

# The ProCredit Approach to Commercial Microfinance

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S/ProCredit Holding/ 0407.ppt

# ProCredit Purpose and Method

- Development Goal
  - Efficient financial markets
- Strategic Objective
  - Sustainable institutions
- Social Focus
  - Micro, small

# Institution Building

- The New Development Finance
  - Information and incentives
- Governance = Ownership
  - ProCredit Holding (PCH) + like-minded investors
  - IPC, a microfinance consulting firm, as initial managers

## PCH Owners (voting shares) – 1/07

IPC	21%	IPC Invest	5%
DOEN	18%		
IFC	17%	Andromeda	1%
KfW	18%	Fundasal	3%
BIO	8%	responsAbility	1%
		FMO	9%

TIAA-CREF and the Omidyar-Tufts Microfinance Fund have invested EUR 40 million in non-voting preference shares. Andromeda and responsAbility have invested EUR 4.3 million in non-voting shares.

# Institution Building

- Starting New Banks from Scratch
  - Management – IPC as the driving force
  - Capitalization (€281 million capital, 12/06)  
ProCredit the catalyst & other “patient investors”
  - Start-up operating subsidy  
Institution building focus
  - Pricing to cover costs and growth

# Serving the Small End

- Services for the target group
  - Deposit accounts, remittances
  - Payments, transfers, ATMs, POS
  - Credit for
    - microentrepreneurs
    - very small businesses
    - small firms

## Serving the Small End – promotion of businesses

- Types of loans (all individual loans)
  - “How much can you repay now without the loan?”
    - Basic installment loan based on household finances
    - Business loans based on the enterprise and owner
    - Home improvement loans for seasoned clients
    - Automatic, micro-micro, micro-express, etc.
    - Agricultural loans
- Collateral appropriate for the target group

## Serving the Small End – staffing - our most precious asset

- Loan officers -- building a front line
  - Local graduates competitively selected
    - Advertisements and exams
    - Interviews and group discussion
    - Formal training and OJT

ProCredit Academies in:

- Germany, Ghana, Macedonia, Nicaragua
- For all upwardly mobile staff

## Serving the Small End – information and incentives

- Loan officers -- providing incentives
  - Completely responsible for relationships with their clients
  - Frequent loan committee meetings
  - One to three-day turnaround ideal
- 11,815 local staff in 19 countries
  - > 475 branches

# ProCredit Banks

Country	Year of Foundation and PCH Investment	RoE 2006
PCB Georgia	1999	17.6%
PCB Albania		18.6%
PCB Kosovo		47.6%
PCB Nicaragua	2000	5.3%
PCB Moldova		49.2%
PCB Ukraine	2001	15.8%
PCB Ecuador		16.4%

## ProCredit Banks (continued)

Country	Year of Foundation and PCH Investment	RoE 2006
PCB Bulgaria	2001	19.1%
PCB Serbia		9.6%
PCB Romania	2003	14.7%
PCB Macedonia		13.6%
PCB Sierra Leone	2007	N/A

### Regional Distribution of PCH Banks by Asset Size

**E. Europe 82%    Latin America 16%    Africa 2%**

## Other ProCredit Banks – IPC consultants become owners

Country	Year of Foundation	Date of PCH Investment	RoE 2006
Banco Los Andes ProCredit, Bolivia	1995	1999	13.3%
Banco ProCredit El Salvador	1995	2001	10.8%
PCB Bosnia	1997	1999	4.5%

