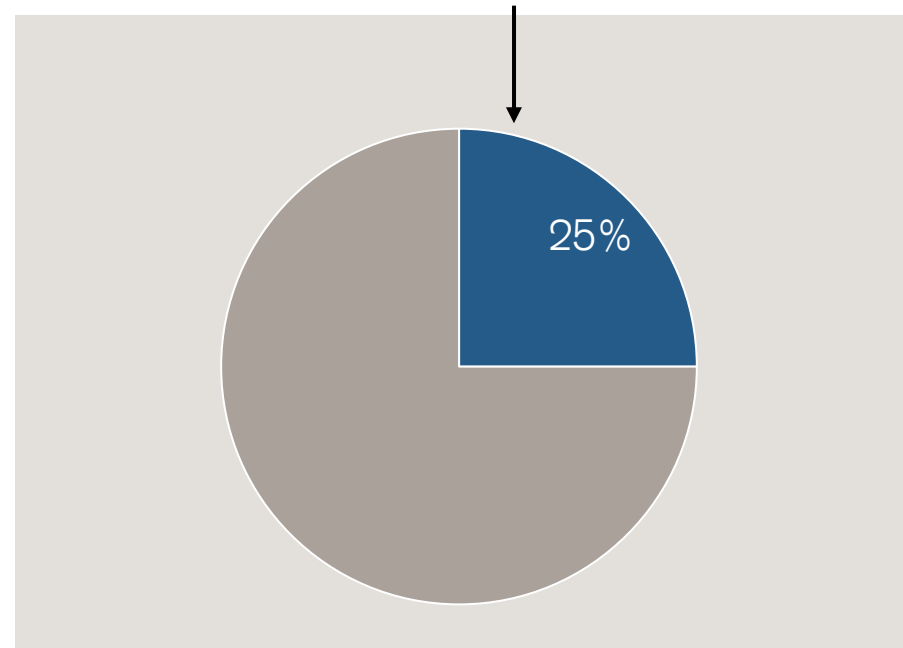
180 mn poor people served by microfinance



1.5 bn underserved population



Outstanding microloan portfolio USD 65 bn



Untapped demand  
USD 265 bn

Source: DB Research (2007), CGAP, Own estimates



# Microfinance Institutions Provide a Variety of Financial Services to Low-Income Households

## Description

- MFIs offer low-income individuals financial services and in certain cases other services, like business training
- MFIs started as NGOs or state-owned development banks and today the large majority are still non-profit entities. However, an increasing number of MFIs is being organized as for-profit entities like non-bank financial institutions (NBFIs), commercial banks that specialize in microfinance, or microfinance departments of full-service banks.
- MFIs have intimate knowledge of the sector in which they operate and develop specific delivery channels to ensure proximity, e.g. by using sophisticated IT solutions to reach the masses (ATMs, mobile phones, etc.)
- MFIs get funding from diverse actors, like development banks, donors, local banks, and international investors

## Business Model



- Focus on low-income households
- Diverse legal set-up
- Full range of financial services
- Unique credit methodology
- Strong asset quality
- High operating cost ratio
- High net interest rate margins
- Volume, portfolio quality and efficiency drive profitability

# Microfinance Clients Are Microentrepreneurs and Small Businesses



## ■ Microfinance clients are mostly self-employed microentrepreneurs and small businesses

- Underserved by mainstream financial system
- Large population of women

## ■ Microfinance clients are in need of financial services and are solvent

- Need typically a USD 500–6,000 loan for an average term of 12 months
- Need other services, including savings, insurance, and money transfer
- 97% of microfinance clients pay back on time

## ■ Microfinance clients experience very low default rates

- MFIs have a very close relationship with their clients due to regular visits to their premises, allowing the MFIs to monitor client businesses closely and react quickly to potential problems
- Loans are made to finance working capital and are based on local credit assessments
- First-time borrowers usually receiving counseling
- Lack of access by the clients to other credit sources drives high repayment rate



# Profile of a Borrower

Phi Phi, mother of four, village in Cambodia



## Profile of a borrower

### History:

- Difficult carpentry business
- Start new business, shift to sugar production

### First loan: USD 13

### Purpose:

- Purchase a few sacks of fertilizer
- Some bamboo for ladders

### Result:

- More palm sugar per day

### Twelfth loan: USD 65

### Result:

- One more plot of land
- One son in university

**Lender:** AMRET, an MFI in Cambodia

**Funding:** Microfinance Fund

## A standard microloan

- Small size (USD 50–2000)
- No collateral
- Frequent payments (weekly)
- High interest rates
- Short to medium-term

# Important Issues as the Microfinance Industry Matures

## Consumer protection

- Preventing over-indebtedness
- Ensuring transparency and responsible pricing
- Guaranteeing fair treatment of clients

## Financial viability

- Diversifying funding sources
- Managing risks (e.g. credit, currency)
- Maintaining high portfolio quality

