CHAPTER 2:

Raising MFI Equity Through Microfinance Investment Funds

Patrick Goodman

Consultant

Introduction

Microfinance institutions (MFIs) are increasingly addressing the traditional financial market to fund their continued growth and to better serve their clients. In its early days, the microfinance sector was essentially driven by non-profit organisations and official development agencies. Over the last few years, these institutions, together with a few new entrants in the sector, have set up an increasing number of investment structures to fund MFIs.

Common usage in the microfinance industry is "microfinance investment fund" as the generic term to identify all corporate investment structures (such as holding companies for example) which have been set up to provide equity and/or debt financing to MFIs, with investors acting as shareholders or as lenders.[1]

This paper builds upon a study prepared by the author on microfinance investment funds (MFIFs) for the 2004 KfW Financial Sector Development Symposium held in Berlin in November 2004. This initial study presented an overview of microfinance investment funds with their main features and characteristics. This paper focuses on those investment funds which invest all or a part of their assets in the equity capital of MFIs.

A number of investment structures were initially created as vehicles to provide funding to development initiatives, such as MFIs. Oikocredit was for example established in the Netherlands in 1975 to make development-oriented investments in church-related institutions. It was only in the mid-1990s that the first commercially focused investment structures emerged, targeting MFIs such as Profund, launched in 1995. The original promoters of these investment vehicles were development agencies and non-profit organisations. All these initiatives had a com-

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[1] Donor institutions such as foundations and NGOs would not qualify as structures set up for an investment purpose. Development agencies are also not considered as investment funds as their structure and mission extend far beyond those of such vehicles.

mon goal: to increase the development impact by investing collectively in a diversified pool of MFIs. This approach afforded clear advantages to these development investors, notably the sharing of costs and experience.

Today the investors in these funds are still mainly the original participants in the microfinance industry: non-profit organisations and development agencies. Institutional investors such as pension funds and insurance companies remain largely absent while private individuals have shown some interest, but this is still quite limited.

Recently, though, an increasing number of MFIFs are being set up to mobilise the traditional capital markets, clearly targeted to these commercial investors. It is interesting to note that the most commercially oriented investment funds invest almost exclusively in debt instruments of MFIs, whereas the funds promoted by development-oriented institutions have a greater mix of investments with equity as well as debt products.

Microfinance Investment Funds' Status in 2005

In mid-2005 there were 23 investment funds that provided equity to MFIs.[2] As Table 1 shows, their total assets amounted to € 536 million (or $725 million at the relevant exchange rate for each fund at the time of the survey).

Many of these funds do not invest exclusively in MFIs but also provide equity and debt to others such as trade finance organisations. To have a better picture of the actual investments of these microfinance investment funds into MFIs, non-microfinance assets such as trade finance and other investments, and cash positions have also been excluded. On this basis, the total microfinance portfolio of these investment funds amounted to € 262 million (or $ 355 million) of which € 132 million ($ 179 million) was invested in equity participations of MFIs. Concentration is very high: 44% of the total equity provided by these funds originate from a single structure: ProCredit Holding.

Table 1. Investments of the 23 microfinance investment funds investing in equity

Total assets	€ 536 million	$ 725 million
Total investments in microfinance	€ 262 million	$ 355 million
Investments in equity	€ 132 million	$ 179 million

2 Based on surveys conducted for the KfW Financial Sector Development Symposium organised in November 2004 (Goodman 2005), there were 38 microfinance investment funds providing equity, loans and guarantees to MFIs.

An element to consider when analysing these numbers is the unclear border between microfinance and small business lending. An increasing number of MFIs are up-scaling their lending operations to small and medium-sized enterprises (SMEs). Traditional SME banks are also starting to provide microfinance services, while some microfinance investment funds are also funding financial institutions focusing on SMEs. In most cases these amounts are classified as part of the microfinance portfolio.

In addition to the 23 MFIFs, two funds invest almost exclusively in other microfinance funds: Oikocredit Nederland Fonds and Gray Ghost Microfinance Fund. They indirectly participate in the equity financing of MFIs and thus their investments are already taken into account in the 23 funds. They are mentioned here because they channel funds from private investors to MFIs and actively participate in increasing private investors' awareness and understanding of microfinance.

The full list of all these microfinance investment funds can be found in Appendix 1 together with their main characteristics such as total assets and investments in microfinance equity, debt and guarantees.

The Three Main Types of Microfinance Investment Funds

There is a very wide diversity of investment structures targeting MFIs. A key differentiating factor is the balance between the social returns of these vehicles and their financial returns. Three broad categories of microfinance investment funds can be identified based on the following criteria:

- Targeted MFIs and the terms offered
- Products proposed to the MFIs
- Shareholder structure, targeted investors and the returns offered
- Structure and objectives of the vehicle
- Role of the investment fund in the governance of the invested MFIs
- Availability and form of technical assistance (TA)

The three categories identified are the following:

- Microfinance development funds
- Quasi-commercial microfinance investment funds
- Commercial microfinance investment funds

The following Table 2 and Figure 1 summarise the total assets and the total amount of MFIs' equity for each of these three categories:

Table 2. Assets and MFI equity portfolio by category of microfinance investment funds[3]

	Microfinance Development Funds	Quasi-commercial Microfinance Inv Funds	Commercial Microfinance Inv Funds	Total
Total Assets ($ million)	460	215	51	725
% of Total	63%	30%	7%	100%
Total Equity in MFIs ($ million)	62	115	3	179
% of Total	34%	64%	1.5%	100%
Number of funds per category	12	7	4	23

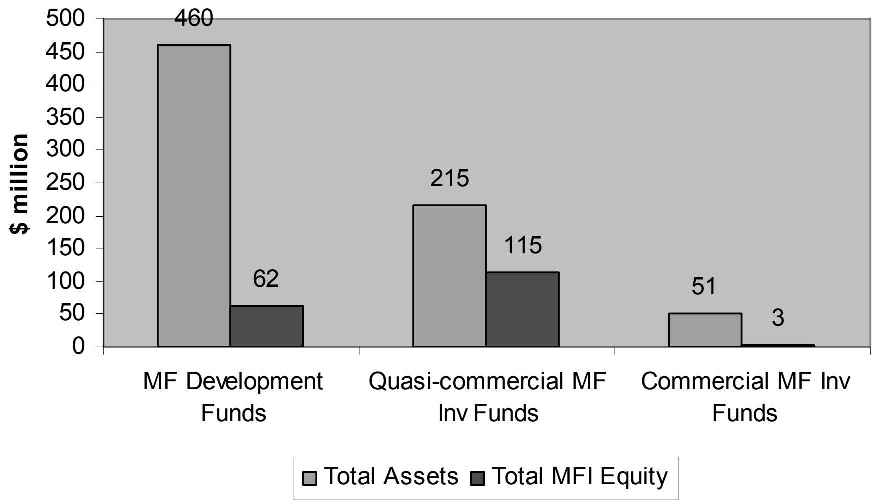

Fig. 1. Assets and MFI equity portfolio by category of microfinance investment funds

3 Based on surveys conducted between March and June 2005.

Microfinance Development Funds

These were the first structures set up to fund MFIs. They typically put more emphasis on development aspects than on financial return. Their objective is indeed usually to make capital available to MFIs through sustainable mechanisms that support their development and growth without necessarily seeking to maximise the financial return.