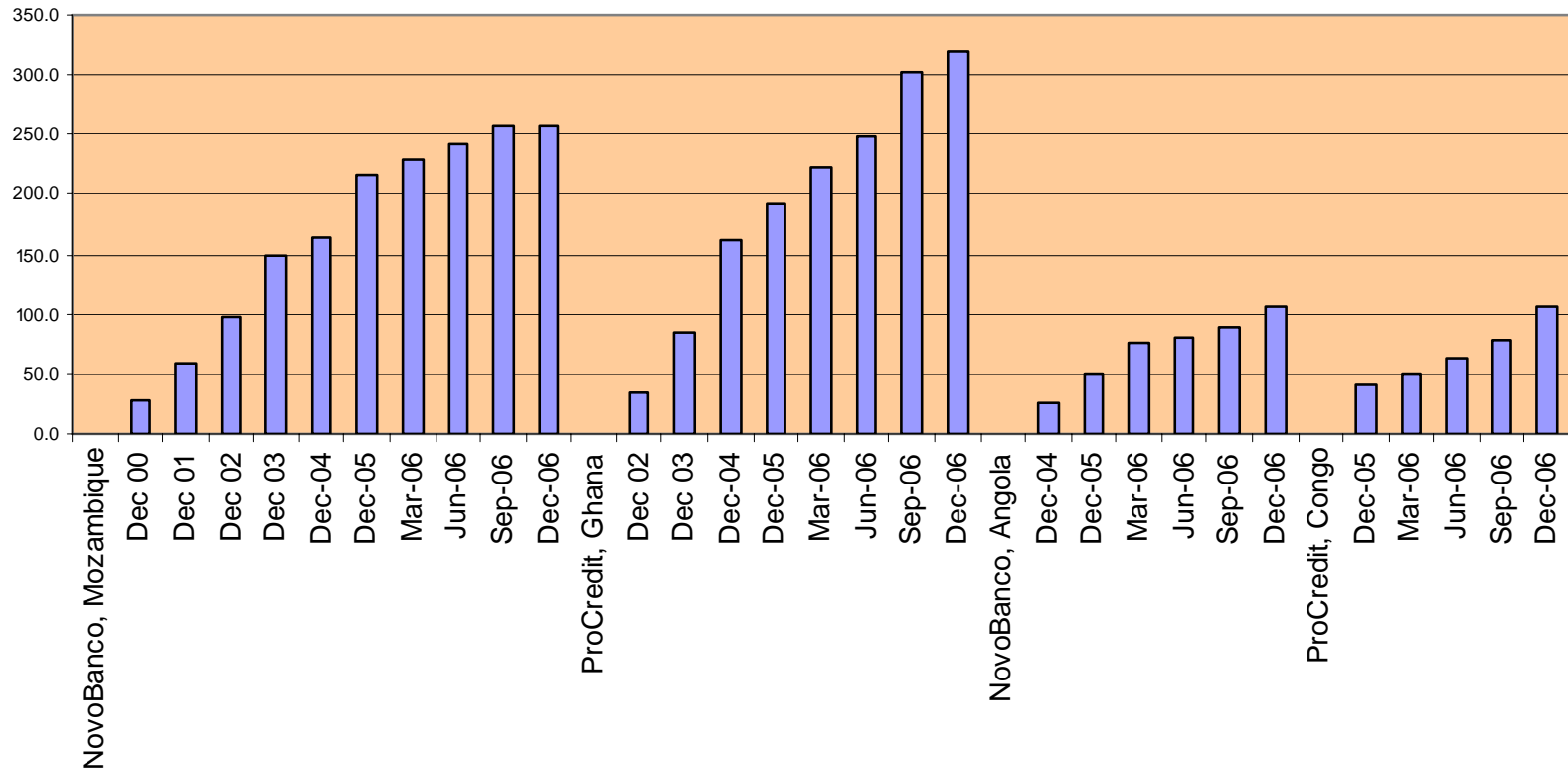
### ProCredit Holding RoE

**12.6% 03    11.8% 04    15.3% 05    15.6% 06**

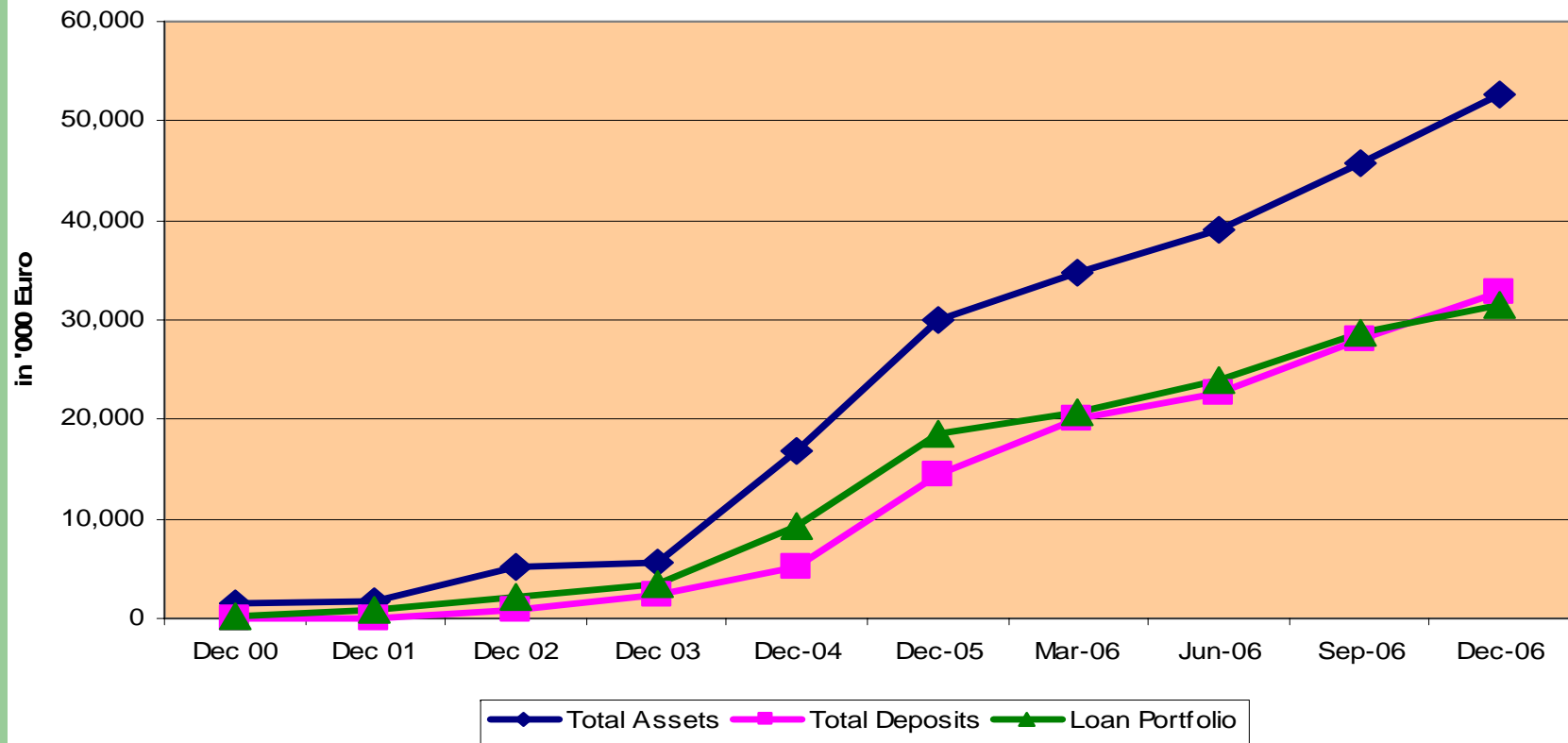
# ProCredit-initiated Banks in Africa

Country	Year of Foundation and PCH Investment	Staff / Branches	RoE 2006
ProCredit Bank Congo	2005	90 / 2	21.1%
NovoBanco, Angola	2004	107 / 3	-0.6%
ProCredit S&L, Ghana	2002	322 / 8	14.4%
NovoBanco, Mozambique	2000	320 / 9	46.7%