## Sustainable growth

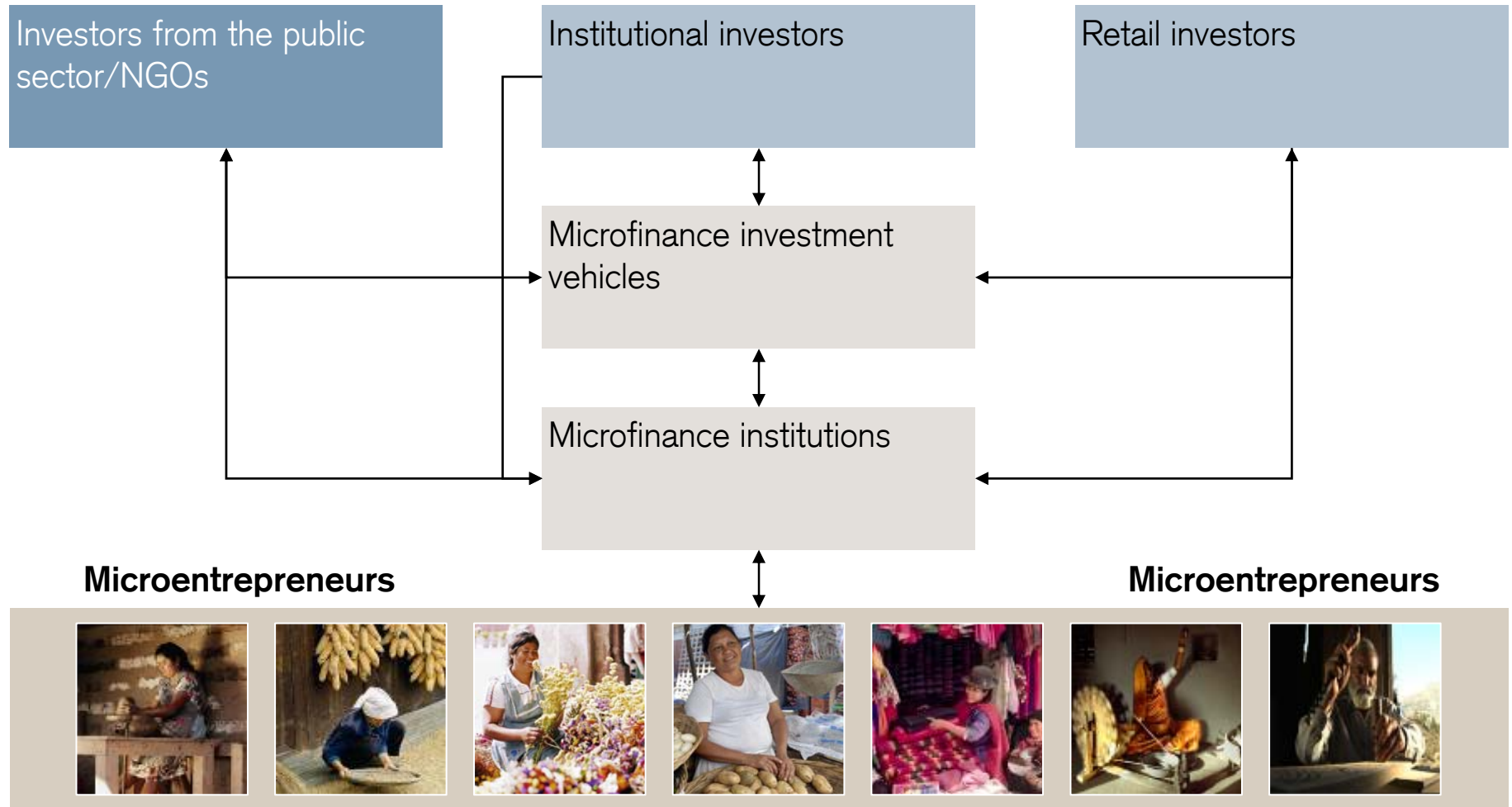
- Creating new products, beyond credit, to meet client needs
- Reaching new markets and responsibly developing mature markets

## Operational strength

- Ensuring MFI effective governance
- Forming strong management at all levels of MFIs
- Developing effective internal processes and procedures within MFIs, as well as innovative technologies and mechanisms to deliver services



# How to Invest in Microfinance



# Credit Suisse Links the TOP of the Economic Pyramid with the BASE



**TOP** (Top of the Pyramid)  
≥USD 1 million in assets



**BOP** (Base of the Pyramid)  
<USD 4 a day/PPP

# Credit Suisse Has Had a Long-Term Commitment to Microfinance

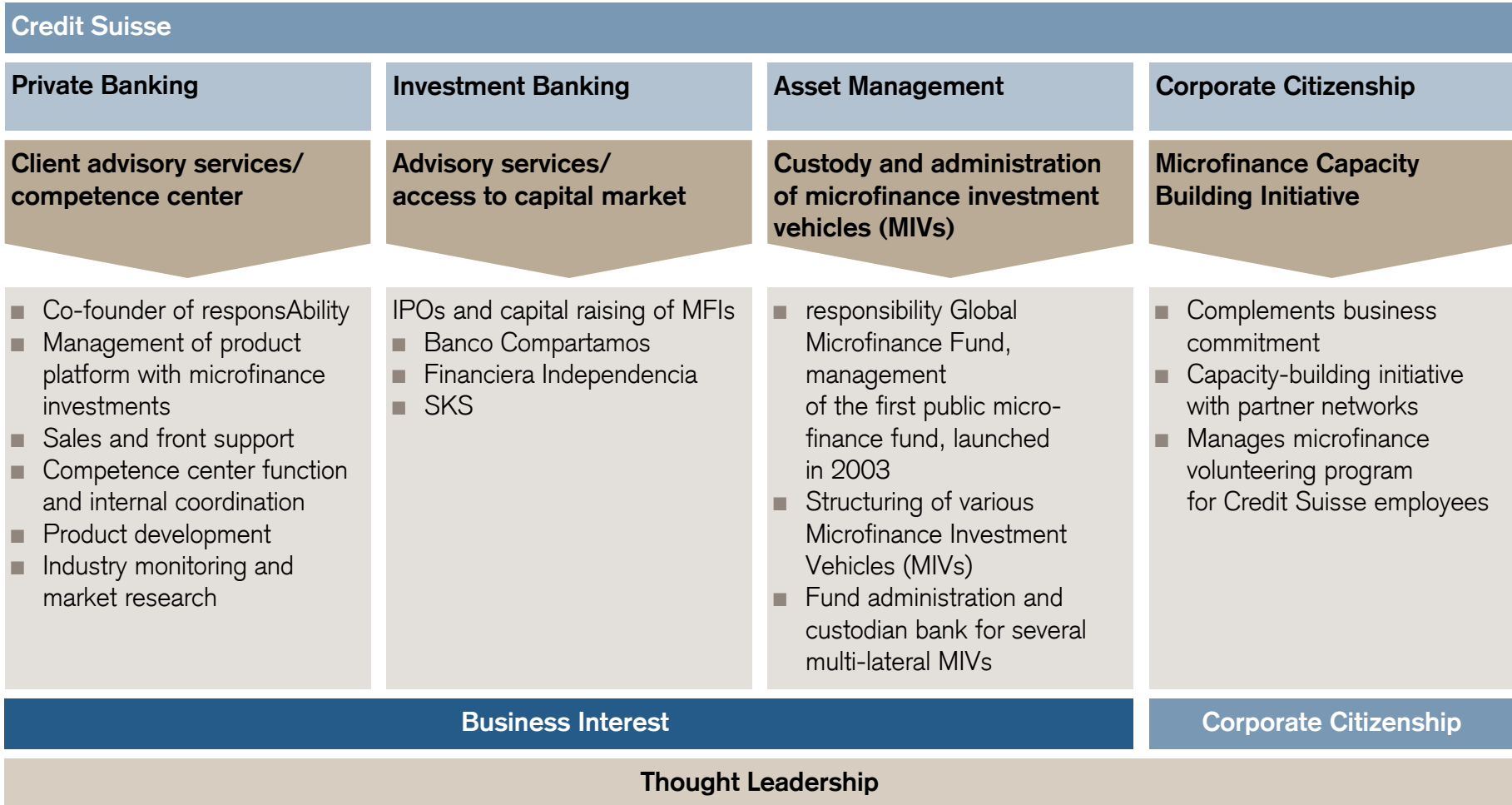
## Credit Suisse Assets Under Management Microfinance Funds (USD)

