Greenfielding in Africa: A Model for Building Capacity and Scale in Nascent Markets

Sub-Saharan Africa (SSA) has the lowest level of access to finance of any region, with banking services available to only about one-quarter of the population. The banking systems are small, and the microfinance sector has been relatively slow to expand. Services are concentrated in larger urban centers, with meager service delivery in rural areas. Until a few years ago, the main providers of financial services to base-of-the-pyramid customers were credit unions, savings and loan associations, and nonprofit credit programs. Now new players include specialized greenfield microfinance institutions, downscaling pan-African commercial banks, and mobile network operators. This SmartLesson describes how the IFC Microfinance Program for Africa’s greenfield model is increasing the number of commercially viable microfinance institutions in the region.

Background

In Liberia, Sierra Leone, the Central African Republic, and the Democratic Republic of Congo, fewer than 1 percent of the people have access to a bank account. Yet as these countries continue to stabilize, the demand for secure financial—particularly microfinance—services is exploding, because subsistence-level micro and small enterprises are often the only surviving businesses after a conflict. In 29 countries for which survey data are available, only 11 percent of households had access to savings accounts, as contrasted with 25 percent in other low- and middle-income countries and 90 percent in industrial countries.

In Liberia, fewer than 1.0 percent of people have access to deposit accounts, and in the Democratic Republic of Congo it is fewer than 0.5 percent. Access to credit is even more limited.

IFC’s response

In October 2006, IFC decided to intervene in Liberia, and that intervention led to the Microfinance Program for Africa. To increase the number of commercially viable microfinance institutions in the region, the program works with sponsors that have demonstrated expertise in managing microfinance institutions in frontier markets.

Key elements of the program include 1) designing strategic IFC-led projects with early and consistent engagement in frontier countries; 2) ensuring that projects have adequate resources to make an early-stage venture bankable in the medium term; 3) applying the greenfield model to new microfinance institutions with global standards and strong commercial orientation, targeting sustainability in three to five years and lasting impact on market development; and 4) ensuring a menu
of products and channels to support extended reach and scale.

**The greenfield business model** expands financial services by creating a group of new “greenfield microfinance institutions” without preexisting infrastructure, staff, clients, or portfolios. In SSA, the greenfield model—where a centralized holding company provides investment and expertise for the development of commercial microfinance entities—began in 2000, when ProCredit Holding opened a bank in Mozambique. Essentially alone in pursuing this strategy, ProCredit opened a bank in Ghana in 2002, in Angola in 2004, and in the Democratic Republic of Congo in 2005.

In 2005 and 2006, Advans, Access, and MicroCred holding companies were formed with a structure similar to that of ProCredit and by the end of 2007 had collectively launched five greenfield microfinance institutions in SSA. During the same period, Accion started its first greenfield microfinance institution in partnership with three commercial banks in Nigeria. Then Ecobank and Accion entered into a partnership and opened two such institutions in Ghana and Cameroon. From that point, the Access, Advans, and MicroCred networks each created roughly one new microfinance institution per year. Toward the end of the decade, ASA and BRAC from Bangladesh began establishing greenfield microfinance institutions in Africa. From late 2006 through 2012, a total of 27 additional greenfield microfinance institutions were launched. (See Table 1.)

**The greenfield lifecycle** in SSA, has three stages: 1) foundation (preparation and first year of operation), 2) institutional development (year two through financial breakeven, typically in year three, four, or five), and 3) scale-up (from financial breakeven onward). Each stage is characterized by milestones related to management, product development, infrastructure build-out, outreach, funding structure, and sustainability. (See Box 1.)

**Lessons Learned**

**Lesson 1: Designing appropriate interventions requires early and consistent IFC engagement.**

Acting early can preempt the proliferation of poor practices and provide significant first-mover advantages, such as shaping the sector with appropriate best-practice models and building strong relationships with key stakeholders. IFC supported the development of the greenfield cohort in Africa by engaging directly during all stages of the institution’s lifecycle. A decentralized team of investment and advisory microfinance specialists based in Africa worked closely with investors, sponsors, government, regulators, and in-country stakeholders to incrementally facilitate the program and the specific institutions created under its scope.

