



SESSION NOTES

Growing to Scale in the Developing World: Lessons from Microfinance

- **Sam Daley-Harris**, Director, Microcredit Summit Campaign
- **David Gough**, Vice President, Deutsche Bank Microfinance Funds

Sam Daley-Harris, Microcredit Summit Campaign:

History of microfinance:

- Just under 28,000 children around the world die each day.
- 80 million children of primary school age are not in school
- These are failures of international development.
- Professor Yunus came to U.S. to get a PhD from Vanderbilt University. He researched people who borrowed money from lenders to make useful objects (bamboo stools) and asked how much money they earned in profit. One woman reported that she made two pennies a day.
- Yunus learned that by loaning people money, they could earn more profit, pay him back, and continue to make more money.
- His strategy was to do the opposite of what banks do (i.e. if banks lend to the rich, he lends to the poor; if they lend to men, he lends to women)
- Grameen Bank was the result.

About Ingrid Munro's revolutionary work:

- Six years ago she gave money to beggars in Nairobi, where she lived. She gave loans to thieves and those living in slums.
- She shares with both fast climbers and slow climbers to help them out of poverty.
- She also helped provide health insurance to her clients by using mission hospitals.
- Let's use our lives to bring us closer to the end of poverty.

David Gough, Deutsche Bank Microfinance Funds

Agenda:

- How Deutsche bank came to embrace microfinance.
- How Deutsche bank thinks of microfinance and how they do it.
- Case Study
- Strategy: Use the bank's social financing expertise, investment banking skills, structuring capabilities, business resources and worldwide relationships to create financial instruments that benefit microfinance institutions, and in the process transfer financial know-how.



- Microfinance Funds at Deutsche Bank is housed under CSR. Community Development Finance and Deutsche Bank Foundation are the legs of the CSR stool. David's six person group is housed within the Foundation.
- Microfinance is part of double bottom-line investing. Where you have a cash stream, you can facilitate the growth of the organizations that provide it.
- The organizations are mission driven and have social roots. They need access to capital. Deutsche bank has at their disposal the opportunity to lend to these microfinance organizations.
- DB will fund anything with a cash flow (resources from foundations, commercial-like investors)
- The goal is to see microfinance and social finance come to scale. Deutsche Bank brings together an investment vehicle by linking senior debt (socially motivated commercial investors), subordinated debt and equity, and grant capital (foundations and international finance institutions).
- By increasing the availability of investment capital, the bank helps increase the level of outreach of social ventures to the poor. The bank can bring these activities to scale for a greater impact.

Case Study: Socremo, Microfinance Bank in Mozambique.

- Mozambique is a country of extreme poverty, with a history of bloody civil war, and periods of destabilization. However, there is strong growth opportunity, GDP is \$1,500 per person (extreme poverty).
- Socremo was an NGO set up to take care of immigrant workers returning from Germany after Germany was reunified. The German government set up an opportunity for education, housing, and settlement in 1998.
- Some German investors took interest in using Socremo to provide microfinancing to poor Mozambique citizens.
 - Total assets \$14M.
 - Average loan size is \$1000 (below GDP).
 - Over 11,000 borrowers.
- Deutsche Bank provided a Loan Guarantee to a local bank (Standard Bank, based in South Africa with a branch in Mozambique). The first guarantee was for \$100,000. The guarantee was renewed up to \$200,000.
- And in 2005, the bank brought another investment vehicle (Microfinance Consortium). This is now one of the largest funds of its kind: DB sponsored and managed.
- DB provided a \$3 million loan guarantee that is leveraged 1.5x in local currency.

Success:

- DB managed to scale up and reach more people. The local bank was able to scale up because the existing relationship was there.
- Partnered with the Dignity Fund – increased exposure to \$3.5 million (\$500,000 on behalf of Dignity Fund).



- First German Fund for Microfinance – first ever microfinance fund for German investors and Deutsche Bank provided \$1.3 million in local currency.

The above are paraphrased notes from a presentation on June 5, 2007.