2002	2003 4 m	2004 8 m	2005 43 m	2006 195 m	2007 424 m	2008 686 m	2009 958 m	2010 998 m	2011 1130m
Co-founder of the company responsAbility	Launch of the rAGMF fund	Involvement in the UN Year of Microcredit	Launch of Leaders Fund	Landmark IPOs	Launch of rBOP	Capacity-building initiative	IFC-kfW facility	Asia Women Fund	Local Currency Note

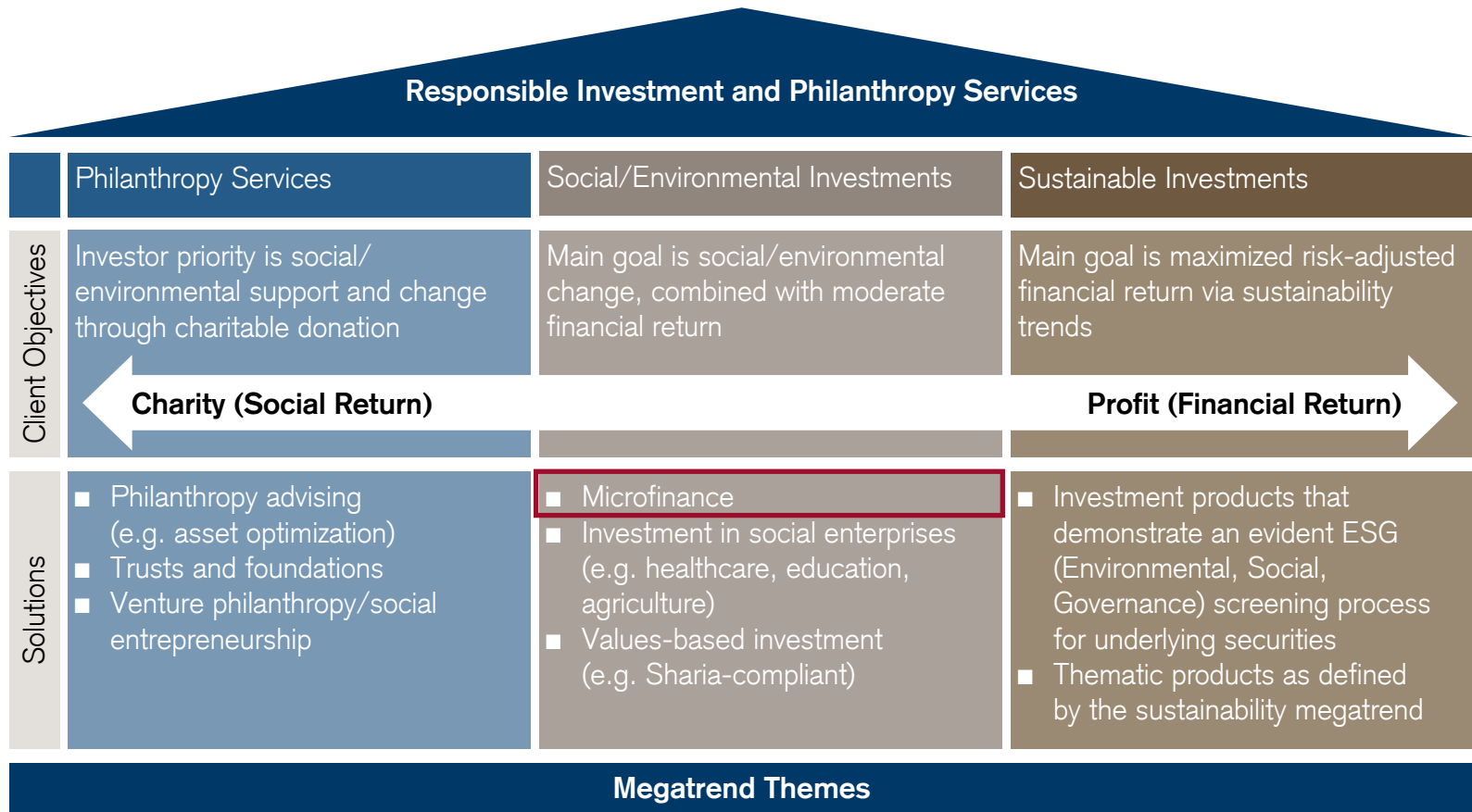




# A Unique and Integrated Approach Across the Bank in Microfinance



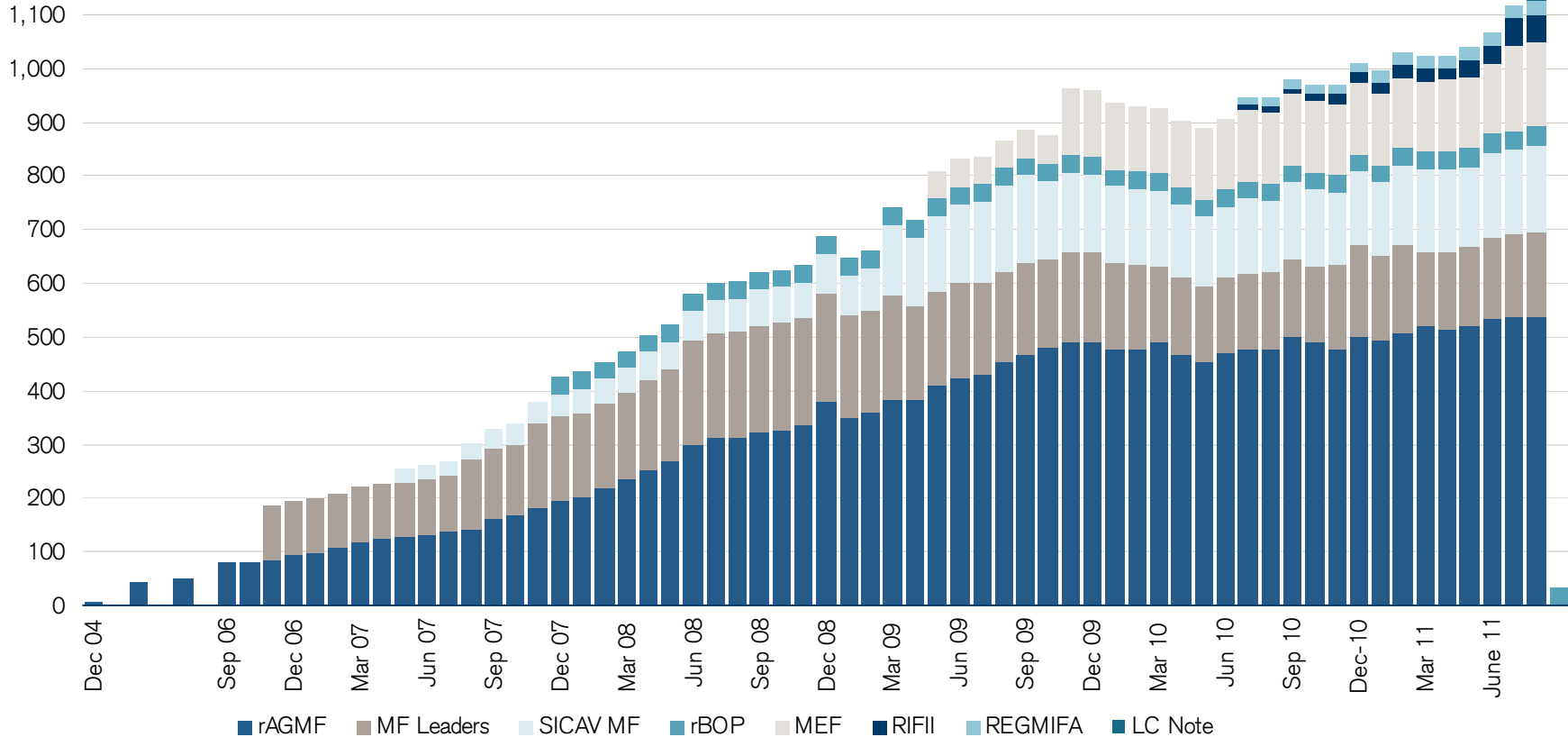
# Microfinance Is Part of the Credit Suisse Offering in Social Investments



