

Preliminary thoughts on FI opportunities in emerging markets

Presentation and discussion

Agenda

- 1 Introduction to financial intermediation
- 2 Key themes in developing markets
 - Theme 1 | Disaggregation of the credit institution value chain
 - Theme 2 | Emergence of a new capital market instrument and market structure
- 3 Approach to designing a sector strategy
- 4 CDC's sector ambition



Introduction to financial intermediation

Two types of financial intermediation

Institution-based...

... whereby a licenced institution intermediates capital by engaging in "maturity transformation"

Market-based...

... whereby market structure exists to intermediate capital by connecting sources to consumers of capital



Variety of sources, actors, instruments & consumers of capital



Sources of capital

Individuals, companies, pension funds, SWFs



Allocators of capital

Banks, asset managers, hedge funds, PE, VC



Instruments through which capital is allocated

Mortgages, loans, bonds, stocks, securitised products



Consumers of capital

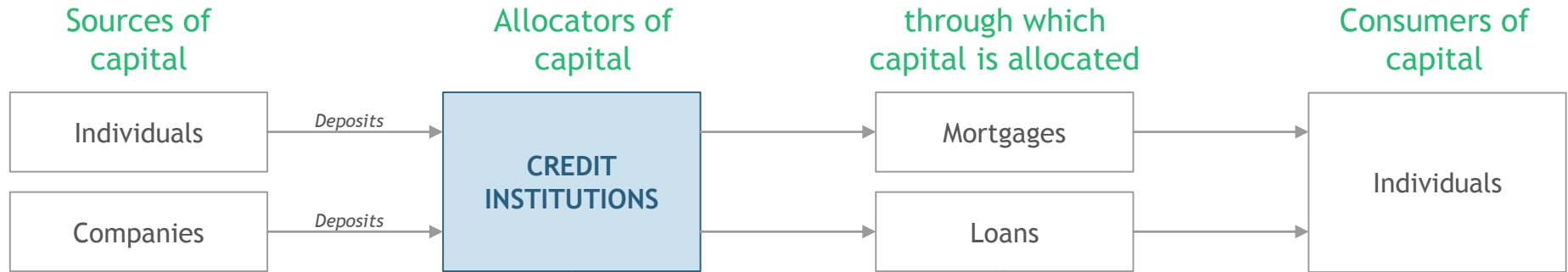
Individuals, companies, infrastructure, governments

