Network Holding Companies: A Pillar of IFC’s Commitment to the Microfinance Industry

An early supporter of the development of the microfinance holding model, IFC has been investing in network holding companies since the early 2000s. The structure has been fundamental in quickly expanding access to finance in numerous regions and in bringing microfinance to several IDA and post-conflict countries for the first time. Holding companies have helped microfinance expand its reach and achieve commercial viability. This SmartLesson shares experiences from IFC’s involvement in microfinance networks at the holding and subsidiary levels.

BACKGROUND

The rise of microfinance institutions as sustainable providers of access to finance—leading to their global presence today—is a remarkable success story. Some of this success can be attributed to the microfinance holding network, a model first pioneered by ProCredit at the end of the 1990s. As with other networks, holding networks have allowed microfinance institutions to achieve significant economies of scale, replicate successful models, and expand product offerings towards universal banking. In addition to these benefits, the ProCredit holding network model brought sponsors and development finance institutions together to develop commercially-oriented microfinance institutions, pairing operational expertise with much-needed capital. Once the model had demonstrat-ed its success, others followed suit, with microfinance actors such as Advans, AccessBank, FINCA, and MicroCred, forming their own holding network structures.

A holding company is a company that owns other companies; in microfinance, a holding company network owns multiple microfinance institutions. As the parent company, a microfinance holding company typically helps to raise funding for and provide operational support to its network of subsidiary microfinance institutions. Depending on the historical background of the founding investors, or “sponsors,” there are three types of network holding companies:

- Consulting-led holding companies are sponsored by technical consultancy organizations that expanded into microfinance institution management. Examples of this type (with the technical sponsors in parentheses) are Access (LFS), Advans (Horus), ProCredit (IPC), SMH (Fides), and MicroCred (Planet Finance).

- Network-support-organization-led holding companies originated as collectives of microfinance organizations, with a holding company sub-

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subsequently formed as a centralized management entity. Organizations of this type are FINCA Microfinance Holding (FINCA International), BRAC International Holdings (BRAC NGO), ASA International Holding (ASAI), and Opportunity Transformation Investment (Opportunity International).

- Local bank-led holding companies use the holding company model to expand microfinance institution operations in collaboration with a technical partner. Ecobank-Accion is an example of this type.

Figure 1 illustrates a sample structure of holding companies. The network holding model is useful to support the launch of new subsidiaries, mobilization of investment capital, and transformation and integration of network affiliates. In addition, when holding companies are equipped with robust corporate governance and a strong board of directors, they can also be effective in providing oversight and strategic support.

The scale of the impact achieved by the five network holding companies in which IFC invested at the holding level (Access, Advans, FINCA, ProCredit, and MicroCred) is substantial: the networks operate a combined 63 subsidiaries and collectively serve more than 5 million clients in 41 countries (19 IDA countries), and they have a loan portfolio of more than $5 billion (See Table 1).

LESSONS LEARNED

Lesson 1: The market development facilitated through holding companies, often in post-conflict countries, can have transformative effects beyond just direct outreach to subsidiaries. In many cases, holding networks were market pioneers in countries where no other bank or MFI had focused on the MSME segment.

IFC’s work with partner FINCA International is illustrative of the impact that holding companies can provide. FINCA was founded in 1985 as an NGO in Latin America, where it pioneered village banking. Although it had already achieved significant outreach across four regions, operating in 16 IDA and five FCAS countries, FINCA sought to better serve its clients by reorganizing its operations into a holding network at the end of 2011. The holding network model would allow it to raise funding to transform its network affiliate MFIs into commercially operated financial institutions, introduce new products, expand outreach, and achieve scale.

IFC was the lead investor of this project, providing key insights and technical expertise at the country, regional, and global level, in addition to equity investment. Restructuring to a holding company model is a major undertaking, but doing so itself yielded lessons on the importance of a strong center to standardize operations across the network in order to gain efficiencies, supported by regional hubs to implement the necessary training and technical support. Doing so has allowed FINCA to transform 19 out of its 21 subsidiaries into commercial microfinance institutions, of which nine are now deposit-taking institutions, which provide low-income clients with access to safe and affordable savings accounts. This is remarkable not only given the heavy investment and time commitment required to undertake a successful transformation, but also because FINCA’s model is to operate in the most difficult and frontier regions. Critical to this success was that, with IFC support, FINCA was able to set up a team dedicated to the transformation process, both at the holding and the subsidiary levels. In just two years following its transition to a holding network model, FINCA expanded its outreach by over 30%, reaching more than 1 million clients in 2013.