As shown in Table 2 above, these funds constitute the largest portion of the total assets (63%) of all the MFIFs but have a significantly lower share of these funds' total equity portfolio (34%). This category of funds has a widely diversified portfolio, not only between equity and debt investments but also in their funding of fair trade organisations and other investments. The investors in these structures essentially seek a social return with the protection of the real inflation-adjusted value of their original capital. This objective usually translates into favourable terms to the MFIs, typically below market conditions. The MFIs targeted are also usually not the most profitable nor the most mature. Such a structure offers a very good fit between investors willing to accept a lower financial return on their investment and the MFIs which benefit from these favourable conditions.

Oikocredit is a very good example of this approach. It is one of the oldest and it is also the largest MFIF, with total assets of € 245 million and € 8.5 million of equity investments in MFIs at the end of 2004. It is also one of the largest investment fund providers of microfinance equity originating from private capital. Most of its shareholders are private individuals and church-related institutions. Oikocredit[4] is well known in the microfinance industry for its wide outreach to less mature MFIs on favourable conditions. It also makes local currency loans[5] which are in high demand by MFIs.

Some microfinance development funds, usually non-profit organisations, are restricted to a limited number of shareholders, sometimes to only one investor. The purpose of several of these funds, also called "funds with a network approach",[6] is to invest in a group of MFIs, usually providing equity only, and to participate actively in the management and the governance of the MFIs in which they invest. Examples are the Accion Gateway Fund and Opportunity Transformation Investments, both fully owned by their mother NGO. Other structures dedicated to essentially one investor are two Desjardins funds, and the Hivos-Triodos and Triodos-Doen Foundations. These latter two funds have relatively widely diversified investments and are not dedicated to a specific network of MFIs.

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[4] Oikocredit Nederland Fonds, targeted at private individuals, is essentially a microfinance development fund but is not listed here because it invests around 90% of its assets in Oikocredit shares. Including its assets would result in double counting.

[5] These loans represent approximately 20% of Oikocredit's total approved portfolio: Oikocredit Financial Statements 2004 available on www.oikocredit.org.

[6] Köhn and Jainzik (2005), p328.

Microfinance development funds often provide and finance technical assistance from their own resources. This is a cost to these funds that limits the financial return to their shareholders, but this is acceptable given their overall philosophy.

The following microfinance investment funds investing in equity can be classified as microfinance development funds:

- Accion Gateway Fund
- Alterfin
- Développement Int'l Desjardins – Partnership Fund
- Dvt Int'l Desjardins – FONIDI Fund
- Hivos-Triodos Foundation
- Incofin
- Kolibri Kapital ASA
- Oikocredit
- Opportunity Transformation Investments (OTI)
- Sarona Global Investment Fund
- SIDI
- Triodos-Doen Foundation

Quasi-commercial Microfinance Investment Funds

The microfinance equity funds which can be classified as quasi-commercial microfinance investment funds as of mid-June 2005 are:

- Accion Investments in Microfinance
- Africap
- Investisseur et Partenaire pour le Développement
- La Fayette Participations
- ProCredit Holding
- Profund
- ShoreCap International

Three other quasi-commercial microfinance investment funds have been launched since the surveys were conducted for this paper:

- Balkan Financial Sector Equity Fund (launched in December 2005)
- La Fayette Investissement (launched in August 2005)
- MicroCred (launched in July 2005)

These investment funds (called "commercially-oriented microfinance investment funds" in a previous study[7]) have had a considerable impact on the development of microfinance. Funds in this category have clearly stated financial objectives including returns larger than those in the previous category. They nevertheless have

[7] Goodman (2005).

a clear development mission and the determination to pursue it. They are usually not actively distributed to new investors, unlike the more commercially oriented investment funds. These funds are essentially owned by development finance institutions, NGOs or by other institutions close to the development world. In many cases, a few private investors have joined these funds, motivated by the presence and the experience of these development finance institutions.

In general these funds tend to be very equity-focused. Table 2 and Figure 1 show that although their total assets are smaller than those of the microfinance developments funds, their equity portfolio represents 64% of the total equity of the 23 microfinance equity funds. 53% of their assets consist of equity investments. Investment in debt instruments is undertaken for two main reasons: either the investment fund provides loans (usually on a long-term basis) to the institutions in which it has equity stakes or loans are provided in anticipation of a future participation in the MFI's capital. This is the case for Africap: a convertible debenture constitutes 20% of its disbursed portfolio.

Profund was the first microfinance equity fund. It was launched in 1995 with a 10-year life. Bilateral and multilateral organisations[8] owned 76% of its capital. 16% were held by NGOs and 8% by private investors. It invested in what became the success stories of microfinance (Compartamos, BancoSol, MiBanco, etc.) but, as is common for such funds, losses were incurred on some other investments.[9] Overall it demonstrated that it is possible to invest in the capital of MFIs and make a decent return on investment. Profund is expected to have an annualised internal rate of return of between 6 and 7%[10] by the time all the expected receivables have been collected. The exit strategy is key to ensuring that potential capital gains are transformed into realised gains for the original investors.

The development finance institutions (DFIs) have to strike a difficult balance. They are criticised by a number of microfinance professionals for excessively favouring mature MFIs and for not providing enough funding to less mature MFIs. But they also have a role as promoters and participants in investment vehicles through which commercial investors can learn about the business of microfinance.

Private investors are increasingly interested in the business potential of banks focusing on micro, small and medium enterprises. Recent evidence is the share purchase agreement signed on 21 April 2005 which transferred the majority of the shares of the Russian Small Business Credit Bank, KMB, to Banca Intesa, a large Italian bank.[11] The DFIs involved (DEG and EBRD) successfully transferred to

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8 www.profundinternacional.com – shareholder structure.