# Over USD 1 bn in Assets under Management in Microfinance from 3,000+ Social Investors

USD millions

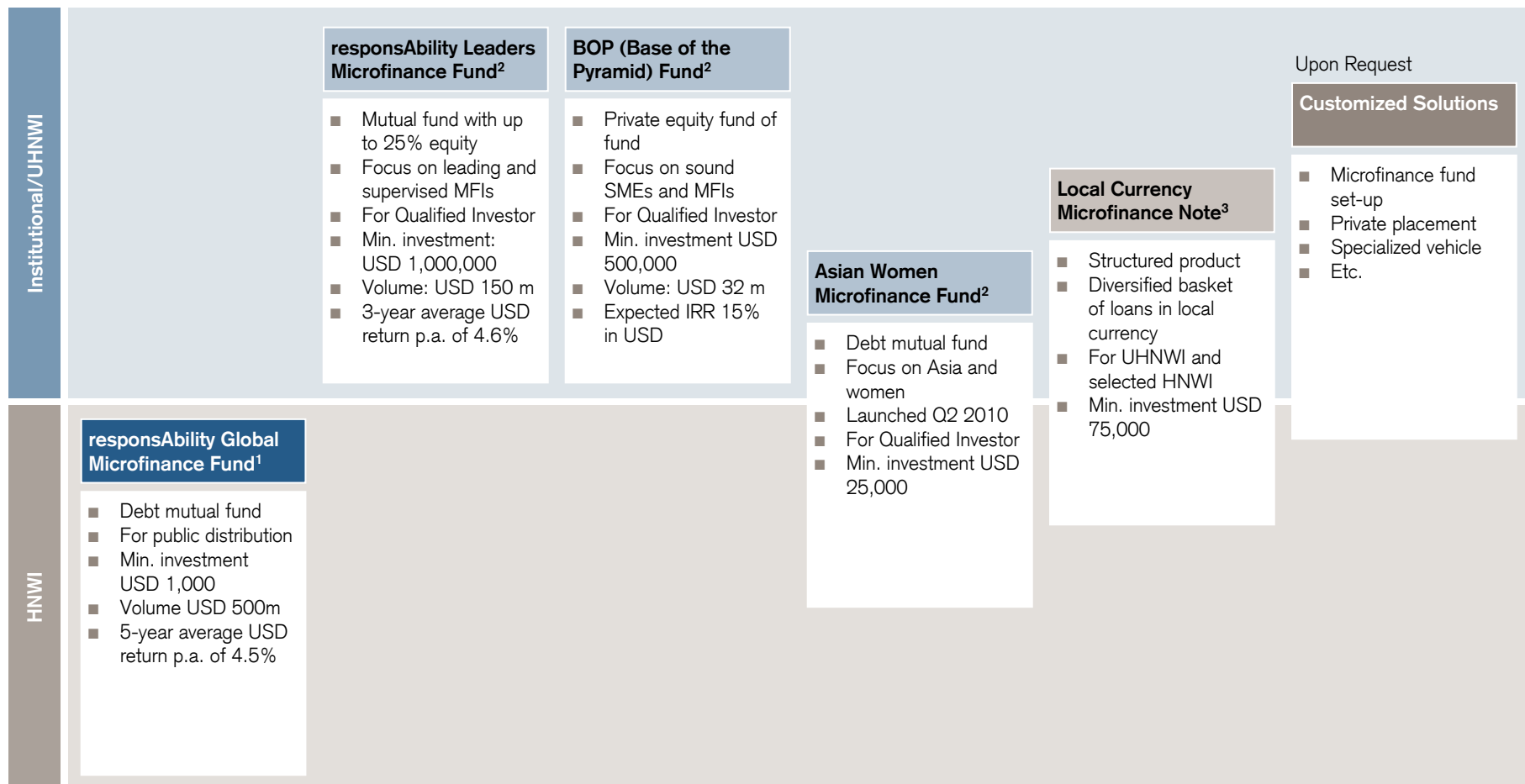
**Total: USD 1,135 million**



Historical return data and financial market scenarios are no guarantee of ongoing or future results. The performance data takes no account of the commissions and costs associated with the issuance and redemption of units.

Source: Credit Suisse: September 2011

# Diverse Investment Opportunities on Our Platform



Historical returns or financial market scenarios are not a guarantee for current or future performance. The performance data does not include fees and costs charged at issuance or redemption.

<sup>1</sup> Legal name: responsAbility Global Microfinance Fund. Approved for sale in Switzerland as a foreign collective investment scheme with special risks.

<sup>2</sup> Legal names: responsAbility SICAV (Lux), responsAbility BOP investments S.C.A. SICAR, IC Asia Women Microfinance Fund, Azure Global Microfinance Fund. These funds are not approved for public distribution in Switzerland, but only to qualified investors.

<sup>3</sup> This Structured Product does not constitute a participation in a collective investment scheme within the meaning of the Swiss Federal Act on Collective Investment Schemes (CISA) and is therefore not subject to authorization and supervision by the Swiss Financial Market Supervisory Authority (FINMA).

