



## swiss microfinance holding sa (SMH)

### OVERVIEW

swiss microfinance holding sa (SMH) is a company whose purpose is to capitalize, own and control microfinance institutions (MFIs) offering a variety of tailor-made financial products and services, operating primarily in rural contexts in Africa.

This investment vehicle was created in order to provide capital and contribute to sound governance within the group of professional MFIs that Financial Systems Development Services AG (FIDES) develops through its technical assistance services (design, structuring, establishment through licensing) and then manages under management services contracts.

#### **Background**

Extending financial services to the rural poor in an efficient and financially sustainable manner is a major challenge not yet adequately addressed by the mainstream microfinance industry – and this challenge is even greater in the African context. Concerns about the microfinance industry globally teach us valuable lessons about responsible finance, already applied to this venture: focus on underserved markets, expand at a judicious rate, offer a range of products tailored to client needs, and ensure sound management and strong internal systems.

For fifteen years, FIDES has successfully developed, launched and managed MFIs in rural areas, notably in Africa. FIDES works closely in these ventures with major European and international public and private development finance institutions. To expand its commitment to increasing financial inclusion in rural areas, FIDES set up SMH to specialize in equity investment in MFIs

*Together FIDES and SMH form an integrated technical service provider and investment vehicle.*

SMH currently unites a range of private social investors, adding investment capacity to the venture of creating rural MFIs. To mobilize the resources necessary to meet its investment targets in the network of sustainable MFIs that FIDES is building with like-minded partners, SMH is now opening its equity to new public and private investors.

#### **Vision**

*SMH will emerge as an international group, capitalizing, owning and controlling professional microfinance institutions active in mainly rural contexts in developing countries, with a particular focus on Africa. The group will thus contribute actively to income generation, asset building and ultimately poverty alleviation, in an entrepreneurial and sustainable manner.*

#### **Investment Strategy**

SMH's core business is equity participation in greenfield regulated MFIs, establishing and strengthening their capital through equity and quasi-equity investments. Balancing financing requirements for investees as well as risks and returns for investors, SMH also offers, to a limited degree, complementary refinancing and guarantee products. With its investment partners, SMH will remain attentive to offering integrated financial products that target carefully the needs of investees in relation to their development trajectories, the growth of their balance sheets and the evolution of their funding requirements.

September 2011

The SMH investment strategy incorporates three investment approaches: (1) in the majority of cases, investment in greenfield banks based on sound business plans, the mobilization of the required technical competences, and lessons learned elsewhere (e.g. St. Louis Finances, Senegal); (2) in riskier situations, investment in formal institutions transformed from pilot projects (e.g. FIDES Bank Namibia); and (3) exceptionally, investment in an existing regulated institution as a new major shareholder.

SMH co-invests with other like-minded investors, with the intention of increasing over time the equity position in the MFIs as some investors at the MFI level migrate their capital to the (SMH) holding level. SMH is attentive to its responsibilities to shareholders in terms of independent due diligence on investment decisions, investment monitoring, risk management and the generation of financial returns, as well as the monitoring of social returns.

Aware of its heightened role in the boards of the MFIs beyond the four-year duration of management services and technical assistance mandates, SMH will remain attentive to ensuring strong governance of the MFIs in which it invests, notably in hiring CEOs and in management oversight.

### **Current investments**

SMH made its first two investments in 2010 (Namibia) and 2011 (Senegal).

- **FIDES Bank Namibia** received its banking license in February 2010. It is capitalized through a joint effort of institutional and private shareholders (KfW, Investisseur et Partenaire (I&P) and Volksvermögen), as well as SMH. An upcoming capital increase will bring total paid-in capital up to EUR 2.0 million. The Bank aims to contribute with reliable and sustainable solutions to facilitating economic development in Namibia by creating access to financial services for people living in rural areas in northern Namibia who are excluded from the formal banking system.

As of September 2011, the Bank had a total loan portfolio of EUR 1.38 million (group lending and MSME lending). The loan portfolio quality has been good with a PAR 30 below 3.5 %. Savings mobilization receives considerable attention. It is expected that by 2016, the institution will reach more than 30,000 clients and manage a loan portfolio of more than EUR 20 million, and a saving portfolio of more than EUR 17 million.

- **St Louis Finances** is a “Société anonyme” headquartered in St. Louis, Senegal, operating within the framework of the “Règlementation des Systèmes Financiers Décentralisés”. St Louis Finances was capitalized in March 2011 through the joint effort of SMH, I&P, KfW, Oikocredit and the IFC. The initial paid-in capital totals EUR 1.93 million. Capital is to be doubled in 2012.

Operations began in May 2011 and the ramping up of microfinance (group) operations and SME lending is following the institution’s business plan. The institution is expected to experience strong growth, with nearly 48,000 customers and a loan portfolio of EUR 24 million by 2018.

### **Pipeline**

The pipeline for 2012 includes Ghana and Mozambique.