9 Silva (2005).

10 According to Alejandro Silva, Profund.

11 The shareholders that sold their shares are Triodos-Doen Foundation, Soros Economic Development Fund and DEG, a member of the KfW banking group. The European Bank for Reconstruction and Development (EBRD) retained a 25% plus 1 share ownership of KMB with a put-call option exercisable from 2010.

the private sector the bank which they launched and supported. In a similar manner, quasi-commercial MFIFs can facilitate the transition of ownership of MFIs from NGOs and development actors to the commercial sector.

Attracting private investors to microfinance through investment funds started only recently. For example, three recently launched investment structures promoted by development actors (Africap, AIM and ShoreCap International) and essentially targeting equity investments have almost 88% of their equity originating from NGOs, foundations and official development finance institutions (DFIs). The remaining only about 12% of fund capital invested originates from private investors, including ShoreBank (the promoter of ShoreCap International describes itself as a community development bank). As these three funds invest primarily, at least for the time being, in mature institutions, a larger participation by private investors could have been expected. One of the few truly traditional commercial investors to venture into microfinance, ABN Amro, is a shareholder of ShoreCap International. By participating in such a collective investment scheme, this Dutch bank is learning about microfinance while sharing the risks and opportunities with other, more knowledgeable players in this field.

The percentage of private capital in this kind of fund has grown since Profund was launched. It is a question of time before (1) the amounts committed by the current investors are placed, and (2) additional, probably more commercial, investors are sought. (The valuation of investment funds when new investors enter will be explored in a later section.)

ProCredit Holding is an example of a successful public-private partnership (PPP) in which both the private and the public sector play sizeable roles.[12] It is 59% owned by private capital.[13] This includes 29.5% owned by the founding members of ProCredit Holding – IPC and IPC Invest – while a further 27.4% is held by Doen Foundation and by an NGO, Fundasal. Little capital has been forthcoming from commercial sources outside these investors close to the world of microfinance, and has not been necessary so far: 2.2% of the total equity is owned by the responsAbility Global Microfinance Fund, a Luxembourg-based commercial microfinance investment fund, and by Andromeda, a private equity fund that also invests in AIM.

Not only is ProCredit Holding a true PPP, but it has also attracted a sizeable commercial investor, Commerzbank, to co-invest in a number of MFIs in the ProCredit Group. This experience shows that if an investment is properly structured

[12] Schmidt and Moisa (2005) and Alexander (2005).

[13] www.procredit-holding.com – shareholder structure as of 15th April 2005. The remaining capital (41%) is held by five DFIs: BIO, DEG, IFC, FMO and KfW. In mid-June 2005, ProCredit Holding was in the process of acquiring the shares of IFC, FMO, DEG and KfW in the various ProCredit Banks. At the end of this process, these DFIs will only own shares of ProCredit Holding (conversation with Helen Alexander, ProCredit Holding – 27 May 2005).

and managed, there is interest not only from the public sector but also from the private sector.

Further evidence of this interest is shown by Ivatury and Abrams (2004).[14] Their study shows that the 18 ProCredit institutions at the time of their research had received 60% of the total equity invested by public investors (defined in their study as nine investment arms of bi- and multilateral development agencies) and 58% of the total equity invested by private funds (defined as 45 privately managed investment funds and foundations). Ivatury and Abrams also point out a high concentration of DFIs in the funding of the ProCredit Group, either directly or through investment funds. The reason lies in the very high funding needs of the Group which the private sector is not yet willing to meet.

As more commercial investors become interested in microfinance, DFIs will quite probably move towards less mature MFIs. This is demonstrated by a new investment fund which was launched in August 2005 in Luxembourg as a SICAR (venture capital investment company) with an unlimited duration. The aim of La Fayette Investissement (LFI) is to invest a controlling interest in the creation of new MFIs, primarily in Africa and Asia. LFI may also participate in the equity of MFIs transforming from a non-profit or a mutual status to a joint stock company. The initial investors were Horus Development Finance in France and its existing investment company, La Fayette Participations (LFP), which was founded to invest in existing MFIs or in start-ups. Five DFIs[15] have joined these investors in establishing this new venture capital company with € 14.1 million of committed capital, to be drawn down over five years.

In this structure, the DFIs play their role fully as financiers of greenfield or transforming MFIs, which they also did at the beginning of the ProCredit[16] venture. The challenging task for the DFIs is to find the right balance between exiting a financially sustainable institution in order to finance the next generation of MFIs and staying on board to ensure that the institution maintains the development mission it was intended to pursue.

Two new quasi-commercial microfinance investment funds were launched shortly after the 2005 Financial Sector Development Conference (Frankfurt, June 2005). Each one targets a combination of development-oriented investors such as DFIs, socially responsible investors and commercial investors. The first is the Balkan Financial Sector Equity Fund promoted by Oikocredit and Opportunity International. It was launched in December 2005 and has raised about € 25 million. It aims to collect a further € 25 million in additional commitments. This fund's objective is to invest in the equity of MFIs in the wider Balkan region.

The second fund, MicroCred, was launched in July 2005 and is promoted by PlaNet Finance. It expects to raise € 31.5 million. It will invest in equity participa-

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[14] Ivatury and Abrams (2004).

[15] AfD, EIB, FMO, IFC and KfW.

[16] ProCredit Holding was formerly IMI AG.

tions. Half of its assets will be in Africa. Technical assistance may be provided by PlaNet Finance to the MFIs funded.

In fact, virtually all quasi-commercial investment funds have some form of TA attached. In a few cases it is provided by the fund. For instance, I&P pour le Développement provides tailor-made assistance on financial planning and strategy. TA can also be provided by an entity specifically set up by a donor to assist MFIs in capacity building. For example ShoreCap International is supported by ShoreCap Exchange, a US-based NGO, and Africap is assisted by a grant facility, the Technical Services Facility. TA can also be provided directly by development-oriented investors in the fund or by related donor agencies. This is probably one of the key differences between the commercial microfinance investment funds, discussed below, which operate without TA, or at least without TA connected to the fund or its investors.

Commercial Microfinance Investment Funds

These funds are new, they are the most commercial and they are the most heterogeneous of the three categories. They also are by far the smallest: with only 7% of the total assets of microfinance investment funds investing in equity, they represent only 1.5% of these funds' equity portfolio, as shown in Table 2. The main distinction between commercial microfinance investment funds and the previous category of funds is the nature of the investors targeted. These funds tend to target private investors and usually invest primarily in the most mature MFIs. They favour loans, with equity representing no more than 10 to 20% of their portfolios. These funds provide investors a relatively stable return based on the loan portfolio and hope to achieve an additional return with limited investments in MFI equity.