# Investments Show a Continual and Positive Return

	2007	2008	2009	2010	2011YTD
<b>Leaders Fund<sup>1</sup> I&amp;S USD</b>				0.95%	1.54%
<b>rAGMF Fund B USD</b>	7.70%	6.44%	1.16%	2.46%	2.32%
<b>rAGMF Fund H CHF</b>	4.36%	5.11%	0.31%	1.44%	1.56%
<b>rAGMF Fund H EUR</b>	6.31%	6.88%	1.09%	2.07%	2.27%
<b>IC Asia Women MF Fund USD</b>				-1.25%	1.40%



Historical return data and financial market scenarios are no guarantee of ongoing or future results. The performance data takes no account of the commissions and costs associated with the issuance and redemption of units.

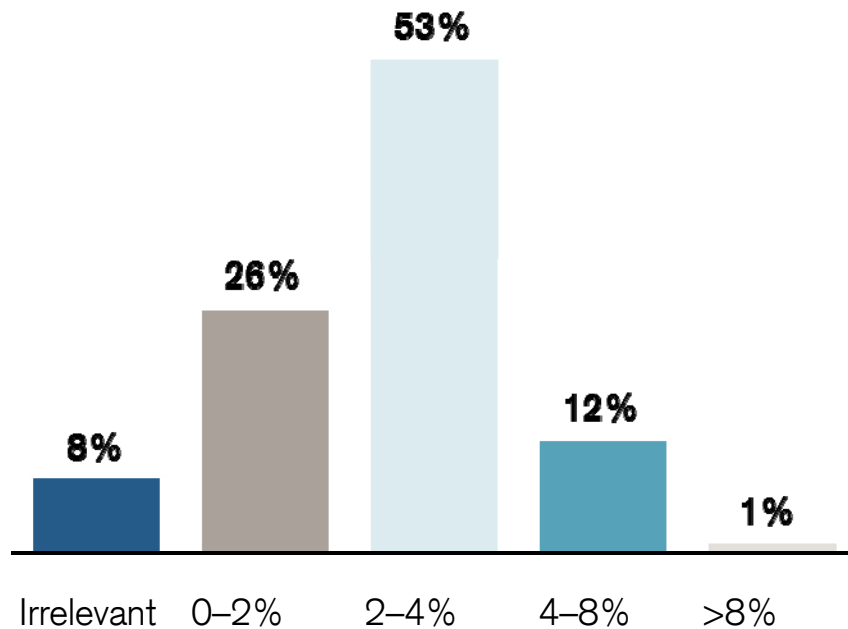
<sup>1</sup> I&S class has been available in USD, CHF and EUR since September 2010.