Framework illustrating flow of capital from source to consumers

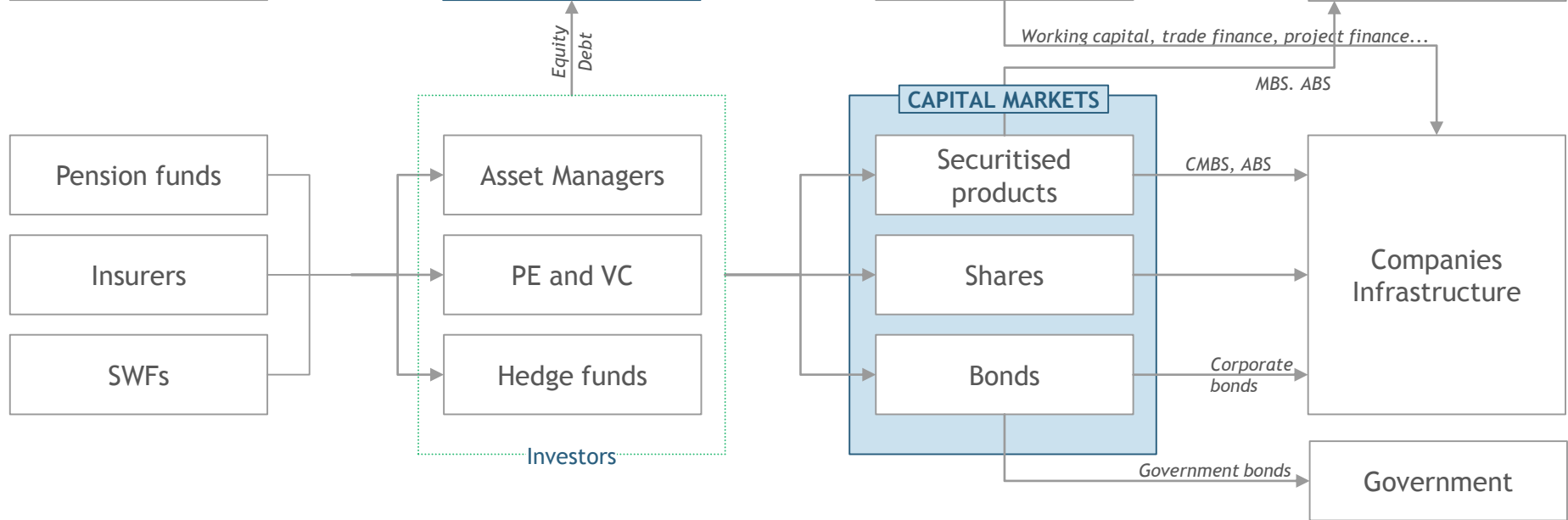
→ Direction of flow of capital



**Institution-based
intermediation**



**Market-based
intermediation**



Topic Credit Institutions

Theme Disaggregation of the credit institution value chain



Yesterday







Tomorrow

Value Chain	Savings & credit value chain encompassed within an institution	Savings & credit value chain delivered by an eco-system of banks, MNOs ¹ , fintechs and software vendors
Capabilities	Typically developed in-house Infrastructure and best practices not shared but retained as competitive advantage	'Horizontal' capabilities developed and shared across industry Balance-sheet provision becomes a true utility
Implications for CDC	Support financial intermediation by providing equity and debt funding to credit institutions	Invest in opportunities that support development of horizontal capabilities

1. Mobile network operators

Disaggregation of value chain being driven by specialised fintechs and mobile network operators

	Customer onboarding	Product manufacturing	Underwriting / risk assessment	Distribution
Trend	<p>Automated, remote KYC verification</p> <p>Verification through alternative data sources (e.g. geo-location, biometrics etc.)</p>	<p>Software vendors providing banking platforms that are</p> <ul style="list-style-type: none"> • Open architecture (i.e. allow plug'n'play 3rd party solutions) • Cloud-hosted banking platforms (i.e. SAAS¹) 	<p>Fintechs introducing alternative credit risk assessment models based on</p> <ul style="list-style-type: none"> • Advanced analytics (e.g. machine learning, AI) • Non-traditional data (e.g. social, mobile payments) 	<p>MNO's providing banks a distribution platform</p> <ul style="list-style-type: none"> • Mobile phones substitute ATMs/bank branches • Mobile wallets substitute bank accounts
Example players and solutions				
Benefits	Increases access to financial services by enabling more customers to be onboarded	Lowers cost of financial services through lowering industry operating costs	Lowers cost of financial services through lowering industry risk costs	Increases access to financial services by extending distribution capability

1. Software-as-a-service. SAAS allows access to capabilities that would otherwise have to be built, hosted and maintained in-house, typically at a fraction of the capex and opex requirements

Implications for the CDC's strategy on supporting credit institution intermediation

To date, CDC Group has supported financial intermediation by providing **equity and debt funding to credit institutions**

CDC Group should consider investing in opportunities that **support the development of "horizontal capabilities"**

Such horizontal capabilities present a **significant commercial and development opportunity**



Commercial Possibilities

- ✓ Scalability - capabilities can be made available to many credit institutions
- ✓ Portability - technology & IP can be deployed across geographies

Development Benefits

- ✓ Lower costs for consumers as overall industry experiences lower operational and risk costs
- ✓ Greater distribution reach bringing more people into the formal banking system

Topic Capital Markets

Theme Emergence of a new capital market instrument and market structure

Tokens

A new instrument through which companies and projects can finance themselves

Blockchain

Infrastructure that underpins the new token
Has the potential to replace large parts of the traditional market structure (clearing, settlement and custody)

Benefits

Enables companies and projects to raise funds at ticket-sizes that would otherwise be uneconomical through traditional capital markets

Tokens are a new instrument through which capital can be mobilised, while blockchain has the potential replace parts of the traditional market structure