The first microfinance investment fund with the objective of targeting private investors was the Dexia Micro-Credit Fund. It was launched in Luxembourg in 1998 by the bank Dexia-BIL. It grew rapidly, reaching \$58.3 million as of 30th April 2005 with a MFI loan portfolio of \$46.4 million,[17] outpacing many older donor and development agency-sponsored funds. Most of the original seed money of \$10 million advanced by Dexia-BIL has been withdrawn: the owners are private individuals and a few commercial institutional investors.

This fund demonstrates that a microfinance vehicle specifically targeted to private investors can attract sizeable amounts of money. This fund invests primarily in microfinance loans.

Other similarly structured microfinance investment funds that target private investors that include some equity positions in their portfolios have recently been launched. These are the responsAbility Global Microfinance Fund (rGMF – launched in November 2003) and the Triodos Fair Share Fund (TFSF – launched in December 2002). Each has about 10% of their microfinance portfolios invested

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[17] BlueOrchard Finance S.A. Monthly Newsletter May 2005.

in MFI equity. These two funds (as well as the Dexia Micro-Credit Fund) have monthly net asset valuations which enable investors to subscribe to or redeem these funds each month.

Thus four vehicles can be considered as commercial microfinance investment funds with an equity portfolio in MFIs:

- Impulse
- MicroVest
- responsAbility Global Microfinance Fund
- Triodos Fair Share Fund

Although these funds were still rather small at the time the surveys were made, they are among the fastest growing in the industry and will soon count among the largest microfinance investment funds. The rGMF reached € 9.8 million ($12.6 million) in April 2005 and the TFSF reached € 9.1 million ($11.8 million) at the end of March 2005. Their modest size has had a detrimental impact on their profitability, with net returns for the rGMF of 1.55% on the US dollar share class in 2004 (but an annualised 3.2% in the first four months of 2005) and a net return of 2% for the TFSF in 2004.[18] The larger Dexia Micro-Credit Fund, with no equity positions, netted 3.95% on the US dollar share class and 4.4% for the Euro share class in 2004. As these funds grow, their fixed costs will weigh less on their profitability, enabling investors to enjoy higher returns with at least the same social impact.

Although launched by three NGOs – CARE, MEDA and Seed Capital Development Fund – MicroVest I is a commercial microfinance investment fund targeted at private and commercial investors, of which there are currently 70, including two mutual funds. It is a ten-year vehicle which has collected $15 million in committed funds. As of December 2004, $9.1 million had been placed with mature MFIs. Although it can hold up to 50% of its assets in equity, MicroVest I's equity position stood at 8% (December 2004). In addition to the social return it offers by investing in microfinance, it aims to provide between 7 and 8% net on average per annum over its 10-year life. In contrast to rGMF and TFSF, which are not leveraged, MicroVest I will be, with a projected debt/equity ratio of 1.82.

As it is structured as a US Limited Partnership, MicroVest I is limited in the number of investors it can attract. The targeted private individuals are therefore high net-worth individuals. By contrast, the TFSF and the rGMF accept much smaller investors. The minimum amount to invest in the rGMF, for example, is $1,000.

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[18] Funds in the Netherlands which are recognised as socially responsible investment funds benefit from an additional 2.5% fiscal bonus in addition to the net return of the fund. The TFSF benefits from the fiscal bonus, as does Oikocredit Nederland Fonds, already mentioned, and ASN-Novib, which currently invests only in loans although it may also invest in equity. Other governments should consider this tax incentive for households to invest in microfinance.

Impulse is a recently-created commercial microfinance investment fund, launched by Incofin, a Belgian cooperative company investing in microfinance as a commercially focused vehicle. Impulse, founded in December 2004, is a closed-ended 12-year investment company under Belgian law. Its shareholders are Incofin and other Belgian financial institutions, including KBC, one of Belgium's largest banks. This € 10 million fund will primarily provide loans to medium-sized, commercially viable MFIs, but may also invest up to 20% of its portfolio in equity positions.

Gray Ghost Microfinance Fund, founded in 2003, does not directly invest in the equity of MFIs, but it is the first microfinance fund of funds. As such, it invests in microfinance funds, including funds which invest in equity. The goal of Gray Ghost Microfinance Fund is to assemble a $50 million microfinance portfolio by 2008 and to attract at least another $200 million from private investors as co-investments and linked transactions in microfinance funds.[19] By the end of May 2005, $17.8 million had been committed of which $8.5 million was disbursed. A further $15 million was then being negotiated with investment funds. The portfolio includes funds such as AIM or MicroVest I. Gray Ghost also supports funds such as the Emergency Liquidity Facility which acts as a lender of last resort that provides immediate short and medium term loans to pre-qualified MFIs confronted with a liquidity crisis stemming from natural or man-made disasters.[20] Gray Ghost may also serve as a source of seed capital for new investment funds.

We would have expected to see some venture capital microfinance investment funds in this category of investment funds. Out of the 360 MFIs considered for comparison by the Comparative Analysis tool of the MixMarket database, 59 earned a return on equity (ROE) greater than 20% in 2003.[21] The average return of 57 of them was just under 39%.[22] These kinds of returns would seem to be sufficient to attract commercial capital.

Microfinance is, however, a novel business for private investors; gaining their interest is taking longer than some had anticipated. Commercial investors need investment structures to invest in, but when none are available, it does not necessarily mean that commercial or private capital is not interested in equity participations in MFIs. The success and rapid growth of some of the commercial microfinance investment funds show that, whenever an investment fund is appropriately structured for its targeted audience, there is no lack of capital.

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[19] Paper dated 6th Dec. 2004 – Gray Ghost Microfinance Fund, LLC – A microfinance portfolio company.

[20] SECO website: http://www.seco-cooperation.ch/entwicklungsarbeit/00618/?lang=fr.

[21] Comparative Analysis tool of the MixMarket used on 16th May 2005 with the selection: Return on Equity for MFIs for 2003 (www.mixmarket.org/).

[22] The two largest ROEs of over 150% were not taken into account to avoid distortion of the average.

A trend seems to be getting underway that will lead to a greater number of equity microfinance investment funds being targeted at private investors. Except for a few early movers, institutional investors will require some sort of track record and a minimum fund size before even contemplating investment in such funds. The process may well be slow for these investors. Private individuals are already showing a greater interest in participating in such funds, especially in diversified funds (for example with a maximum 20% equity component) rather than in funds that invest essentially in equity. Microfinance venture capital funds are also likely to appear, but will initially appeal only to a limited number of private investors who are aware of the social impact of microfinance and seek to support it.