Data: Credit Suisse: September 2011

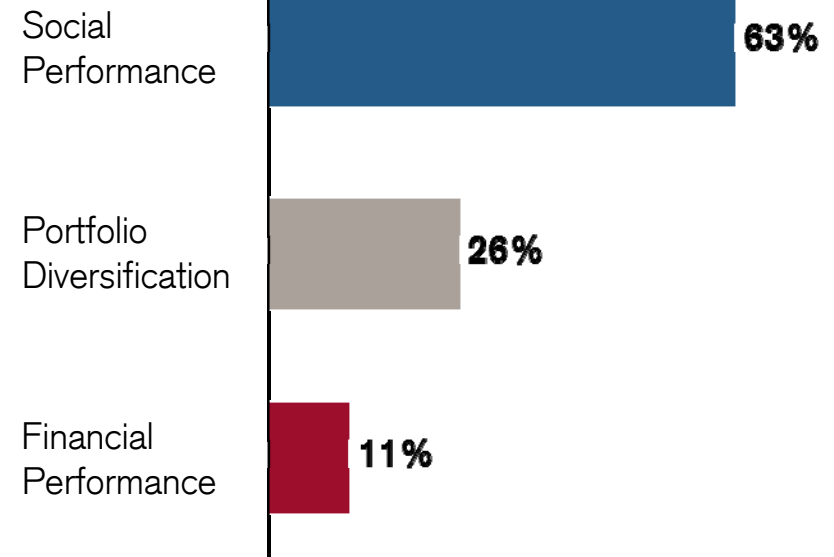


# Why Our Clients Invest in Microfinance

## Investors' Expectations in Terms of Financial Return



## Motivation of Investors



Source: Credit Suisse survey, 2010

# Microfinance Investments Result in Social Change



Independence



Empowerment



Self-Esteem



Entrepreneurship



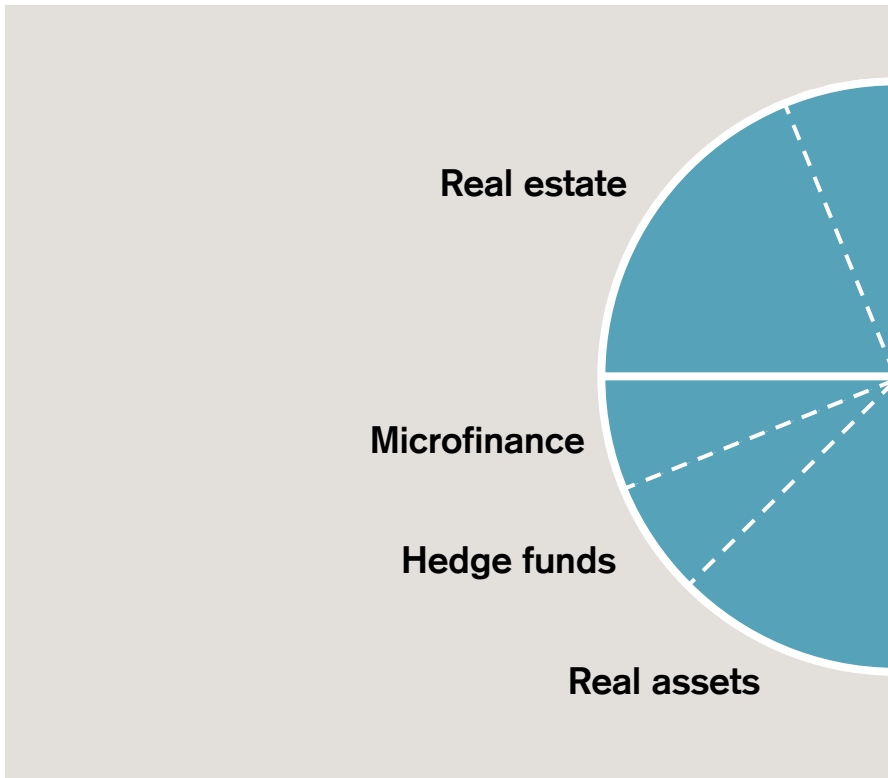
Responsibility



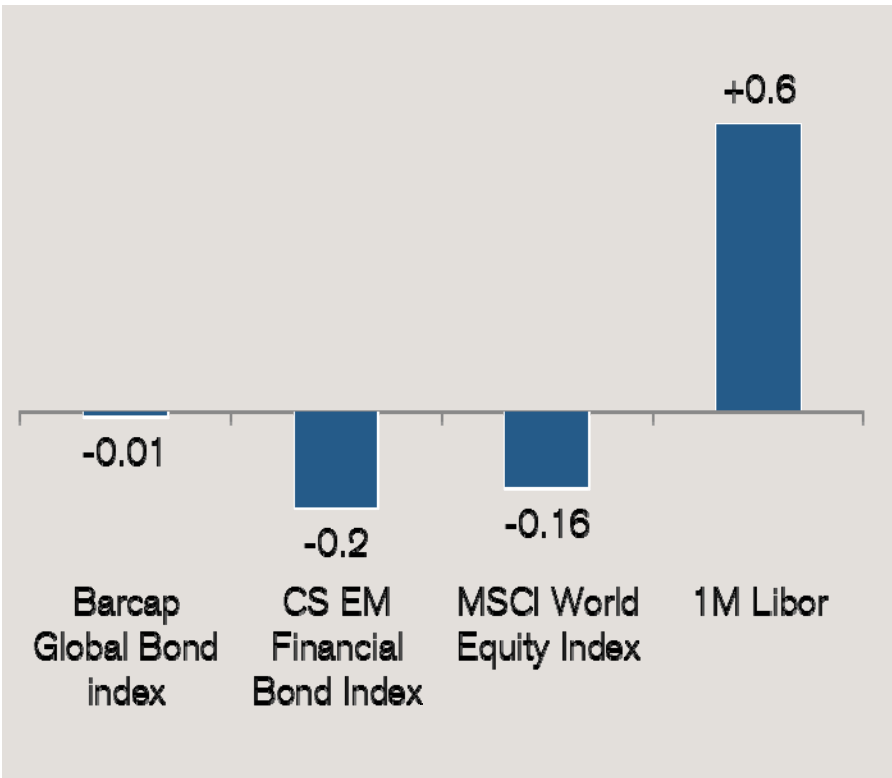
Resilience

# Microfinance Investments Are an Alternative Investment and Ideal for Portfolio Diversification

## Alternative investment



## Correlation Coefficient of Monthly Returns 2004–2011, SMX Microfinance (USD) VS



Historical return data and financial market scenarios are no guarantee of ongoing or future results. The performance data takes no account of the commissions and costs associated with the issuance and redemption of units.

Source: Bloomberg and Credit Suisse, 2010

# Microfinance Investments Also Entail Various Risks



**Country Risk**

**Credit Risk**

**Currency Risk**



# Strong Capabilities and Regular Publications in Microfinance Research

Embedded in Credit Suisse Private Banking Global Research, Microfinance Research provides updates for investors on recent trends and developments in the microfinance sector. The team's role is to shed light on a very heterogeneous sector, focusing on characteristics that vary from country to country and depend strongly on the political and regulatory environment. It is the Research team's goal to highlight disparities at the level of development in order to attain a better understanding of the microfinance sector.

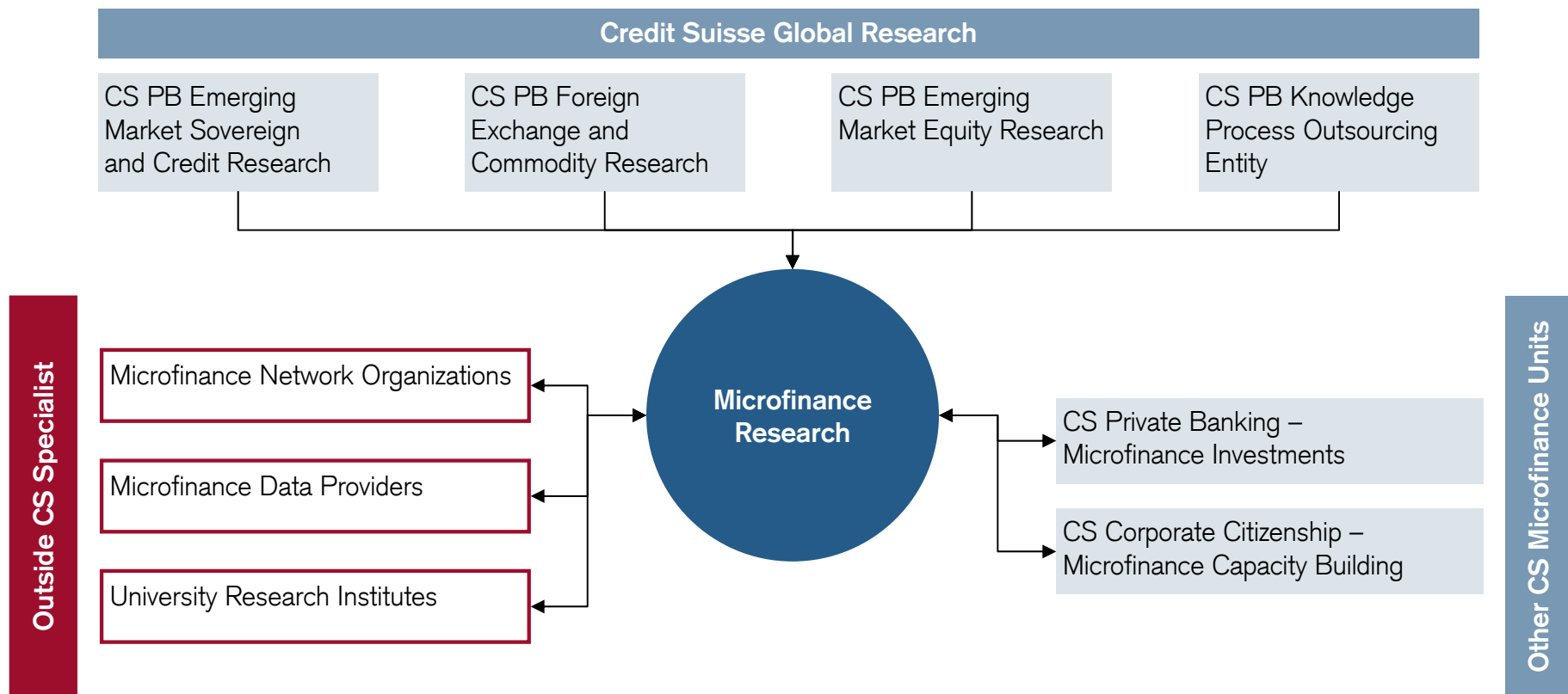
## Recently Published Reports Include

- Regional reports: South Asia; Eastern Europe and Central Asia; Latin America on the financial inclusion path; sector report: India
- Local currency funding in microfinance
- Spillover risk of South Asian problems/situation to other regions?
- Gender – what impact on financial and social return?
- Microfinance equity – an area of growth

