FINANCIAL INVESTMENT IN COMMUNITY FINANCE INSTITUTIONS: PROVIDING LEVERAGE FOR DEVELOPMENT AND GOVERNANCE

BACKGROUND

Several factors explain the recent rise in popularity of investment in the community finance sector. The first is undoubtedly the demonstration that community finance, a concept illustrated by small loans made to the world's most disadvantaged, represents a powerful tool for reducing poverty, thus opening the door to new types of financing. The second factor consists of the multiplication of ethical investment funds, an investment concept that encourages sustainable development of our society. Third, from a strictly financial viewpoint, the demonstration by a good number of community finance institutions that they are able to produce a sound financial return (a possibility long considered purely hypothetical by some) has resulted in and stimulated investment in these institutions. Attracting investment capital, whether to ensure growth, balance their financial structure, maintain an adequate rate of capitalization or to develop new products, has been and remains a constant challenge for community finance institutions which are often left to their own devices by major lending institutions.

Développement international Desjardins (DID) entered the investment sector in 1995 with the acquisition of term deposits in Coovivienda, a cooperative enterprise that specializes in housing finance and is part of the Fedecrédito network. This initial transaction was quickly followed by a second investment in AFAP-Integracion, a pension fund managed by COFAC, a Uruguayan cooperative institution and these investments led to the creation in 1996 of the Partnership Fund, the first DID investment fund.

Encouraged by this first experience, DID then set up two other funds, the Guarantee Fund and FONIDI. The investments made through these funds enabled DID to develop its operating methods and its philosophy in this area in terms of financial investigation, selection criteria, financial return and strategies for eventual divestiture.

The investments that DID has analyzed and carried out over the last ten years have been a valuable learning experience. These lessons allow DID to state its position on several specific issues regarding investment in community finance. The positions taken, presented in the form of assertions, constitute the DID Positions statement on investment in community finance.

Reasons for international investment in community finance

Financing provided by major international investors not only provides significant financial leverage for the beneficiary institutions, it also fosters marked improvement in the governance of such institutions.

Investment by high profile international investors facilitates access by the institutions being financed to other sources of financing. The very presence of a well-known investor in the field of community finance attracts other investors. Two factors explaining this effect are the increased credibility of the institution and the potential for collaboration among the various investors. The presence of an international investor constitutes a form of recognition of an institution's potential and of its sound management.

The added credibility with regulatory authorities and international investors may entice others to follow suit and finance the institution. In addition, investors may be attracted by the potential for collaboration, for example sharing information for better evaluation and analysis of an institution's financial and organizational situation both before and during the investment.

Despite the work of several agencies, Mix Market in particular, the transparency of community finance institutions still remains an issue. Financial reporting often suffers from pressure by the shareholders of the institution and their interests. Since many institutions are financed by donor agencies, foundations or charity organizations, the required performance is often judged in terms of institutional deployment with only marginal attention devoted to financial results. The arrival of more commercial[1] investors generally has an influence on the financial reports issued by the institution. While all of an institution's owners or lenders are entitled to financial information, generally it is the investors with a more commercial vocation that require the most detailed financial reports. These investors also are the best equipped and most capable of making comparisons among institutions. Moreover, the institution benefits from the expertise of international investors in many ways, whether through regular contact with the investor, the production of required reports, or the participation of the investor on the board of directors, etc. International investors become involved in the institutions they support and help them raise their level of professionalism. Nonetheless, the impact of such investors on the governance of these institutions is proportionate to their involvement and the nature of their interests.

The presence of private[2] local and international investors is therefore desirable both to facilitate access to capital and to improve the governance of the institution.

Return on investment in the community finance sector

Although risky, investment in community finance offers interesting prospects for producing adequate returns for all types of investors.

Community finance institutions operate for the most part in unstable, poorly structured environments that increase the level of risk for an investor, foreign investors in particular. Several factors external to the institutions such as political and economic crises, inadequate regulation and supervision, natural catastrophes, national currency devaluations, etc... may influence the return obtained.