Challenges Facing Microfinance Investment Funds Investing in Equity

The following sections outline some of the challenges facing microfinance investment funds that invest in equity. Recent publications offer a comprehensive view of these challenges in the wider context of the transition from a donor-driven environment for the MFIs to that of the private capital markets.[23]

Most MFIs Are Under-Leveraged: Does This Mean Little Demand for Equity?

According to Gautam Ivatury and Julie Abrams (2004), “Regulated MFIs’ continuing high levels of equity capital will lead them to increase their liabilities rather than raise new equity”. They mention NBFIs (non-bank financial institutions) reporting to the *MicroBanking Bulletin* (No. 9) as having a 2.9x (2.9-to-1.0) average debt-to-equity ratio, with specialised microfinance banks maintaining a 5.6x average ratio. Unregulated MFIs usually have far lower debt-to-equity ratios, around 1-to-1. According to MicroRate’s analysis of the 11 Peruvian MFIs in the MicroRate 30 in 2003, there is a clear correlation between debt-to-equity ratios and ROEs.[24] These findings should encourage unregulated MFIs to transform, which would enable them to have higher leverage and higher profitability.

Even regulated MFIs could increase their leverage: levels of between 5 and 8-to-1 are viewed as being reasonable in the industry. The problem is in fact more profound than these ratios imply, as even the best performing MFIs still need guarantees to support their access to commercial loans.[25] It seems that the reliance of most MFIs on non-commercial capital is part of the problem. MIX Market data from August 2004 indicate that the following sources of funding are sought by MFIs, in order of priority: (1) local currency loans, (2) capacity building grants,

[23] Among those: de Sousa-Shields and Frankiewicz (2004).

[24] MicroRate (2004).

[25] de Sousa-Shields and Frankiewicz (2004).

(3) donations, (4) loans in USD, (5) equity, and finally (6) guarantees. The issue is that as long as non-commercial funding is available, there is little incentive for MFIs to run their business as efficiently as possible and within the parameters of its earnings. As Gert van Maanen puts it: "It is much easier to go overseas and to ask for renewal of a grant, than to increase earnings and reduce costs".[26] Another view, which is not necessarily contradictory, is that in the long run NGOs have little other choice if they want to survive, because grant money is volatile and can very well disappear.

A paper issued by the Council of Microfinance Equity Funds in 2004[27] reports that eight general managers of MFIs were questioned regarding their institutions' appetite for equity capital within the next three to five years. Seven indicated that they would not require additional equity capital because they had just raised capital, were counting on internally generated revenues or planned to increase their deposit base. The eighth manager was reported to be searching for a strategic partner who could substantially raise his or her institution's capital base.

These reports indicate that equity capital is not the highest priority among the types of funding sought by MFIs. Deposits are the preferred source of funding for MFIs that can take deposits, but only on the condition that the maturities and deposit accounts are correctly structured. Debt funding, preferably from domestic sources or at least in local currency, is the next priority but is limited by the unwillingness of the borrowers and the lenders to increase the MFI's leverage beyond prudent levels. When these levels are reached or whenever the institution is going through transformation, equity capital will again be in demand.

Different types of investment funds have different roles with respect to providing equity capital to an MFI. If the MFI wants a strategic partner, quasi-commercial microfinance investment funds or venture capital equity funds – both focussing on equity and prepared to take relatively large stakes – would be appropriate partners depending on the maturity of the MFI. Venture capital equity funds are more likely to invest in the most mature MFIs whereas quasi-commercial microfinance investment funds should probably invest increasingly in less mature or start up MFIs in addition to investing in mature MFIs. A very good example of the latter is La Fayette Investissement already mentioned above. Other types of investment funds with a more balanced portfolio could provide equity to a lesser extent without necessarily playing an active role in the MFI's governance.

26 van Maanen (2004).

27 Kaddaras and Rhyne (2004).

Valuation of Equity Participations and Exit

Valuation was never much of an issue for many closed-ended investment funds as the initial investors remain in the fund until its termination. Capital gains or losses are realised whenever the positions are sold. All the investors benefit or loose at the same time.

However, valuation of equity participations, other than at cost, is becoming an increasingly important issue. Three situations require the determination of the "fair value" of equity positions:

- When new shareholders enter or some existing shareholders exit an investment fund
- When accounting rules require fair value determination (such as the International Financial Reporting Standards – IFRS)
- When a fund is terminated

New or exiting shareholders: Whenever investors move in and out of an investment fund, a "fair value" of the equity participations ensures that all shareholders are treated equally. In contrast, if an equity position is undervalued, it benefits the new investors to the detriment of the existing shareholders. An entry by an investor (or in some cases an exit) can occur at periodic closings or whenever a net asset valuation is calculated for an open-ended fund. As noted earlier, amongst microfinance investment funds holding equity participations, two[28] have monthly valuations, allowing subscriptions and redemptions. The assessments of the "fair value" of the equity positions are conducted at the same intervals. Since these two funds' equity positions constitute no more than 10-11% of their assets, a thorough review of the fair value of their equity holdings does not have to be conducted every month, but at least a simplified assessment of fair value has to be provided. As another example, ProCredit Holding has accepted new investors over the last few years. Each time a new shareholder came on board or when an existing shareholder increased their participation, a thorough valuation of the equity positions had to be conducted to ensure that new and existing investors were treated fairly.

Accounting rules: Some accounting rules require that equity positions be reported at "fair value". The British Venture Capital Association (BVCA) and the European Venture Capital Association (EVCA) issue guidelines to assist in this valuation. In 2001, EVCA issued new guidelines for valuing unquoted investments in two ways:

- Conservative value: unquoted investments should be valued at cost unless a new financing round or a partial sale has occurred, in which case the transaction price should be used. An investment should also be written down if there has been a material and permanent reduction in the value of the investment below cost.

[28] Triodos Fair Share Fund and responsAbility Global Microfinance Fund.

- Fair market value: the most appropriate indication is likely to be an independent third party transaction within the valuation period. In the absence of such third party transaction, for companies generating profits, multiples of comparable companies should be used, with a discount to cater for illiquidity. The conservative value would apply in case of losses.

Many private equity funds used conservative value, resulting in significant differences in valuation upon exit. Microfinance investment funds essentially applied the same rules, with most equity participations being valued at cost.

Changes will occur with the recent introduction of the new IFRS rules which require that all investments be valued at “fair value”. The 2004 Annual Report of Africap nicely illustrates the implications of these new rules. Two of its investments were valued at cost, as they were either recent or were not subjected to any new events which would justify changing their valuation. A third investment, in Equity Bank Ltd, was revalued following a new share issue in December 2004. The new issue price more than doubled the value of Africap’s investment in that MFI in less than two years.