When deciding to intervene in Liberia, IFC learned that conventional wisdom said the market was far from ripe for a greenfield commercial microfinance bank. However, with strategic initiative funding from the Africa region, the microfinance team fielded one of the first IFC missions to Liberia to draft a feasibility study. Even though one of the largest UN military peacekeeping forces in the world was still on the ground, this early mission provided information about the market, costs, security, and the degree to which the economy was changing—providing information necessary for IFC to engage with potential co-investors and sponsors.

IFC’s early-stage work with the Central Bank of Liberia (CBL) and the government to build...
confident and establish the appropriate regulatory and supervisory framework was critical to the CBL’s acceptance of the license application and laid the groundwork for a vibrant and sustainable microfinance sector. By early 2008, when AccessBank Liberia submitted its license application, UBA (a commercial bank from Nigeria) already had a provisional license, and other banks were lining up to enter the market.

**Lesson 2: Accept that building from the ground up is expensive—but the impact is proportionate.**

Operations in frontier markets require heavy upfront investment to compensate for a lack of physical infrastructure and human capacity. The severe lack of the most basic public infrastructure, particularly for countries emerging from a conflict, forces all private sector companies to invest disproportionately in infrastructure to ensure safety and access to electricity, water, and transportation. The cost of establishing a branch in post-conflict Africa is about $300,000, roughly four times the cost in Eastern Europe. Compensating for lack of human capacity can be equally costly, as years of conflict have brought education systems to a standstill and few young adults have any significant formal education. Lack of technical skills is often aggravated by social tensions from lingering divisions among communities, making extensive training and coaching of local staff critical to scaling up operations and building local management capacity.

To address these issues, greenfield projects are normally accompanied by advisory services packages. Advisory and related funding allow the introduction, application, and transfer of skills and knowledge necessary to successfully operate a commercially viable microfinance institution and enable it to internalize appropriate microfinance methodologies, social and environmental standards, internal controls, corporate governance, and so forth. (See Box 2 and Table 2.)

**Lesson 3: Starting up a new institution in a nascent market will have a tremendous demonstration effect—an incredible opportunity to leapfrog older methods that have not succeeded and less formal programs that are not designed to be sustainable in the long run.**

Many investors in greenfield microfinance institutions care almost as much about financial returns as about development impact. They want to see a steady progression toward financial sustainability through rising revenues, falling cost ratios, and improving margins and returns. Table 3 shows that the institutions in the cohort have sustained fairly rapid revenue growth over their first 60 months, increasing on average by $500,000 every six months and reaching $5 million by the
five-year anniversary. At the same time, they have pushed operating expense ratios lower.

However, despite the appearance of a stable progression toward sustainability, these institutions typically experience significant swings between profits and losses during this period.\(^1\) Many register substantial losses over the first 24 months before achieving initial breakeven at about 24 to 36 months, but then fall back into losses for the next 6 to 12 months as they begin to assume the full cost of any additional management service contracts. Only after about 42 to 48 months do they emerge fully self-sustainable.

Greenfields also play an important role in market development by demonstrating professionalism and good practices. They generally apply high standards of transparency with clients, are often active contributors to national credit-reference bureaus, and sometimes advocate changes on behalf of the microfinance sector to enhance transparency, raise standards, and improve the quality of regulations. Many endorse and train their staff to practice the Client Protection Principles.\(^2\) In the Democratic Republic of Congo, Advans and ProCredit led the way in transparency, and now two traditional commercial banks also publish their prices and terms on their websites.

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\(^1\) This SmartLesson does not attempt to remove the advisory support from the figures presented, because the amount of the support is difficult to precisely quantify and attribute among different accounting periods.