- FIDES Ghana Savings and Loan Company is to be located in the rural northern half of the country, where higher poverty levels exist, but which is underserved in terms of microfinance coverage. The licensed Deposit Taking Savings and Loan Company (SLC) will serve three main target groups: low-income (group) clients, small and medium

enterprises (SMEs) and smallholder farmers to be served by warehousing loans.

- The second investment foreseen for 2012 is a greenfield rural finance institution in the north of Mozambique, which will take over activities from an existing NGO structure, leveraging the experience of the FIDES methodology in Namibia and Senegal.

For the purpose of operations planning (FIDES) and investment planning as well as financial projections (SMH) beyond 2012, the pipeline is projected to include one investments per year over a ten year timeframe, leading to a total of 10 MFI investments by 2019. Country selection is based on geographic focus (primarily Africa, with the perspective of expanding to the Mediterranean region), FIDES' comparative advantage in terms of technical competence, fulfillment of political, macroeconomic and legal and regulatory conditions, identification of client needs and solvent demand, a solid analysis of potential and risks, and interest of potential partners.

### **Structure**

SMH is an open-ended holding registered in Fribourg, Switzerland as a joint stock company ("Société anonyme") under Swiss law. Based on SMH objectives, the underlying portfolio and investor profiles, SMH is structured as follows:

- i. Type of vehicle: holding company
- ii. Coherence of assets: a single fund based in Switzerland; currently under study is a two-tier EU/Swiss structure. This question will be resolved in consultation with SMH's potential investors.
- iii. Risk classes: single share class (pari passu shares)
- iv. Currency classes: currently CHF
- v. Exit strategies: by negotiation
- vi. Duration: open-ended
- vii. Investment by segments: option of SMH investment in three segments of four MFIs, with performance benchmarks, is under discussion with potential investors

SMH investment oversight is distinct from that of FIDES. The management of SMH is outsourced to the SMH Investment Management unit within FIDES, under the governance of the SMH Board of Directors. SMH management carries the responsibilities of investor relations, due diligence, financial management/treasury, communications/ reporting and administration.

### **Capital Structure and Requirements**

The strategic approach in establishing SMH has been to mobilize capital from socially responsible private investors, thereby allowing SMH to realize its initial investments and to establish a strong private capital base, a key factor in raising capital from the larger public development finance institutions.

The founding shareholders are FIDES, *Sobelnat* and other private social investors. Subsequently, *P.G.C. Suisse* and the *Bank im Bistum Essen* joined these shareholders. Current capitalization is CHF 1.6 million (EUR 1.3 million).

Through new investments from both public and private investors, SMH is now working to expand, step-by-step, its circle of investors and its capital base to meet the capitalization goal of EUR 25 million of committed capital by the end of 2012.

### **Investment Horizon**

SMH offers reasonable financial returns on equity and investment. Return perspectives are sensitive to the time required to attain financial sustainability in efficient well-managed

greenfield institutions, a judicious deployment of equity, debt and guarantee instruments in the SMH portfolio, and cost-effective management of the holding.

In consideration of the MFI operating environments and the subsequent timeframe to show profitability, SMH recognizes that a ten-year horizon is necessary to meet its investment objectives. The investment and control approach over this timeframe will maximize the financial and social returns, even within the challenging SMH investment environment.

### **Projected Returns**

The SMH financial return projections reflect the nature of the SMH investments (both equity and the limited amount of debt financing). Current projections based on the actual business plans of the first three investments (Namibia, Senegal and Ghana) and the financial models of the subsequent planned smaller and larger MFIs investments, result in solid returns in line with industry standards for the ten-year period.

These return projections are sensitive to numerous factors; the most significant of these are: (1) the growth and profitability of the underlying MFIs, taking in to consideration their business models, including an increased focus on savings; (2) the deployment by SMH of equity and refinancing instruments as a function of MFI funding requirements and SMH risk management; and (3) the dividend policy adopted by the SMH Board of Directors.

### **SMH's Strengths**

The microfinance industry continues to grow rapidly, but "Africa – Rural – Equity" remains a critical but very underdeveloped market segment. This market niche, on which FIDES/SMH focuses, will remain huge over the medium-term with hundreds of millions of un-served and under-served poor customers in rural areas.

- SMH is the first microfinance holding company dedicated to rural microfinance with control down to the ground level.
- SMH equity and debt investment can accelerate decisively the outreach of MFIs in this critical market segment.
- SMH benefits from FIDES technical assistance and management services. As such it can attract complementary grant contributions from donors and development finance institutions.
- The "Africa – Rural – Equity" market offers both solid financial returns and high social returns: a combination that makes SMH particularly attractive for socially responsible investors.
- The FIDES' Social Performance Measurement (SPM) system documents the social returns, ensuring consistent and reliable bottom-up reporting to SMH shareholders.
- The SMH structure will allow the realization of group effects and synergies and thus additional profitability, ensuring sustainability at the MFI *and* the holding levels.

SMH and FIDES and their development partners are optimistic that their initial successes will lead to further expansion and will inspire replication, serving the cause of income generation, asset building and poverty alleviation, thus advancing economic and human development in an increasing number of low income countries in Africa and elsewhere.



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