Microfinance investment funds will increasingly be required to value their equity participations at fair value, even in the absence of new share issues by MFIs or of recent transactions.

The two main methods used to value the equity of MFIs are the discounted cash flow (DCF) method and the application of multiples,[29] with the multiple of book value (BV) as the main one. According to interviews conducted for this chapter, the DCF method may be more appropriate for fast growing MFIs. However, the book value of a company is the result of its history, which may be a more appropriate basis for more mature and more stable MFIs. The main disadvantage of the DCF method is its extreme sensitivity to discount rates, which can produce a wide array of results. The microfinance industry still seems reluctant to pay for an MFI at high multiples to BV, even for a high growth company. As there are few cases in which such companies are sold at high multiples, potential buyers are still wary about paying too much over BV.

The multiples for five MFIs sold by Profund ranged from 0.9 to 1.4 of BV, with an average multiple of 1.12. Another sale, Compartamos, commanded a multiple of 2.2,[30] almost double the average of the other five. This MFI has unique features justifying such a multiple. KMB in Russia is rumoured to have been sold at a multiple of between three and four times the bank’s BV. In both cases the features that supported a high multiple was that the company was unique in its market, its market was growing rapidly, and its staff were particularly skilled and well-trained.

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[29] Clay O’Brien and Ken Vander Weele from Opportunity International are thanked here for sharing their presentation on the valuation of MFIs which was discussed at the meeting of the Council of Microfinance Equity Funds in May 2005.

[30] Conversation with Alex Silva, Profund.

Exit or divestment: These examples touch upon the third reason for valuing an equity position: at the time of an exit. The experience of Profund is particularly interesting[31] because it was the first microfinance investment fund to go through such an exit. Profund used a number of exit strategies for its investments, but the mode of exit does not reduce the importance of a thorough valuation of the MFI at the time of exit. Profund's exit strategies are not unique – all other investments funds use them in one way or another – but Profund is the first case in which these strategies were actually tested for an entire investment fund that was wound up when its 10-year life expired.

The most commonly used strategy was to require put options as a condition for investment in an MFI. These put options (option to sell the equity positions) were granted by the sponsors or the initiators of MFIs. The exit prices were usually a function of the MFI's performance. Therefore the puts would not guarantee an exit price but would ensure that the holder of the put would always have a buyer.

A second method involves shareholders in an MFI acting in concert, especially when a controlling block of shares is concerned. These situations are usually covered in shareholders' agreements that require the same treatment for all shareholders: drag along rights enable a shareholder to force other shareholders to join in a sale with uniform conditions for all, while tag along rights enable a shareholder to join in a sale of equity with the same conditions if another shareholder is selling their shares.

As of May 2005, Profund had sold or had agreed to sell almost all its investments through a combination of selling through put options, drag along or tag along rights, a management buy-in process, and through self-liquidating provisions for its quasi-equity investments.

Equity positions are increasingly likely to be valued at "fair value". In the absence of recent transactions, valuation of equity will most likely continue to be made using a combination of the DCF and the multiple of BV methodologies, with an increasing acceptance of multiples to BV that will probably be higher than in the past.

The Paradox of Dividend Distribution vs. Retained Earnings

There is a paradox in the dividend policy which microfinance investment funds, and therefore MFIs, must follow in order to attract private capital. The first view is that an MFI will find no better source of funding than from its own earnings. Why would an institution distribute a dividend if retained earnings can fuel its expansion? And why would an investor's point of view differ? Could the investor generate a better return on investment on the dividend rather than leaving the proceeds in the institution? For example, why would a European pension fund generating a return of between 5 and 10% per annum require a dividend from an MFI

[31] Silva (2005).

that generates a return on equity (ROE) of over 20%? This was the case in 2003 for 14 of the 30 Latin American MFIs in the MicroRate 30.[32]

International institutional investors such as pension funds and insurance companies generally expect some form of dividend on an investment in microfinance, at least until they become more familiar with microfinance and begin to appreciate the real potential of MFIs. Although a portion of their portfolios may be invested in venture capital funds with returns that are uncertain until liquidation, these institutions generally require a steady flow of income to match their liabilities. When institutional investors consider acquiring shares of a traditional company, they will analyse the potential for the company's share price to rise but they will also look at the dividend policy and its track record in paying dividends.

Triodos, for example, requires a dividend from the MFIs in which the Triodos Fair Share Fund invests. This fund has a monthly financial target to reach. Although it mainly invests in debt instruments, it also requires a regular income flow from its equity investments.

MFIs typically have not paid dividends. Their traditional shareholders or owners, first NGOs and then development agencies, did not ask for dividends. It made more sense from a financial point of view to retain these earnings in the MFI. But if private capital is to be tapped in any significant way, MFIs will be requested to pay dividends so that the microfinance investment funds investing in them can also pay a dividend to their own investors.

Microfinance venture capital equity funds normally do not want to receive dividends because their investors seek an overall return at the maturity of the fund. But more balanced funds with a periodic valuation will look favourably on MFIs that pay a regular dividend.

Governance or Investment?

Most microfinance investment funds require some sort of involvement in the governance of the MFIs they invest in. Köhn and Jainzik[33] identify two main approaches used by investment funds. Investment funds using the outsider approach look for good investment opportunities independently of a network of MFIs. But even in this category, quasi-commercial microfinance investment funds usually seek an active role in the MFIs they invest in, as would most of the development microfinance funds if justified by the size of their equity investment. Funds using the network approach are deeply involved in the networks in which they invest. A number of microfinance development funds (such as the Accion Gateway Fund) and quasi-commercial microfinance investment funds (such as AIM, ProCredit Holding and OTI) follow this approach.

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[32] MicroRate (2004).

[33] Köhn and Jainzik (2005).

The commercial microfinance investment funds would logically be the least involved in the governance of MFIs. But probably because these funds are relatively new and also because they have very few equity investments, they also demand involvement in the governance of the MFIs in which they invest equity capital. The more commercial funds are likely to assume a more passive role, focusing essentially on the potential for a financial return in addition to the social return. Playing an active role in the governance of an MFI is costly and may not be justified considering the focus and objectives of these more commercial funds and also the relative size of their investments. In these cases governance would be left to the main owners of the MFIs and to other categories of funds.