\(^2\) The Smart Campaign website (www.smartcampaign.org) lists as endorsers Access, Accion, Advans, BRAC, FINCA, MicroCred, OI, and Swiss Microfinance Holding as well as some of their affiliates in SSA.
In Ghana, greenfield banks are seen as more open and transparent in their dealings with clients, making client-oriented material available on their websites. In Madagascar, AccèsBanque Madagascar is one of only two microfinance institutions that publish effective interest rates to their clients. The greenfields’ most significant effect is the professional development of staff, introducing human resources practices that positively affect the financial sector. Other than a few international staff, all 11,600 employees in greenfield microfinance institutions as of December 2012 are nationals. In Ghana, they employed more than 2,000 staff in 2011 (mainstream banking employed 16,000). The two greenfields in Madagascar have more than 1,000 staff—23 percent of staff in the microfinance sector and almost 19 percent of banking sector employees. Greenfield employees—typically young adults with little or no previous work experience—receive extensive training and skills development in several areas of credit and banking. Eventually, they become attractive candidates for mainstream banks, extending their skills to the larger market. These positive results to the financial sector reduce the potential market distortion from providing advisory grant funding to individual institutions.

Greenfields typically have an intensive and systematic approach to staff selection, recruitment, and training. Staff development accounts for 3–5 percent of their operating budget—and a significant portion of the initial advisory resources.

Most greenfields have company-specific training facilities with courses for induction and professional development, and they provide intensive on-the-job training—all leading to a reputation for high-quality staff development.

Lesson 4: Product and channel diversification is critical for scale.

Among microfinance institutions, greenfields tend to be at the forefront of innovation in low-income retail banking. Other financial institutions replicate their new products, credit policies, and service standards. In the Democratic Republic of Congo, ProCredit attracted large numbers of savers by introducing free savings accounts with no minimum deposit when most banks had minimum requirements of more than $1,000. Following this example, some other banks relaxed their account-opening requirements, and the number of deposit accounts in the Democratic Republic of Congo grew from 30,000 in 2005 to 1 million in 2012. Similarly, Malagasy microfinance institutions adapted their internal procedures, processes, and IT systems to keep up with the new greenfield competition, evidenced by the reduction in loan processing times from weeks to five days.

In Ghana and the Democratic Republic of Congo, greenfields were the first to introduce new technologies in banking for low-income populations. Ghana’s EB-Accion, Opportunity, and ProCredit introduced ATMs (previously available

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**Table 3: Growth of Greenfield Microfinance Institutions over Five Years**