Despite difficult circumstances, many institutions have been able to demonstrate to their investors that they can produce highly adequate returns, both financial and social. The Profund[3] investment fund, one of the first devoted entirely to financing community finance institutions had the goal of proving this assertion. After ten years of operations, the fund has earned an average of 6% annually for its shareholders while financing over a dozen community finance institutions in Latin America. Many investment funds only return 5% to 7% annually as a norm.

Sustaining investment in the community finance sector

In order to fully develop investment in the community finance sector, rates of return must be high enough to make the investments worthwhile.

[1] Investors whose interests are to maximize return and minimize risk without taking into consideration the social dimension of the institution.

[2] Private investors are those whose funds come from sources other than government or paragovernmental sources. They may be commercial or socially responsible investors or a mix of the two.

[3] Profund was launched in 1995 with US $22.6 million in capital. It finances microfinance institutions in Latin America and the Caribbean.

DID believes that to sustain the market for financing community finance institutions, the rates of return must be as close as possible to commercial rates. They must be high enough to make the investment worthwhile and provide sufficient remuneration for the risk assumed. This viability is necessary to ensure renewal of existing financing and to attract new capital. Over the long term, the arrival of new investors will foster a better balance between the supply and demand of capital for community finance.

The levels of real rates of interest depend on several factors such as counterparty risk, supply and demand for capital, the country's central bank key interest rate, etc... For community finance, rates are also influenced by the nature of the investors involved. Donor agencies and socially responsible investors provide major financing for the sector. They often offer subsidized rates to community finance institutions. Due to strong surplus demand for capital, the presence of donor agencies should not have an impact on market rates. However, such is not the case. In fact, the donor agencies make financing available to the top-performing institutions which could find financing from more commercial investors. Donor agencies create an excess supply in this market niche while institutions that are the riskiest (and often the lowest performing) experience difficulty in finding financing. This surplus supply along with the low interest rates charged by donor agencies do have a downward impact on the interest rates charged to the institutions. The more that donor agencies finance the top-performing institutions, the less interesting it becomes to invest in the sector for private investors that take a more commercial approach.

Financing needs of community finance institutions

A sole and unique source of financing cannot meet the financing needs of all institutions. In fact each source of financing has its own characteristics (in terms of cost, duration, tolerance for risk, etc...) and the financing needs of institutions vary in function of their maturity and type of activity. DID believes that financing solutions for community finance institutions should be adapted to their circumstances.

The level of maturity of an institution greatly influences the type and source of financing that is desirable. For example, the institutions that are the smallest, unable to produce a return, and often the newest should be able to rely on subsidies and/or financing from donor agencies that have a greater capacity for assuming risk and are able to adjust the conditions for access to financing.

International investors bring added value, especially to institutions that produce a return or are about to, but for whom access to local financing is difficult due to unfamiliarity with the community finance sector by local banks and other organizations providing financing. Financing by international investors can provide credibility to an institution enabling it to attract capital from local sources of financing. It should also be noted that mature and productive institutions that have access to local financing should not benefit from financing provided by donor agencies except in the case of high risk projects (such as financing a more marginal clientele or zone).

Financing needs vary in function of the activities and legal structure of the institution being financed. While there are more than four types of community finance institutions, needs are only differentiated in this document in relation to cooperatives, microfinance banks (or other type of charter, but always in the form of a share capital corporation that accepts deposits), microcredit institutions and NGOs.

The four main sources of financing for cooperatives are member deposits, membership shares, borrowings and, to a lesser extent, capital share issues similar to the permanent shares or instruments on the financial markets issued by Desjardins. To an external investor, the possibility of an equity investment in a cooperative is thus limited and does not allow for a seat on the board of directors. The possibility of having an influence over its governance is also reduced. In addition, their strong capacity for attracting deposits limits their need for financing. Just the same, cooperatives do borrow to increase their volume of activities and diversify the type of services they offer or to match terms in the portfolio which generally is made of loans with terms longer than the terms of deposits collected.