Potential Financial Returns for Microfinance Investment Funds with an Equity Focus

According to many microfinance specialists, the potential returns for a microfinance investment fund with a 10-year life invested essentially in equity could range from 8 to 14% per annum (without leverage) in US Dollars or Euros. This return is substantially below what private equity investors would expect in emerging markets (30-40% p.a.), which may explain some of the reluctance of these investors to invest in microfinance. They view it as a low return activity that carries the high risk of emerging markets.

As private investors become familiar with microfinance and understand the risk-return dynamics of the business, investment structures may be created that cater to these investors. Private investors with a dual objective – social and financial – are likely to be the initial investors in such commercial private equity funds. In the meantime the quasi-commercial funds will play a role in familiarising private investors with the microfinance business.

Seed Capital and Critical Mass

Many microfinance investment funds are too small to be sustainable on their own. Small funds require subsidies one way or another, if only by investors willing to accept a lower return due to the fund size. Setting up an investment fund requires seed capital, usually provided by the promoter of the fund. DFIs have a role to play here and some DFIs do that by facilitating the creation of new structures. Similarly, one of the aims of Gray Ghost is to provide seed capital to new funds.

A traditional stand-alone investment fund with assets below € 20 million which is not growing significantly would be terminated by many traditional investment fund promoters. Many small microfinance investment funds, however, have survived because their owners or investors were more concerned about their social impact than maximising the return on their capital. Larger investment funds can increase their financial returns while simultaneously increasing the social impact.

With a total balance sheet of € 245 million, Oikocredit clearly benefits from economies of scale. The total expense ratio (TER) is used to measure the efficiency of traditional investment funds. The TER is the sum of the annual operating expenses (the largest portion being management fees) divided by average net assets. A simple calculation of the TER of Oikocredit (by eliminating the impact of grant income which comes as a reduction of expenses in their 2004 financial statements) amounts to 2.3%, which compares favourably to smaller funds. Smaller microfinance investment funds very often have management fees of between 2% and 4%, to which further expenses such as custodian, legal and auditor expenses have to be added.

Of the 23 microfinance investment funds investing in equity in the sample described above, 19 have total assets below € 20 million while 4 have total assets greater than € 20 million. A number of funds have grown considerably over the last few months, such as the two most actively distributed commercial microfinance investment funds investing in equity: the Triodos Fair Share Fund grew by 49% in 2005 to reach € 12.2 million at the end of that year; and the responsAbility Global Microfinance Fund that grew to $43 million in just over two years from its creation in November 2003 until the end of 2005 (a 424% increase over December 2004!).

The growth of an investment fund benefits all participants. Investors benefit from a lower TER and therefore from a higher financial return. The fund manager benefits from increased revenues stemming from increased assets under management. Finally, the MFIs benefit from increased volumes of funding, potentially on better conditions.

An additional advantage for a growing investment fund is that it becomes increasingly interesting as an opportunity for commercial institutional investors. These private investors would not even engage in research on microfinance if they knew they could place only a small amount. Some pension funds, for example, will not make investments of less than € 5 million. Such investors may also refuse to invest in a small fund because it is unlikely to have sufficiently diversified sources of funding[34] (which may also be a regulatory requirement) and because redemption could cause liquidity problems and therefore a delay in receiving the proceeds. The effects of these two criteria strongly limit these investors' willingness to participate in many microfinance investment funds.

There are nevertheless a few early movers among pension funds that are attracted to commercial microfinance investment funds by their social aspect, despite the limited size of their investment. They hope to make further investments in these funds as they grow, while in the meantime becoming acquainted with microfinance.

[34] Similarly to the checks an investor would perform for an MFI.

Distribution: Shifting the Funding of Mature MFIs from DFIs to "You and Me"

Distribution is an essential condition for investment fund growth. The key to success for a traditional investment fund is its distribution, that is, its access to the final investor. Sponsors of traditional investment funds constantly examine the trade off between keeping their own smaller funds and selling comparable but larger funds managed by others. A small fund would be kept only if it has a chance to be distributed actively by other institutions. This industry is moving increasingly towards an open architecture, where promoters sell each other's funds. This benefits the largest and the most profitable funds and thus also the final investors in such funds.

A fund can be distributed actively only if it is structured appropriately for its target audience. ProCredit, for instance, is structured very differently from the responsAbility Global Microfinance Fund. ProCredit may certainly be attractive to institutional investors, which would be accepted on a negotiated or case-by-case basis. It is not structured for active distribution, nor would ProCredit want it to be at this time. responsAbility is specifically structured for private individuals and institutional investors. It was among the first funds to integrate the active distribution in its structure with external distributors organised when the fund was launched.

There are many high net worth individuals as well as less wealthy people who would be willing to allocate a part of their savings to microfinance, attracted by the social and financial returns offered. However, many do not know how to proceed. Microfinance investment funds targeting them should be created in greater numbers and distributed more actively.

Investment funds actively distributed to commercial investors, via a bank network for example, would most probably invest only a small proportion of their assets in the equity of MFIs. It is therefore unlikely that commercial investors will soon displace DFIs as investors in the capital of the more mature MFIs. The debt funding of these mature MFIs could certainly come primarily from commercial investors through commercial microfinance investment funds as these continue to grow. Minority equity stakes could also be taken by these investment funds for the diversification of their investments and to obtain greater involvement in MFIs.

Another paradox concerns the more active distribution of the more commercial microfinance investment funds. On the one hand, DFIs and NGOs regret that commercial capital is not yet ready to replace their funding of the most mature MFIs or that it arrives only in meagre amounts. On the other hand, some commercial players are willing to take a more active role in distributing commercial microfinance investment funds, but they are being told that there may be capacity problems in absorbing large inflows into MFIs. What is required is a greater number of these commercial investment funds, promoted by a greater number of fund managers, combined with an expanding distribution by commercial actors. These funds will gradually absorb a greater portion of the equity and debt financing of mature MFIs.

Conclusions

Microfinance investment funds enable different types of investors to join in a single structure in order to invest in a diversified set of MFIs. Investors can learn from each other and from the investment fund by participating in the debt or equity funding of MFIs, while committing amounts smaller than would be required if they funded MFIs directly. Microfinance investment funds can therefore be powerful tools in the continued growth of MFIs.

Quasi-commercial microfinance investment funds will probably continue to hold the bulk of the equity of MFIs that is held by investment funds. They are also most likely to continue to be ordinarily focused on equity, with debt products being provided mainly to the MFIs in which they hold equity or to those with which they want to establish long-term relationships. These funds will continue to act as true public-private partnerships which attract private capital while ensuring that the development mission of the MFIs they invest in is maintained. DFIs and other development-oriented players are likely to continue to play a very important role in steering these quasi-commercial microfinance investment funds.