	Issuance	Trading	Clearing & Settlement	Custody
Function	Provide capital through issuance of securities	Secondary trading of securities to enable <ul style="list-style-type: none"> • Capital recycling • Price discovery 	Transfer of funds and securities between buyers and sellers	Custody of securities on the behalf of buyers
Traditional market structure	<ul style="list-style-type: none"> • Shares • Bonds • Securitized products 	<ul style="list-style-type: none"> • Stock exchanges • Multi-lateral trading facilities (MTFs) • Broker-dealers 	<ul style="list-style-type: none"> • Clearing banks • Clearing houses 	<ul style="list-style-type: none"> • Central Securities Depositories (CSDs)
Blockchain market structure	<ul style="list-style-type: none"> • Tokens 	<ul style="list-style-type: none"> • Cryptocurrency exchanges • Cryptocurrency brokers 	<ul style="list-style-type: none"> • Blockchain 	

Case study | 4G Capital partners with Finhaven to launch Africa's first tokenized bond issuance

“What cryptocurrencies are doing is acting as a bridge to new sources of funding, to elsewhere in the world where there is more capital.”
- Mic Kimani, chairman of the Blockchain Association of Kenya

Who?



- A Nairobi-based microfinance and training company
- Provides unsecured debt to self-employed informal market traders



- A Canadian technology company that operates a Blockchain-based securities issuance and exchange platform
- Issue regulatory compliant tokenized securities

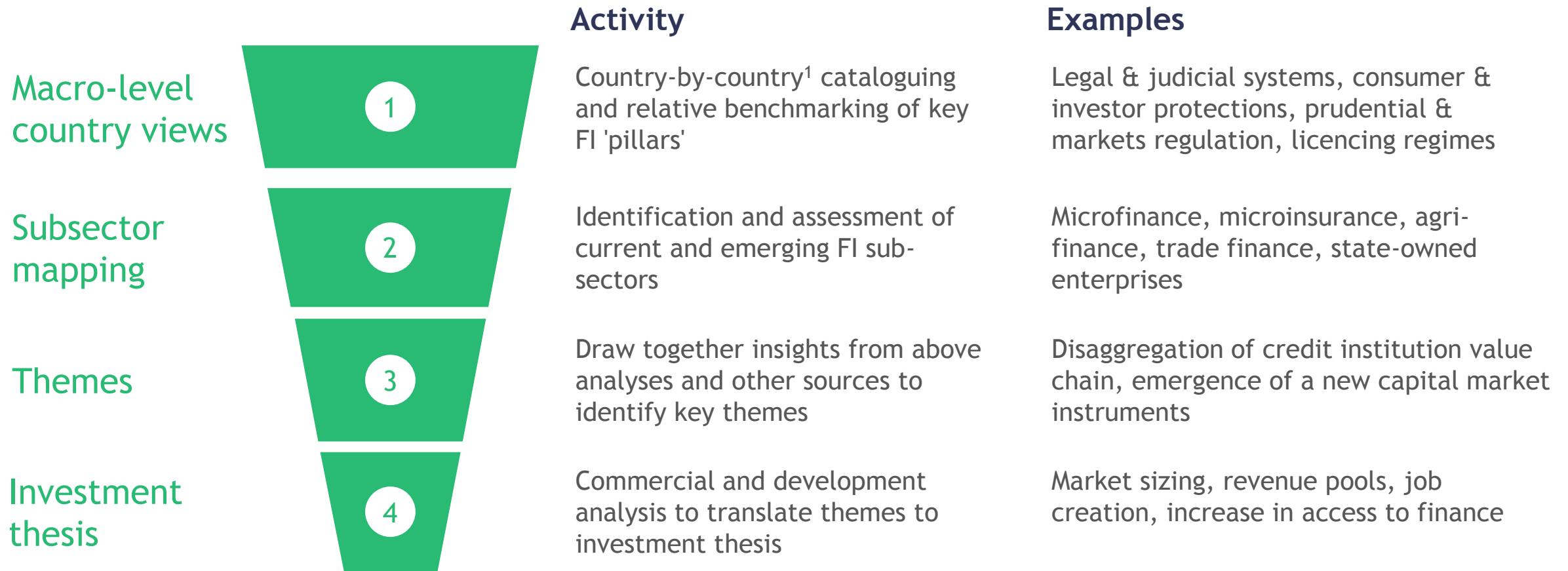
What?