Microfinance banks need significant amounts of capital in order to meet regulatory requirements that call for a high level of capitalization. Increasingly, this level is comparable to what is required in the traditional banking system due to pressure on central banks to follow Basel II rules.[4] In addition, microfinance banks draw the remainder of their financing from deposits they accept and from borrowings contracted with banks, the money market or with local and foreign investors. Equity investment is often easier with microfinance banks because of their legal status and because they are accustomed to dealing with commercial investors. Given the type of financing that is possible, it is easier to have a direct influence over the governance of such institutions.

Microcredit financial establishments do not generally accept deposits and therefore draw their financing from borrowings or subsidies. While such institutions generally have capital needs, their main challenge is to secure lines of credit to finance their loan portfolios.

Since the NGOs are nonprofits, any increase in their capital comes from external sources (donor agencies and foundations) and not from the surplus earnings they generate. In addition, these institutions generally finance their loan portfolio using lines of credit at commercial or concessional rates. Some NGOs transform themselves into financial establishments when they reach a more consequential size which allows them to raise capital more easily and encourages growth of the institution.

The following table summarizes the financing needs of community finance institutions.

Table 1
Financing needs of community finance institutions according to type of ownership

	Share capital	Collective ownership
Savings and credit	Bank: • High capital needs (central bank minimum requirement to safeguard deposits). • Good capacity to mobilize deposits, also able to attract long-term deposits. • Access facilitated to financial markets and financing from central bank. *Need for financing mainly to ensure minimum capital. Need for financing also to finance a portion of the portfolio, for growth and for new equipment as well as to match assets and liabilities.*	Cooperative: • Investment in capital limited to shares and in some cases to permanent shares. • Good ability to attract savings deposits. • Generally borrows little from other banks or investors. *Need for financing to support growth, liquidities management, asset-liability matching, equipment financing, diversification of services and maintaining adequate capital levels.*
Credit only	Microcredit financial establishment: • Lower minimum capital (in comparison with banks) and sometimes unregulated. • No savings deposits accepted or only with restrictions. • Financed using local or international lines of credit and grants. The financing need is mainly to finance the loan portfolio, but also to finance growth, purchase new equipment and maintain an adequate level of capital.	NGO: • Lower minimum capital and more difficult to increase due to weaker net margin. • No savings deposits accepted or only with restrictions. • Financed using local and international lines of credit and grants for the most part. The financing need is mainly to finance the loan portfolio and sometimes to finance the activities and growth of the institution.

4 These rules allow banks to weight their assets in relation to risk when calculating their capitalization. For more information, readers may consult the Basel Banking Supervision Committee website: www.bis.org.

Choosing institutions to finance

DID puts priority on financing community finance institutions that are community owned. This type of institution encourages revitalization of the local economy and contributes to poverty reduction through capital reinvestment in the community.

Any alliance between an investor and a community finance institution must also take into consideration the owners of the institution, especially for capital investments in the institution. The owners normally decide on the main direction taken by the institution. For this reason, investors will become involved more easily with institutions whose owners have concerns similar to theirs.

The DID mission includes improving the well-being of poor communities that are excluded from traditional banking systems by encouraging the set up of financial institutions that serve this clientele and belong to the local community. This assumption is naturally a part of DID investment choices and DID ensures that it is properly shared by the institutions in which it invests.

When a community is in fact the owner of its community finance institution, it has a greater influence over its development. The community can ensure that the institution continues to offer adapted services whose prices are affordable for both clients and the institution. Locally-owned institutions are more likely to provide service in remote, less profitable markets as long as the need for financial services exists. This was the case in the Province of Quebec for many Desjardins financial cooperatives located in remote regions not serviced by commercial banks.