# PCH in Africa – staffing



# PCH in Africa – assets, deposits, loan portfolio



# PCH in Africa - key challenges and opportunities

## Challenges

- Unstable political and macroeconomic framework
- Slow, tedious institution building
- Low client to loan officer ratio
- High operating costs – high transaction costs

## Opportunities

- Ongoing learning process
- Potential to increase productivity and efficiency
- Strong demand
- Potential for synergies within the ProCredit group

## **PCH in Africa – strategic focus**

### **Human resources - staff development**

- HR department - Recruitment
- Training at all levels

### **Scale: reaching critical mass**

- Fine tune/expand product range
- Increase visibility
- Build nation-wide branch networks
- Expand regionally - Sierra Leone, Liberia (?)

## PCH in Africa - Outlook

	January 2007	2011 Projections (5 present banks)
Branches	22	130
Deposit a/cs	174,079	680,000
Loans	36,880	230,000
Deposits	USD 46m	USD 340m
Portfolio	USD 42m	USD 330m
Staff	842	3,800

# PCH Banks' Loan Size Distribution (12/06)

## Loan amounts

Range	%
I = < €USD 1,000	<b>6%</b>
II = €USD 1,001<10,000	<b>42%</b>
III = €USD 10,001-50,000	<b>27%</b>
IV = >€/USD>50,000	<b>24%</b>

## Numbers of loans

Range	%
I = < €USD 1,000	<b>51%</b>
II = €USD 1,001<10,000	<b>43%</b>
III = €USD 10,001-50,000	<b>4.5%</b>
IV = >€/USD>50,000	<b>0.6%</b>

Average size of  
outstanding loans  
(€URO)

I    €/\$    **1,436**  
 II   €/\$    **23,005**  
 III  €/\$    **252,087**

## PCH Banks' Loan Arrears Rates - Monthly Ranges in 2006

- Africa 1.83 – 5.66%
- Latin America 1.52 – 1.79%
- E. Europe 0.72 – 2.56%
- Overall 1.2%
- PAR (30-day) = € 26 million (or 1.26%)  
Write offs: 0.4% in 2006, 0.6% in 2005

## PCH Banks' Loan Maturity Structure – 12/06

- < 12 months 21%
- 12 - 24 months 25%
- > 24 months 54%
  
- Total number of loans outstanding = 742,745

## PCH Banks' Statistics – 12/06

- Total assets = € 3.1 billion
- Total capital = € 282 million  
Total profit 2006 = € 36 million
- Return on Assets = 1.4%
- Monthly loan disbursements  
~ € 221 million to 66,000 clients

## PCH Banks' Growth of Loans and Deposits

	1/99	12/01	12/03	12/05	12/06
Number of loans outstanding (000)	<b>75</b>	<b>150</b>	<b>300</b>	<b>566</b>	<b>742</b>
Total loan portfolio (EUR millions)	<b>77</b>	<b>228</b>	<b>597</b>	<b>1502</b>	<b>2119</b>
Total deposits (EUR millions)	<b>22</b>	<b>508</b>	<b>552</b>	<b>1424</b>	<b>1812</b>

# Transparency and Results

- [www.procredit-holding.com](http://www.procredit-holding.com)  
= our business strategy and performance
- [www.ipcgmbh.com](http://www.ipcgmbh.com)  
= who we are and where we came from
- PCH Africa data as of 3/07 (84 slides)  
Please send an email request to  
[ffi@frontierfinance.com](mailto:ffi@frontierfinance.com)

# Prospects

- Envisaged expansion
  - Honduras, Mexico, Colombia, Armenia, Kyrgyzstan, Dominican Republic
- ProCredit seeks private investors via voting and non-voting shares
- Challenge – managing growth and finding new investors who share the target group orientation

## Requirements for Continued Rapid Growth of PCH

- Inefficient financial sectors
- Support by “patient investors”
- Availability of start-up grants
- Relative “peace,” economic “stability”
- Reasonably helpful regulators