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<thead>
<tr>
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<th>Month 6</th>
<th>Month 12</th>
<th>Month 18</th>
<th>Month 24</th>
<th>Month 30</th>
<th>Month 36</th>
<th>Month 42</th>
<th>Month 48</th>
<th>Month 54</th>
<th>Month 60</th>
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<tbody>
<tr>
<td><strong>Total Revenue ($ million)</strong></td>
<td>0.41</td>
<td>0.62</td>
<td>0.98</td>
<td>1.59</td>
<td>1.98</td>
<td>2.46</td>
<td>2.75</td>
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<tr>
<td><strong>Portfolio Yield</strong></td>
<td>30%</td>
<td>59%</td>
<td>55%</td>
<td>56%</td>
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<td>54%</td>
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<tr>
<td><strong>Op. Expenses / Avg Portf (%)</strong></td>
<td>278%</td>
<td>200%</td>
<td>108%</td>
<td>82%</td>
<td>57%</td>
<td>53%</td>
<td>45%</td>
<td>38%</td>
<td>37%</td>
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<tr>
<td><strong>Net Income ($ million)</strong></td>
<td>(0.39)</td>
<td>(0.39)</td>
<td>(0.35)</td>
<td>(0.17)</td>
<td>0.01</td>
<td>(0.03)</td>
<td>0.17</td>
<td>0.42</td>
<td>0.55</td>
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<tr>
<td><strong>Net Income / Revenue (%)</strong></td>
<td>-408%</td>
<td>-120%</td>
<td>-69%</td>
<td>-26%</td>
<td>-13%</td>
<td>-11%</td>
<td>-5%</td>
<td>10%</td>
<td>12%</td>
<td>8%</td>
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<tr>
<td><strong>Net Income / Avg Assets (%)</strong></td>
<td>-6.7%</td>
<td>-12.4%</td>
<td>-8.8%</td>
<td>-4.1%</td>
<td>0.4%</td>
<td>0.1%</td>
<td>1.8%</td>
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<td>3.8%</td>
<td>3.1%</td>
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<td>13</td>
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<tr>
<td><strong>Net Income / Avg Equity (%)</strong></td>
<td>-13.0%</td>
<td>-44.6%</td>
<td>-24.2%</td>
<td>-13.7%</td>
<td>-0.3%</td>
<td>-0.4%</td>
<td>-3.9%</td>
<td>-20.0%</td>
<td>26.0%</td>
<td>18.9%</td>
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</table>
only at commercial banks), and EB-Accion Ghana and Advans Ghana introduced mobile deposit collection. In the Democratic Republic of Congo, ProCredit established the first ATMs, and mainstream banks soon followed; clients now have access to point-of-sale devices at over 300 locations, facilitating the withdrawal of funds and cashless purchases.

Some greenfields have pioneered the development of financial services perceived as risky and challenging in their markets, such as microinsurance and agricultural finance. OI started an agricultural finance program in Ghana in 2010 with a pilot credit plan for cocoa farmers. It now serves 9,000 farmers and has introduced geographic information system technology to more accurately map the smallholder farmers.

**Conclusion**

Almost 15 years in the making, the greenfield microfinance model has strong foundations in Sub-Saharan Africa. Sponsors and investors of these greenfield banks did not invest and take on high levels of start-up venture risk to create a handful of boutique banks for the poor. Rather, the promise of this model lies in the ability to leverage strong foundations to serve the market and reach scale. Few commercial microfinance institutions in Africa have been able to do this through productive lending and savings products, as opposed to consumer finance. So how does this proof of concept give way to mass-market sales and shareholder returns? Three promising paths span strategies for organic growth as well as growth through partnerships and acquisitions.

**Organic growth:** Many greenfield banks are successfully tailoring products and services for the micro, small, and medium segments, using revenues from larger clients to subsidize smaller ones. At the same time they cultivate a pipeline of clients that will eventually grow and graduate.\(^3\)

**Partnerships** often result from the emergence of alternative delivery channels and technology-based solutions that require broader collaboration between the banking and technology sectors. By expanding reach and leveraging partners’ complementary core competencies, partnerships can help maximize greenfields’ investment in alternative delivery channels. Regulated banks provide credit risk analysis and secure regulatory-compliant deposit management, while technology partners bring best-practice marketing, distribution, and agent network management.\(^4\)

**Acquisition:** Shareholding of greenfields has been stable, but return on equity for some is more than 25 percent, attracting greater interest from local investors, who are expected to replace foundation-stage DFIs. Sales of entire greenfield entities or networks are also possible as commercial banks seek to enter growing markets in Africa with an immediate geographic footprint, license, and skilled staff, thanks to the early success of the pioneers.

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\(^3\) See SmartLesson in this publication titled: From Micro to Small: How Do Microfinance Banks in Sub-Saharan Africa Upscale to Small Business Lending?

\(^4\) [http://www.ifc.org/wps/wcm/connect/b9613e8042a3d90eea361e87fd97/CGAP-IFC+Forum%238+GF+Study.pdf?MOD=AJPERES](http://www.ifc.org/wps/wcm/connect/b9613e8042a3d90eea361e87fd97/CGAP-IFC+Forum%238+GF+Study.pdf?MOD=AJPERES)