Local community ownership also allows for reinvesting of the institutional surplus inside the community. When an institution is owned by a single individual or a restricted group of individuals, the profits are divided among a limited number of persons. In addition, when ownership is foreign, the profits may be repatriated to the shareholders' country of origin. In contrast, institutions owned by a greater number of individuals (such as cooperatives) divide up earnings among a greater number of persons and generally invest most in the communities they serve.

For these reasons, investment in institutions owned by the community acts in two ways to improve the well-being of disadvantaged populations. It ensures ongoing access to financial services adapted to the needs of the individuals in the community, both the disadvantaged and the middle class, and it allows for reinvestment of the earnings in the community. These two goals are shared by DID.

An investment is therefore more advantageous for the community when it targets local or community-owned institutions. Just the same, there are institutions held by a small number of individuals in cases where only a few investors were attracted to the investment due to institutional startup risks. In such cases, if the institution shows strong interest in enlarging its body of shareholders over the short term, participation by an international investor could encourage such change. DID is prepared to consider investing in such institutions by expanding the body of shareholders to domestic or international socially responsible investors.

Investment in partners benefiting from technical assistance

DID can be the bridge between the partner and the international market for investing in community finance. DID's support takes the form of professionalizing the partner's relationships with investors, creating networking opportunities and providing financial support until financing can be found more easily in the market.

DID provides technical assistance to a significant number of community finance institutions, some of which have already addressed financing requests to DID. Some of these partners have only had very limited contact with private international investors and have dealt mainly with public investors in the past. Their methods are not always adapted to the commercial approach taken by private international investors, mainly due to inexperience.

DID believes that its involvement as an investor can help partner institutions comply with local and international investors' requirements. This is the result of the requirements imposed on partners by DID and the time devoted to coaching partners during all phases of financing.

In addition, the contacts developed over the years enable DID to link its partners with other investors, thus facilitating the search for financing.

DID may also assist partners in meeting their financing needs while waiting for other investors to take over after such institutions achieve a better return and are better known on financial markets. DID believes, however, that it is preferable to add a local or international co-investor as soon as possible in order to make the investment process more objective.

Through its in-depth knowledge of its partners and of investment operations DID can bridge the gap between the institution and the international market for investing in community finance.

The CFE Agaseke in Rwanda

This CFE was launched by DID in 2003. From the outset DID took a majority equity position in the institution, investing jointly with two local firms. While several international investors had been approached from inception, the startup phase was a source of rejection for all of the investors approached. DID therefore provided support for the institution, participating in the subsequent capital injections needed for the growth of the institution in collaboration with its Rwandan partners. It provided coaching to the partner throughout the various phases of the investment and the relationship with shareholders. Today some of these same investors are in discussions with DID to inject capital into the CFE Agaseke.

The investment process

Undertaking an investment should be carried out through a clearly defined process whose outlines are understood by the investment partner. The investment decision should be made on the basis of the expected financial, institutional and social performance over the investment horizon. In addition, the process must also include risk management, especially risk related to potential conflict at the end of the investment and to currency exchange.

The professionalism of community finance institutions and of investors already active in the sector are key factors in attracting new investors. In fact, growth in the number of private investors and the amounts invested in the community finance sector coincide with greater professionalism in the sector. Before the mid-1990s, there was great emphasis on deployment and little on earnings. By the end of the 1990s the emphasis was on financial self-sufficiency and institutional sustainability.

Contact with investors who take a structured approach and who require greater transparency encourages professionalism. Investor requirements are legitimized by their financial investment.

INCREASING INVESTMENT EFFICIENCY AND REDUCING RISK

An investment approach must use a clearly defined process that includes evaluation of the relevance of the investment itself and of its inclusion in a portfolio, analysis of the institution and its environment, approval by the board of directors of the fund in question (Partnership Fund or FONIDI), disbursement, regular monitoring of the financial situation and main statistics, observance of the conditions for the investment by all parties involved and monitoring of the investment portfolio. All phases defined in the process are important regardless of the amounts concerned.