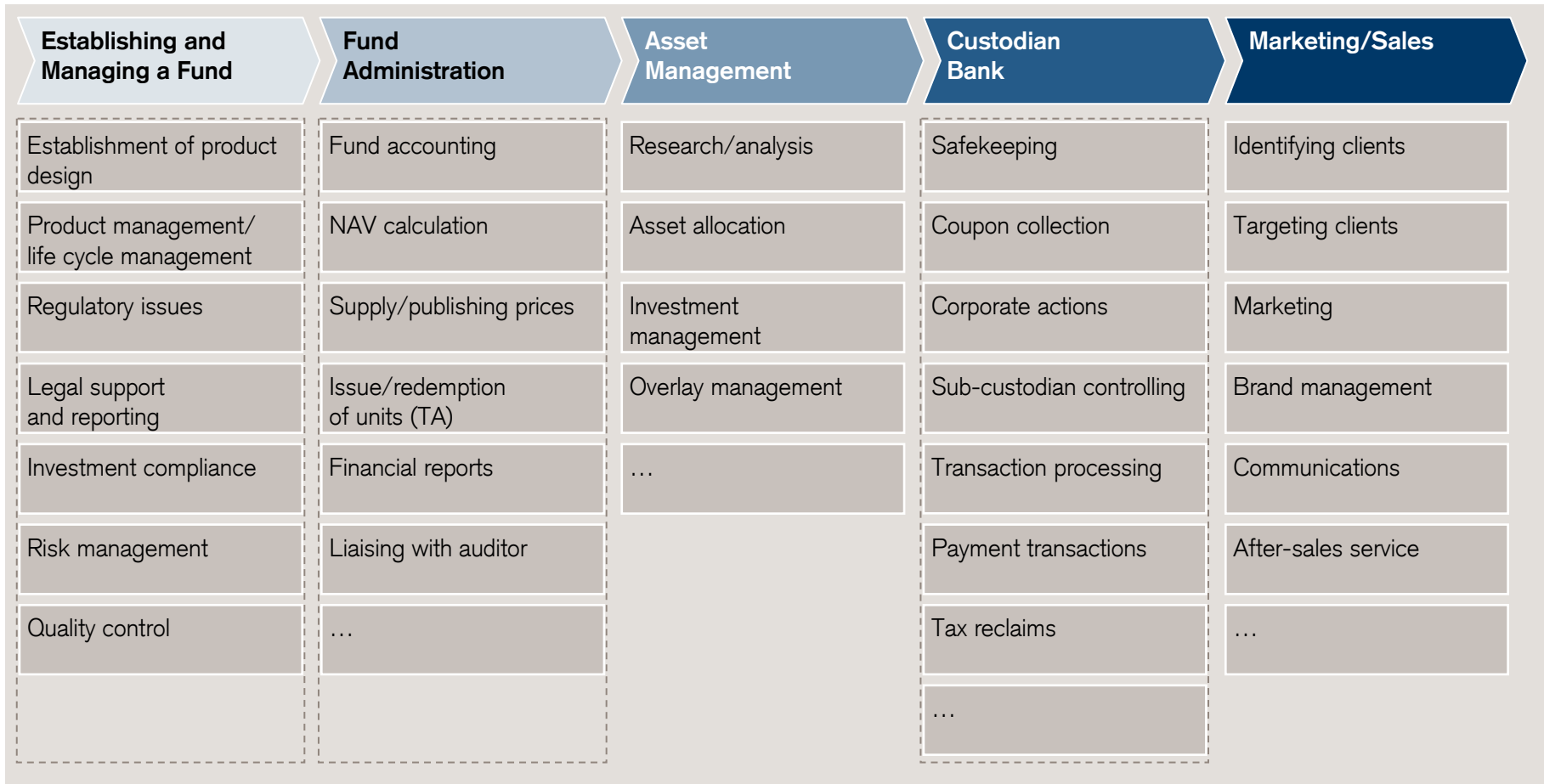


# Microfinance Research within a Network of Global Research, Business, and CSR Specialists

Microfinance Research team exchanges and transfers expertise with other Credit Suisse Group departments that are involved in microfinance and/or emerging markets. These interactions allow Research to further deepen its knowledge of the sector and to improve the service offering for our social investors. In addition, research fosters networking activities with microfinance specialists outside Credit Suisse Group.



# Fund Solutions and Client Services Provided Along the Fund Value Chain



Services usually provided by CSIS (dependent on the individual collaboration model)

# Microfinance Capacity Building Initiative at Credit Suisse

## Why capacity building?

- Microfinance sector has seen exponential growth.
- Despite access to abundant capital and continued demand, human and institutional capacity of the sector has not been able to keep up.
- The Microfinance Capacity Building Initiative (MCBI) is funded through Credit Suisse Philanthropy and complements the long-term business engagement in the sector and leverages our expertise. It was established in 2007 and is managed by Corporate Citizenship.



## What is MCBI's mission?

**To enable MFIs to develop the people, processes, and products they need to meet their social and financial goals:**

- Contribute to the quality training of thousands of staff at microfinance institutions (MFIs)
- Foster research, innovation, and constructive dialogue to spread best practices
- Improve financial services for numerous poor individuals
- Engage Credit Suisse employees

# Through Its Work, the MCBI Gains Unique Insight into Partner Organizations

<b>ACCION International</b>	<ul style="list-style-type: none"> <li>■ Founding partner of the Center for Financial Inclusion (CFI), a unique “solutions lab” for the industry, including the Smart Campaign, the leading industry initiative on consumer protection</li> <li>■ Premier partner of the global training centers in India, China, Brazil, and Ghana to provide staff training on credit methodology, management, and best practices, among other topics</li> </ul>
<b>FINCA International</b>	<ul style="list-style-type: none"> <li>■ Premier partner of FINCA Development Academy, an in-house professional training center for thousands of FINCA's global employees</li> <li>■ Supporter of FINCA's market intelligence and social performance initiative to better understand and serve client needs</li> </ul>
<b>Opportunity International</b>	<ul style="list-style-type: none"> <li>■ Premier partner of “Electronic Wallet” program in Ghana, Rwanda, Malawi, and Colombia which provides new access for low-income customers for financial services (ATM machines, SmartCards, mobile banks, etc.)</li> <li>■ Partner in NextGen Banker staff training and development programs</li> </ul>
<b>PlaNet Finance</b>	<ul style="list-style-type: none"> <li>■ Partner of the microfinance risk management and robustness program in China to develop staff risk management capabilities and diversify funding opportunities</li> </ul>
<b>Swisscontact</b>	<ul style="list-style-type: none"> <li>■ Partner of the microleasing development initiative in East Africa</li> <li>■ Supporter of Youth Entrepreneurship program in South Africa</li> </ul>
<b>Women's World Banking</b>	<ul style="list-style-type: none"> <li>■ Partner of research and innovation in the development and delivery of women-focused microfinance services and supporting and expanding the capacity of WWB's network members to develop, incubate, and scale innovative women-focused financial products and services</li> </ul>
<b>Microfinance Communications Council</b>	<ul style="list-style-type: none"> <li>■ Credit Suisse is founder of the MCC, bringing together leading US microfinance networks to communicate effectively and with unity about the industry and current issues</li> </ul>
<b>Swiss Capacity Building Facility</b>	<ul style="list-style-type: none"> <li>■ Credit Suisse is a founding partner of SCBF, a public-private partnership between the Swiss government and private sector to strengthen MFIs and facilitate social investment in them</li> </ul>