- 4G Capital to undertake a \$10m tokenized bond issuance through Finhaven platform
- To be offered to 4G Capital's existing institutional and qualified investors
- Funds raised will be used by 4G Capital to supply loans to micro enterprises

So?





- Through this issuance 4G Capital remains on track to lend \$40 million in next 12 months
- Demonstrates that the high cost typically associated market-based intermediation can be bypassed

Four-step approach to designing a sector strategy

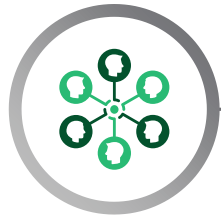


Alternative approach to sector strategy - leveraging the emoji-scale to assess alignment with CDC's mission

"Our mission is to..."

				
"...support the building of businesses throughout Africa and South Asia	✓			
...to create jobs		✓		
...and make a lasting difference to people's lives in some of the world's poorest places.	✓			

Alongside supporting traditional intermediation, CDC should aim for transformational change in various sub-sectors



• Become an 'eco-system orchestrator' - build a portfolio of investments across the banking value chain



• Invest in horizontal capabilities that have the potential to reduce costs sector-wide

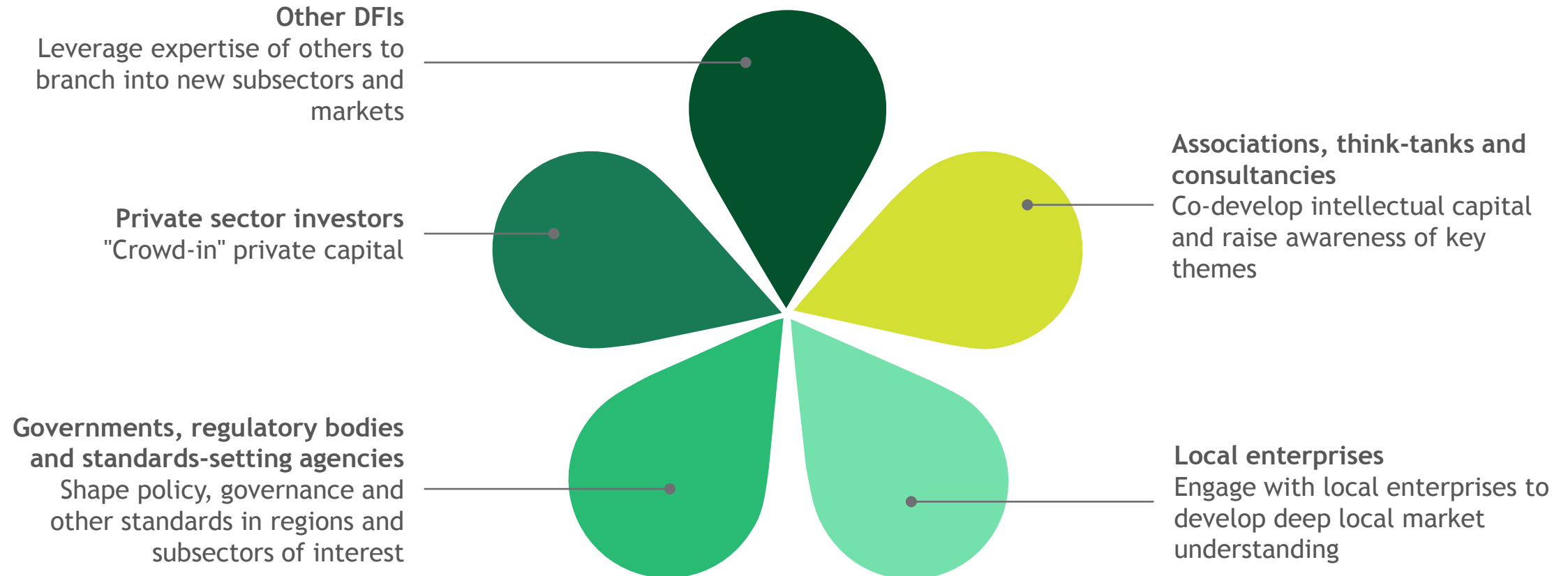


• Invest in market structure and thereby facilitate mobilization of large amounts of capital



• Nurture and promote the development of new financing instruments

Such transformational change requires CDC to mobilize and engage a variety of stakeholders



Thankyou for
listening