The investment process and its application must provide for a high level of efficiency and quality control of the transactions made. The quality may be defined in terms of protection against risk, the relevance of the investment in the portfolio, the expected earnings achieved due to suitable investment terms and conditions, etc...

OBJECTIVITY OF THE INVESTMENT DECISION

The investment decision must be made on the basis of the expected financial, institutional and social performance over the investment horizon. An investment decision based on political considerations may be disastrous for the reputation of the investor, for the institution itself and for the relationship between the investor and the partner. Political decisions may also jeopardize the earnings targets set in relation to the risk that can be supported by the investors. The probability that such investments will not be profitable is generally greater than for investments accepted using financial criteria. When politics comes into play, other criteria for decision-making are generally ignored.

DID is prepared to invest with its partners. However, investment decision criteria must not be loosened under the pretext that the partner concerned is benefiting from DID technical assistance. The same guarantees must be obtained and the same monitoring carried out. Since the functions of investment and technical assistance are distinct, the investment process involving a partner is the same as one involving an external institution. DID also believes that including co-investors in transactions with its partners encourages the objectivity of the process and of the investment decision.

RISK MANAGEMENT

The investment process must of course include risk management. As is the case for any financial transaction, an investment in a community finance institution carries several risks. The capacity of the investor and of the institution to manage uncertainties makes it possible to reduce potential losses linked to these risks. Without minimizing the importance of the usual risks related to financial transactions, there are two risks that are of vital importance, namely the risk of conflict at the end of the investment and currency exchange risk. The first risk can have major impact on the return for the investment and on the ability to achieve the social goals of the investor. The currency exchange risk can have an impact on the financial health of the beneficiary institution or on the return on DID's investment depending on who assumes the currency exchange risk. Finding a risk mitigation solution is important.

Planning divestment strategy

Any exit strategy must be adapted to the type of financing involved. When investors grant loans to institutions, the exit strategy is often to wait until the loan matures. DID believes that for equity investments, an exit mechanism should be negotiated from the outset with all shareholders. Shareholders could agree for example on the terms of an eventual sale of shares to a group of local shareholders (put option).

In such cases, certain clauses in the sales contract will be predefined and a period during which the sale must be made will be determined. The mechanisms envisaged must be aimed at returning ownership of the financial institution to the local community or to local or international investors whose values are consistent with those of the institution. For this purpose, it is preferable that international investors request that a clause allowing them to approve the buyers of their shares be included in the shareholder agreement.

Moreover, the social and financial performance of the institution financed must be good enough to attract the right investors. Financial performance alone is not however enough to attract socially responsible investors who are more likely to maintain the social mission of the institution.

Control over currency exchange risk

Investors and community finance institutions support various types of risk and generally have several mechanisms to manage them. The currency exchange risk is typical of international investment.

Most investments in developing nations involve a currency exchange risk that is borne either by the institution, or by the investor or by both. The currency exchange risk can have a considerable impact on the return to the investor and on the cost of financing for the institution. Forecasting the rate of exchange requires highly specialized expertise and is an area in which speculation is common. In addition, even in countries in which the currency is tied to another strong currency (such as the American dollar or the euro) there is a risk of devaluation or appreciation added to the risk related to repatriation of funds. As a result, it is important to circumscribe the risk that can be supported by the institution and the investor. The portion of risk that cannot be borne either by the investor or by the institution must be covered to the extent that suitable financial instruments are available. Some international funds have innovated in recent years in terms of currency exchange risk by establishing partnerships with commercial banks. This is the case for Cyrano[5] which is collaborating with Citibank to cover loans in local currencies in several countries in Latin America.

There are different strategies for coverage available[6] and the choice of one over another will be related to tolerance for risk, cost of coverage and reliability of the method selected. In cases where no overall coverage exists to meet the need of the institution financed, other financing options should be envisaged (such as issuing a letter of guarantee so that the institution can access local financing, risk syndication with a local investor, or financing by an international investor whose currency is more stable in relation to the local currency).