# Conclusion



## Microfinance at Credit Suisse

- An innovative investment opportunity generating both a financial return and a positive social impact
- A portfolio-diversifying alternative investment with a history of continued positive returns
- An opportunity to contribute to the enhancement and responsible development of innovative solutions for social change at the Base of the Economic Pyramid (the BOP)
- Credit Suisse is a trusted partner with an extensive experience and solid expertise in the microfinance value chain aimed at linking the TOP with the BOP



# Links and Contacts

For further information

Please visit our website at  
**[www.credit-suisse.com/microfinance](http://www.credit-suisse.com/microfinance)**

Please contact us at  
**[forum.microfinance@credit-suisse.com](mailto:forum.microfinance@credit-suisse.com)**



## Disclaimer

This document was produced by Credit Suisse AG and/or its affiliates (hereafter “CS”) with the greatest of care and to the best of its knowledge and belief. However, CS provides no guarantee with regard to its content and completeness and does not accept any liability for losses which might arise from making use of this information. The opinions expressed in this document are those of CS at the time of writing and are subject to change at any time without notice. If nothing is indicated to the contrary, all figures are not audited. This document is provided for information purposes only and is for the exclusive use of the recipient. It does not constitute an offer or a recommendation to buy or sell financial instruments or banking services and does not release the recipient from exercising his/her own judgment. The recipient is in particular recommended to check that the information provided is in line with his/her own circumstances with regard to any legal, regulatory, tax or other consequences, if necessary with the help of a professional advisor. This document may not be reproduced either in part or in full without the written permission of CS. It is expressly not intended for persons who, due to their nationality or place of residence, are not permitted access to such information under local law. Neither this document nor any copy thereof may be sent, taken into or distributed in the United States or to any US person (within the meaning of Regulation S under the US Securities Act of 1933, as amended). Every investment involves risk, especially with regard to fluctuations in value and return. Investments in foreign currencies involve the additional risk that the foreign currency might lose value against the investor’s reference currency. Historical performance indications and financial market scenarios are no guarantee for current or future performance. Performance indications do not consider commissions levied at subscription and/or redemption. Furthermore, no guarantee can be given that the performance of the benchmark will be reached or outperformed.

The responsAbility Global Microfinance Fund (hereinafter “the Fund”) is an investment fund in Luxembourg pursuant to Part II of the Luxembourg law on undertakings for collective investment and approved for sale in Switzerland as a foreign collective investment scheme with special risks.

The Fund invests in securities that are financed or refinanced by financial service companies in less developed countries. Investors are expressly made aware of the risks outlined in the prospectus and of the reduced liquidity of the Fund’s investments and the increased difficulty of valuing them, as they are often not listed or traded; investors must therefore be willing to accept substantial risks, including total loss. The risks of the Fund are not comparable to those of other funds investing in debt obligations of issuers in developed countries. Consequently, Fund units should only account for a small part of an investor’s portfolio, and held as part of a diversified portfolio. The management company and the investment advisor endeavor, however, to minimize these risks through a strict selection of the securities purchased and adequate risk diversification.

The representative in Switzerland is Credit Suisse Funds AG, Zurich. The paying agent in Switzerland is Credit Suisse AG, Zurich. Subscriptions are only valid on the basis of the current sales prospectus, the contractual terms and conditions, and the most recent annual report (or semi-annual report, if more recent). The sales prospectus, the contractual terms and conditions, and the annual and semi-annual reports are available free of charge from Credit Suisse Funds AG, Zurich, and from all Credit Suisse AG banks in Switzerland.

ResponsAbility SICAV (Lux), responsAbility BOP investments S.C.A. SICAR, IC Asia Women Microfinance Fund, and Azure Global Microfinance Fund are considered foreign investment schemes pursuant to Art. 119 of the Swiss Federal Collective Investment Schemes Act (CISA). No application has been submitted to the Federal Financial Market Supervisory Authority (FINMA) to obtain approval within the meaning of Art. 120 CISA to publicly advertise, offer or distribute the investments in or from Switzerland, and no other steps have been taken in this direction. As a result, the investments are not registered with FINMA. Consequently, investors do not benefit from the specific investor protection and/or FINMA supervision pursuant to the CISA and its implementing ordinances. Any offer or sale must therefore be in strict compliance with Swiss law, and in particular with the provisions of the Collective Investment Schemes Act and its implementing ordinances, and FINMA circular 2008/8 on public solicitation. Pursuant to the Collective Investment Schemes Act and its implementing ordinances, the units may not be offered, marketed or distributed to the public in or from Switzerland, but only to qualified investors.

## Structured Derivatives

This document is not a simplified prospectus as stated in Art. 5 of the Swiss Federal Act on Collective Investment Schemes (CISA). This investment product does not constitute a participation in a collective investment scheme. Therefore, it is not supervised by the Swiss Financial Market Supervisory Authority (FINMA) and the investor does not benefit from the specific investor protection provided under the Federal Act on Collective Investment Schemes. The investment instrument's retention of value is dependent not only on the development of the value of the underlying asset, but also on the creditworthiness of the issuer (issuer risk), which may change over the term of the structured product.

This investment product is a complex structured derivative and involves a high degree of risk. It is intended only for investors who understand and are capable of assuming all risks involved. Before entering into any transaction, an investor should determine if this product suits his or her particular circumstances and should independently assess (with his or her professional advisors) the specific risks (maximum loss, currency risks, etc.) and the legal, regulatory, credit, tax, and accounting consequences. The issuer makes no representation as to the suitability or appropriateness of this investment product for any particular investor nor as to the future performance of this investment product. Historical data on the performance of the investment product or the underlying assets is no indication for future performance. No representation or warranty is made that any indicative performance or return indicated will be achieved in the future.

Where not explicitly otherwise stated, the issuer has no duty to invest in the underlying assets and investors have no recourse to the underlying assets or to any payouts of the underlying assets. The price of the investment product will reflect the customary fees and costs charged on the level of the underlying assets (e.g. index calculation fees, management fees, administration fees). Certain built-in costs are likely to adversely affect the value of the investment product prior to maturity.

Copyright © 2011 Credit Suisse Group AG and/or its affiliates. All rights reserved.