Figure 1: Sample Holding Company Structure

While FINCA and others have used the holding network model to consolidate, transform, and manage a variety of operations, the model has also been very effective in establishing completely new microfinance projects, or "greenfields." Greenfield projects occur where no prior capacity exists in the field; in some cases, these have been undertaken in fragile and conflict afflicted states, such as FINCA Congo. In these cases, the holding company plays a critical role in establishing and developing the greenfield’s mission, strategy, institutional capacity, and governance, transferring knowledge between subsidiaries. It also heavily invests in human resources, typically spending about 3 percent to 5 percent of operating budget on staff development. An unintended consequence of this high investment is that the good reputation of training programs makes their graduates a sought-after resource: staff turnover rates are high, and some holding companies expect to train more than twice the required number of staff to compensate. Although this can make operations more challenging to manage, it has the virtue of building capacity across the communities where MFIs operate by providing an infusion of freshly-trained skilled workers.

Holding network microfinance institutions also function as conduits for innovation in products, delivery channels, and service processes, as the central team can provide the backing for research and development. For example, ProCredit Bank-DRC introduced the first ATMs in the Democratic Republic of Congo, which were adopted by commercial banks soon after. AccessBank Madagascar has developed an agricultural loan product with flexible terms to accommodate farmers’ cash flows. MicroCred Nanchong has paved a pathway for microfinance in China as a pilot microcredit company, offering microcredit and SME loans that were previously unavailable, while demonstrating that responsible finance is good business.

Lesson 2: Alignment of interests and a sound ownership structure are important for long-term success of the network.

A holding network structure inevitably involves a large number of actors working together. As a result, coordinating the various interests of each to achieve mutually-agreed upon goals can be challenging. This is greatly aided by a strong corporate structure that includes a technically able board. IFC’s most successful experiences with microfinance holding companies have typically involved highly committed sponsors capable of forming and executing a clear, structured strategy.

In these ventures, all of IFC’s partners— including sponsors, management, or other important decision makers— had significant financial ownership. This ensured a high level of commitment, as all of these actors had positive
interests in the long-term success of the network and its subsidiaries. Without this, it is much more difficult to resolve operational difficulties that may arise, as they may require additional services for which no immediate compensation is available. A clear management service agreement can help reduce the potential for such conflicts of interest.

IFC has also encountered that it is equally essential for owners to agree upon the strategy and long-term vision of the organization from the outset. Strategic decisions, such as share issues or the procurement of technical assistance and management services, should require majority and supermajority board votes. IFC has worked with our partners to establish these shared objectives from the outset of each project. Establishing clear goals has been vital to ensuring the long-term success of all of its network holding company partners by avoiding any potential for fundamental disagreements. To do so, IFC has been a proactive partnering investor to its holding company partners through its board member nominees, prioritizing a sharp strategic focus: emphasizing a double bottom line mission and prudent expansion to regions with low access to finance. As a founding shareholder of Access Holding, for instance, IFC played a significant role not just in aligning other shareholders to carry out the microfinance business strategy but also in establishing its strong governance, with a proactive and experienced board, that could provide oversight, expertise, and governance standards to subsidiaries.

**Lesson 3: Network affiliation is not a guaranteed pathway to success: performance depends on on-the-ground capacity, style, and business model.**

Even in the best-in-class microfinance networks, not all subsidiaries perform equally well: having a successful subsidiary in one country does not automatically ensure success in the next. While the management capacity, financial resources, and expertise of the holding company are all crucial to the success of a microfinance institution, it is important to judge each new subsidiary engagement on its own merits. Holding company subsidiaries certainly benefit from standardized operational policies, procedures, and information systems. Nevertheless, these should still be tailored when entering new markets, since many local variables can affect the operational performance of a network subsidiary, and must be incorporated to its business model.

IFC is a co-investor with its holding company partners in 26 of their subsidiary operations—a testament to both IFC’s level of commitment to its partners and its confidence in their strategy and operational capabilities. Nevertheless, each investment decision is based on the financial sustainability, development impact, and locally-contextualized risks of the subsidiary in its own right. So too should the viability of the project within the entire network be assessed: management capacity is a scarce resource in many countries where networks operate, making overexpansion a considerable concern.

**CONCLUSION**

The network holding model is a pillar of IFC’s commitment to the microfinance industry. It is a complex model, requiring continuous collaboration on strategy, implementation, and relationship management. Nevertheless, the approach has been fundamental in expanding financial inclusion to some of the most challenging markets and providing access to finance to millions of beneficiaries. These institutions are the standard bearers for best practices and are important product innovators in their markets.