International investors generally have more means at their disposal to cover currency exchange risks. However, when community finance institutions decide to cover currency exchange risks, it is important they be fully aware of the risk and understand its potential impact.

Partnerships in investment

Taking a partnership approach with several external investors creates added value both for the investors and the institution being financed. Collaboration with other investors makes it possible to (1) create economies of scale (2) invest in larger transactions by sharing the cost and (3) ensure better surveillance of the institution. When a partner obtains financing from DID, the presence of several external investors makes the investment process more objective. The referrals from the collaborating investors often generate paths for promising new investments.

[5] Cyrano, a fund manager in operation for a little less than 10 years, manages the SOLIDUS, LACIF and GMF funds. Several international investors such as IFC, Gray Ghost, KfW, etc... have invested in these funds.
[6] It is possible, for example, to make use of currency forward contracts or currency exchange contracts.

During the initial contact with an institution, the investment process can require much time and energy. The first transactions are therefore often less profitable and more risky due to less knowledge of the partner. Forming partnerships among investors can be an effective method to address this issue.

Carrying out due diligence missions is a cost that is not negligible for an investor. Follow-up investigations can also represent a burden, especially for smaller investments. Sharing information among investors and joint missions are methods for reducing the costs required to carry on with the investment process.

Some community finance institutions that have achieved a significant size have high needs for financing. In order to limit the number of investors they must deal with, some of these institutions set the minimum investment threshold very high. In such cases, syndication, or sharing the amounts to be financed, offers an interesting approach. This option allows for apportioning risk among several investors and provides the opportunity to deal with larger institutions.

Collaboration with other investors also increases surveillance of the institution. In fact, since each investor monitors the progress of the institution, the chance of discovering any anomalies increases. Moreover, the analysis of any single investor benefits from the information obtained by another, within ethical limits in the sector.

During negotiations with a current partner (mainly in cases of technical assistance partners), collaboration with another investor is a suitable method for making the discussions more objective, justifying certain requirements and avoiding political considerations when deciding on financing.

The interaction of technical assistance and investment[7]

While several types of synergy are possible, there is also a danger in simultaneously carrying out investment and technical assistance efforts, regardless of whether technical support is provided to the institutions in which investments are made. The relationship between the two activities should be managed using good governance guidelines.

In addition to DID, a number of community finance investors also provide technical assistance at the same time. While these two functions are often complementary, performing both may also lead to conflict of interest or at least apparent conflict, and situations that are delicate in nature. DID believes that it is advantageous to operate the two functions in a parallel manner, but the relationship between the two activities should be managed using good governance guidelines.

[7] Here we are mainly addressing cases in which DID is not a majority shareholder in the community finance institution and is not an operator-investor.

DESIRABLE SYNERGIES

The investment service division can benefit from synergy with the technical assistance division in many ways and vice versa.

Business intelligence: Contacts established by the investment service division, whether with co-investors or sector stakeholders, differ from those established by the technical assistance division. This complementary source of information allows for diversification and validation of the information received during technical assistance activities.

Improved communications: When investment and technical assistance are both provided to a single partner, these operations can benefit from mutual assistance by sharing information, to the extent that the partners or co-investors authorize the sharing of information.

Negotiating power: Each function can provide leverage for the other. In fact, some donor agencies require that technical partners invest in the community finance institution. In addition, certain community finance institutions seek out investors who offer added value through technical assistance.

DANGER OF OSMOSIS

There are some dangers to providing both technical assistance and investment simultaneously. One of the most important is undoubtedly the risk of confusing the roles of administration and management. Access to privileged information and risk to its reputation in cases in which DID does not adapt its technical assistance to the different needs of its investment partners are other risk factors arising from providing both functions. There is a final danger that may occur whether or not DID provides both functions for a single partner. It is the temptation to pass on confidential information given to DID as a potential or current investor to the technical assistance division.

