

International Investment Funds



Mobilising Investors towards Microfinance

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Patrick Goodman



Agenda



1. Purpose of this study
2. Selection criteria
3. Trends in microfinance investments
 1. Risk profile of Microfinance Investment Funds
 2. Size of Investment Funds
4. Final observations
5. Conclusion

1. Purpose of this study

Better understand the existing investment channels into microfinance

Creation of a database of investment vehicles investing in microfinance

Establish trends

Clarify motivations of underlying investors

Investigate the degree of true commercialisation of these funds

2. Selection Criteria



1. Based on the type of Funds:

- Social Investment Funds
- Social Funds
- Donor Facilities

2. Main types of products in the Funds

- Equity or quasi-equity
- Loans, purchase of bonds, CDs, etc.
- Guarantees

3. Based on the type of investors in the Funds

- Government / Multi- & Bi-lateral agencies
- Private sector Foundations
- NGOs
- Private Individuals
- Commercial Investors

3. Trends in microfinance investments



1. Risk profile of Microfinance Investment Funds

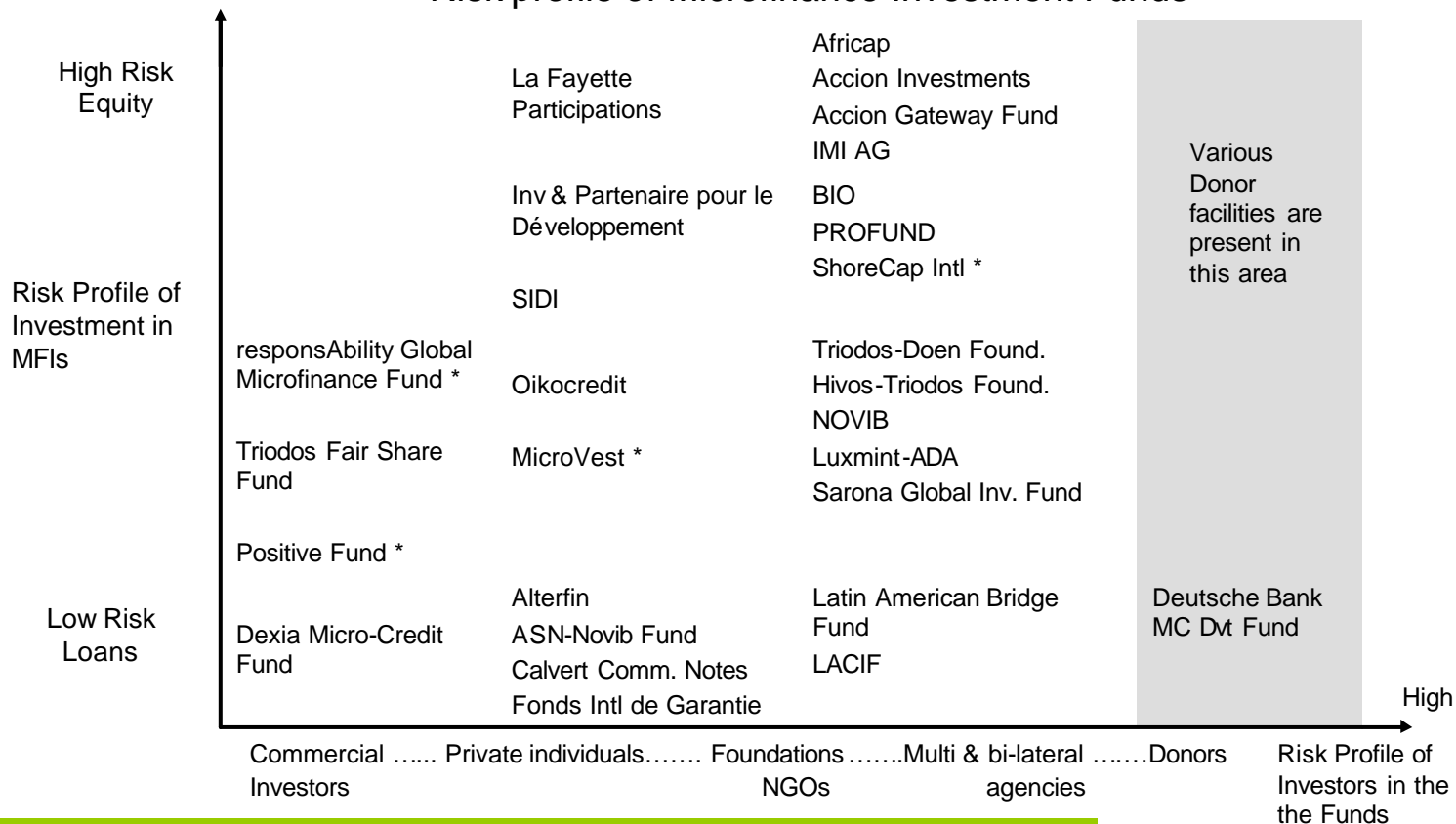
Situate investment funds according to the two following dimensions:

- Risk profile of the underlying investors in the Funds. This is determined by:
 - ✓ the acceptance of capital depreciation (a private individual's attitude in this respect will be very different whether he/she acts as an investor or as a donor)
 - ✓ The shareholders' expectations of return
 - ✓ The social and financial objectives of the Funds
- Risk profile of the investments in MFIs determined by:
 - ✓ The proportion of equity vs loans vs guarantees
 - ✓ The maturity of the targeted MFIs

3. Trends in microfinance investments



Risk profile of Microfinance Investment Funds



3. Trends in microfinance investments



1. Risk profile of Microfinance Investment Funds

- The bulk of the investors are still Social Institutional Investors (IFC, KfW, FMO, SIDI, Accion, etc.) who will ultimately accept losses even though they claim to seek a financial return.
- True commercial investors are very rare (insurance companies, pension funds, etc.)
- The most commercial investment fund, in terms of shareholders and objectives is the Dexia Micro-Credit Fund.
- New Investment Funds targetting Socially Responsible private Investors (Triodos Fair Share Fund, MicroVest, responsAbility Global MF Fund, Positive Fund) or initiated by such private SRIs (I&P pour le Dvt) are being launched.
- Continued growth of investment funds in microfinance will most likely be driven by Socially Responsible Mid to High Net Worth individuals.

3. Trends in microfinance investments

2. Size of Microfinance Investment Funds

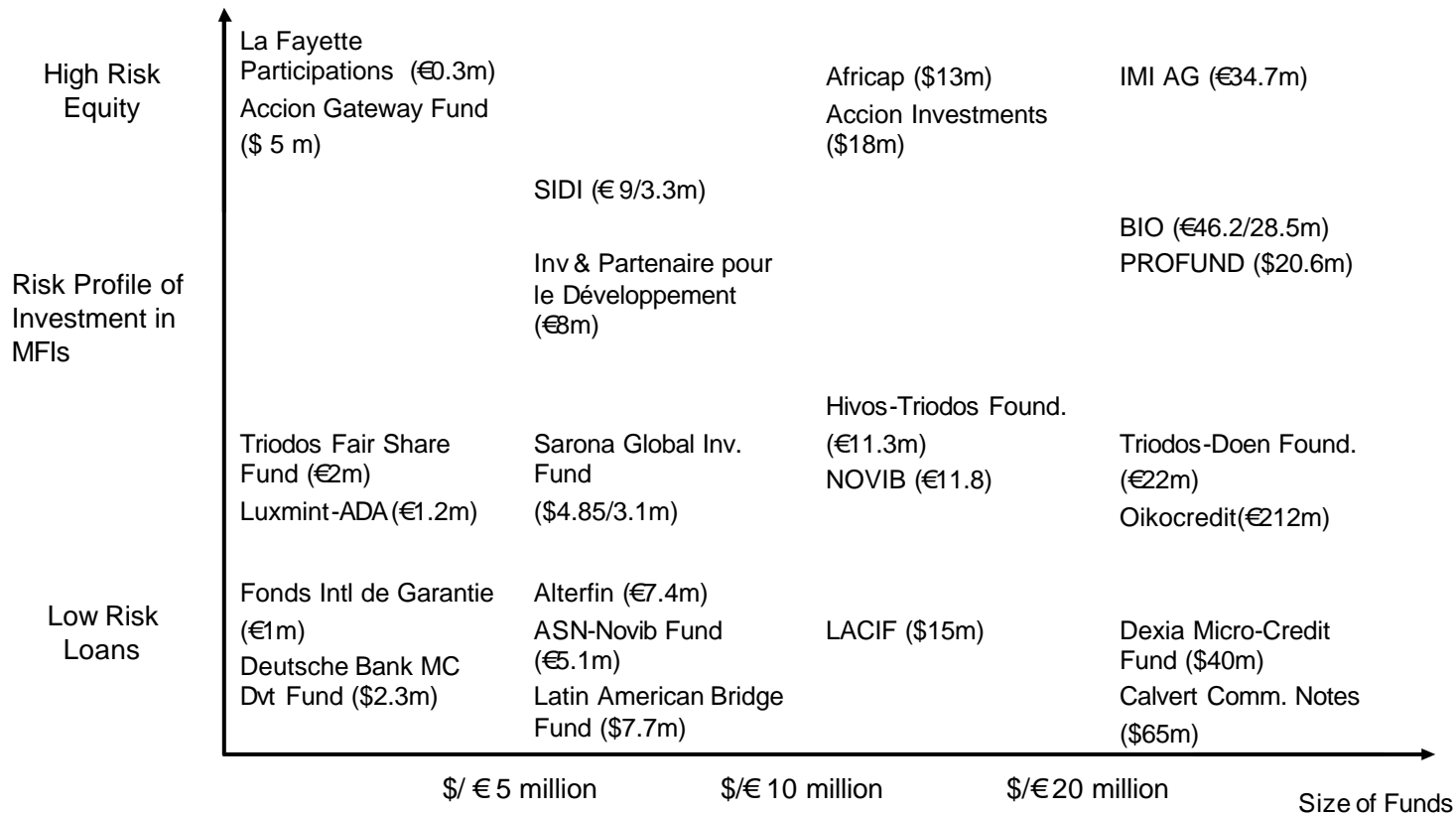
Situate investment funds according to the two following dimensions:

- Size of the Investment Funds.
- Risk profile of the investments in MFIs determined by:
 - ✓ The proportion of equity vs loans vs guarantees
 - ✓ The maturity of the targeted MFIs

3. Trends in microfinance investments



Size of Microfinance Investment Funds



3. Trends in microfinance investments



2. Size of Microfinance Investment Funds

- The majority of investment funds are below the size to be financially truly profitable (min. \$/€ 20/30 million)
- Most funds still require subsidising:
 - ✓ Either in managing and administering the fund
 - ✓ And/or in terms of lower return for the investors
 - ✓ Through Technical Assistance
- Some promoters have several funds which allows them to spread investment management and admin. costs: Accion and Triodos.
- Very few funds managed as stand-alone, independant entities:
 - ✓ IMI AG – but shared research with its shareholders (BIO, IFC, etc.)
 - ✓ Conflict of interest for "Network funds".
 - ✓ Dexia MC Fund: no shared costs, truly independent (est. B/E: \$ 30 million)

4. Final Observations

- Microfinance is slowly moving towards greater commercialisation but is not ripe yet for true capital markets.
- Many lessons have been learned over the last few years in funding MFIs through Investment Funds.
- There are a number of private SRIs (internationally and locally) willing to invest min. €10-30.000 if presented with the right microfinance Investment Fund.
- Some commercial Institutional Investors with a social and long-term view are ready to contemplate lodging some assets in microfinance if presented with the right opportunity.
- Is the MFI market ready to digest any active commercialisation? Are investors concentrating too much on the 300 or so MFIs generating a profit?
- As the good and really profitable MFIs find adequate equity and loan financing, investors will need to "move down".

4. Final Observations (2)



- Can Investment Funds be sustainable without Technical Assistance?
- As an Investment Fund builds scale to become financially sustainable, subsidising or risk capital is required in initial stage, in a very similar way to an MFI!
- More active distribution
- Investors need to focus on their segment based on their risk profile:
 - ✓ Government, Multi- and Bi-lateral agencies focus on developing MFIs while commercial investment funds focus on sustainable MFIs?
 - ✓ Tiered structure with such agencies providing a guarantee mechanism to mitigate risk taken by more commercial investors?
- International or local funding?

5. Conclusion

- Investment Funds are a convenient tool to collectively invest in a diversified pool of MFIs:
 - ✓ Risk diversification and small amounts to invest for individuals
 - ✓ More stable, longer-term and larger source of funding for MFIs
- Type and location of structure depend on objectives of promoters and investors targeted.
- Single or multiple offering (debt, equity, start-ups, currency classes, etc.)
- Genuine interest from individuals to invest in microfinance needs to be met with adequate structures ...