When DID has a representative on the board of directors of the institution financed and receiving technical assistance, DID is exposed to the possibility that this individual will have access to more information than is necessary. Depending on the nature of such information, the risk that board members address operational issues rather than strategic issues is also present, thus confusing the roles. This confusion can be dangerous for efficient decision making and good governance of the institution. DID believes that the information shared with the board members and the administrative files that should be dealt with by the institution's executives should be defined in advance.[8] It is important for DID to follow these rules and treat the representative designated by DID on the board in the same manner as the other members of the board.

It should also be noted that providing both technical assistance and investment to the same partner results in faster and more complete information than other investors receive, especially when technical assistance is operating on a full-time basis with the partner. This can be an advantage over other investors. It is important to take action so that all shareholders have equal access to information to a reasonable extent. This does not mean decreasing the information available due to DID's position in technical assistance, but rather ensuring that the information required for normal surveillance of the institution by an investor is available and inducing the partner to share such information with other investors entitled to it. Moreover, regardless of whether it provides both technical assistance and investment, DID must always carefully discriminate in relaying information between the two and demonstrate a high degree of transparency.

[8] On this issue, an article in HBR offers advice to institutions in deciding which decisions should be made by the board and which by management. See Michael Useem, *Best Practice: How Well-Run Boards Make Decisions*, HBR, November 2006, 10 p.

In cases in which DID is an operator-investor, the same rules apply. Nevertheless, since these involve business startups, in reality members of the board are required to be more involved in the operations of the institution. The line between members of the board and managers should increasingly be formalized as the institution matures. In all cases, the same ethical guidelines and rules for governance apply to relations between investment and technical assistance.

The difference between the needs of partners for investment and partners for technical assistance also has an impact on the type of technical assistance that may be required. This calls for adaptation of the services provided by DID. If the expected results are not achieved, DID efforts may be seen as not responding to the expectations of the other shareholders.

DIVULGING CONFLICT OF INTEREST (REAL OR POTENTIAL)

Organizations that provide both technical assistance and investment are vulnerable both to the perception of a conflict of interest that does not exist and to discovery of a real conflict of interest. It is important for these organizations to clearly divulge any real or potential conflict of interest and avoid them as much as possible. A case by case analysis should be carried out each time there is a possibility of providing both services to a single partner. The link between the technical assistance and the investment divisions should also be governed by a code of ethics that includes:

- the type of information that should not circulate between the two;
- the type of information that may circulate between the two and the conditions under which this is possible;
- the relationship between the employees of the two functions;
- the safeguards to offer partners (confidentiality agreement, etc...);
- the recourse to partner stipulations in litigious cases;
- the methods for ensuring the code of ethics is respected (external auditor, ethics committee, etc...);
- the methods and the time limits on divulging any conflict of interest.

CONCLUSION

Access to capital is of primary concern for the survival and especially for the growth of community finance institutions and that growth is necessary to provide service to those currently excluded from the traditional banking system.

Despite the increased popularity of investment in the community finance sector, many institutions are still experiencing difficulty in finding financing. To encourage development of a sound community finance sector, sustainable financing is required. Diversification of the actors, especially through more involvement by private investors, both locally and internationally, is necessary to make financing these institutions sustainable. To attract investors, the creation of surplus supply in the most profitable niches should be avoided since there is a deficit of capital in the less developed sectors of community finance.

Within this context, there is a place for DID in the market and it should be nurtured. The investment service division seeks to provide financial leverage and leverage for improving governance. To be successful, DID must invest with partners to whom it can offer added value, namely institutions that are already or soon to be producing a return, but still have difficulty accessing financing. The governance of such institutions is often a work in progress. With its expertise, DID can influence the structuring of the governance bodies of the institutions it finances as well as their practices for decision making, information and surveillance and in this manner encourage the sustainability of the institutions receiving assistance.