Microfinance development funds will continue to attract funding from socially responsible investors who want both a social and financial return on their investment, and who are willing to allocate part of their resources to microfinance and other development activities such as Fair Trade. These funds are likely to maintain their wide diversification with most of their microfinance portfolio invested in debt instruments.

Commercial microfinance investment funds are and will continue to be the fastest growing category. As commercial actors become familiar with microfinance, more microfinance investment funds targeted to private investors will be set up. They are very likely to be distributed actively by institutions other than the promoter.

Most commercial institutional investors such as pension funds and other mutual funds will consider investing in microfinance investment funds when a proven track record is available. Institutional investors which have taken the step to invest in a microfinance investment fund are still few and far between. Although institutional investors are likely to remain hesitant to invest substantially in microfinance, they will gradually do so through structures that are built to respond to their needs and objectives. These investment structures will most probably invest predominantly or only in debt instruments of MFIs.

Private individuals of various sorts (high net worth individuals and others less wealthy) are the most promising investors in microfinance. Those attracted first will seek financial returns as well as development impact. Financial institutions should not underestimate the capacity of individual investors to make "good use" of their money. Many individuals are willing to invest a small portion of their portfolio in development-oriented projects such as microfinance, especially if they realise that the financial returns are decent.

Promoters of microfinance investment funds should target the investment portfolios of individuals. These portfolios are potentially much larger than their allocations to investments producing a clear social return but only a modest financial return. Microfinance development funds will always attract individual investors because these investors can feel good about these investments. They are likely to invest larger amounts if they can make a slightly higher return.

Will these individuals find suitable investment funds? Including those investing exclusively in debt instruments, at the time of the surveys, only five commercial microfinance investment funds attract a large number of private individuals. Three are in the Netherlands, mainly geared towards Dutch investors. The other two are in Luxembourg, targeting international investors. All five are growing rapidly. At least four other commercial microfinance investment funds have been set up since then, thereby contributing to widening the range of commercial investment vehicles in microfinance available to individual as well as institutional investors.

Commercial microfinance investment funds will almost certainly continue to be essentially debt driven with potentially a small portion of their assets in equity investments, which corresponds to the risk profile of the private investors targeted. They are likely to be an important source of debt financing in hard currencies for the most mature MFIs. This will encourage DFIs and other development oriented investors to focus on less mature MFIs and on local currency funding. As the equity portion of these funds will remain small and certainly well diversified, they are likely to co-invest in the equity of MFIs either with quasi-commercial microfinance investment funds or directly with DFIs or NGOs, without taking an active role in the governance of these MFIs.

This activity will constitute a new form of public-private partnership in the field of equity investment in MFIs, between DFIs (and potentially NGOs) on the one hand and commercial microfinance investment funds on the other. The former will provide expertise in microfinance and the checks and balances required to maintain the development mission of these MFIs. The latter will hopefully provide funding in much needed far larger amounts by giving MFIs access to the wider capital market.

Annex A

Microfinance Investment Fund Legal Name	Country of Incorporation	Legal status	Sponsor	Total Fund Assets		As of Date	Microfinance Portfolio		Fund Manager	Category of Microfinance Investment Fund	Shareholders	Financial products actually offered (in percentage of microfinance portfolio)		
				USD Million	EUR Million		USD Million	EUR Million				Equity	Loans, debt	Guaran-tees
ACCION Gateway Fund	USA	LLC	ACCION International	**6,6**	4,8	31. Dez 04	**6,6**	4,8	ACCION International	Microfinance Development Fund	ACCION International	100%	0%	0%
ACCION Investments in Microfinance (AIM)	Cayman Islands	Portfolio company	ACCION International	**12,9**	9,5	31. Dez 04	**11,7**	8,6	ACCION Investment Management Company	Quasi-commercial Microfinance Inv Fund	Social Inst. Investors and private individuals - Min. $ 250,000	100%	0%	0%
Africap	Mauritius	Private Equity Fund	Calmeadow	**13,3**	9,7	31. Dez 04	**5,1**	3,7	AfriCap MicroVentures Ltd, Dakar	Quasi-commercial Microfinance Inv Fund	Social Inst. Investors	80%	20%	0%
ALTERFIN	Belgium	Société coopérative à responsabilité limitée	NA	11,2	**8,2**	31. Dez 04	3,7	**2,7**	Alterfin	Microfinance Development Fund	Social Inst. Investors and private individuals	11%	89%	0%
Développement International Desjardins - FONIDI Fund	Canada	Limited Partnership	Développement International Desjardins	**4,2**	3,1	31. Dez 04	**0,5**	0,4	Gestion FONIDI Inc.	Microfinance Development Fund	Four wholly-owned subs of the Desjardins Group	100%	0%	0%
Développement International Desjardins - Partnership Fund	Canada	Part of Déve-loppement International Desjardins	Développement International Desjardins	**6,6**	4,8	31. Dez 04	**2,0**	1,5	Développe-ment International Desjardins	Microfinance Development Fund	NA	35%	65%	0%
Hivos-Triodos Foundation	Netherlands	Foundation	Hivos Foundation and Triodos Bank	22,6	**16,6**	31. Dez 04	20,7	**15,2**	Triodos International Fund Man-agement B.V.	Microfinance Development Fund	NA	32%	61%	8%
Impulse	Belgium	Investment Company	Incofin	12,3	**10,0**	31. Mai 05	1,2	**1,0**	Incofin	Commercial Microfinance Inv Fund	Institutional Investors	0%	100%	0%

Microfinance Investment Fund Legal Name	Country of Incorporation	Legal status	Sponsor	Total Fund Assets		As of Date	Microfinance Portfolio		Fund Manager	Category of Microfinance Investment Fund	Shareholders	Financial products actually offered (in percentage of microfinance portfolio)		
				USD Million	EUR Million		USD Million	EUR Million				Equity	Loans, debt	Guaran-tees
Incofin	Belgium	Co-operative Company	NA	5,7	**4,6**	31. Mai 05	3,2	**2,6**	Incofin	Microfinance Development Fund	Institutional In-vestors (mainly commercial) and private individuals	42%	58%	0%
Investisseur et Partenaire pour le Développement	Mauritius	Investment Company	NA	11,0	**8,5**	30. Mrz 05	2,2	**1,7**	I&P Etudes et Conseils	Quasi-commercial Microfinance Inv Fund	Mainly private individuals + 1 listed company	31%	69%	0%
Kolibri Kapital ASA	Norway	Public Limited Liability Company	Korsvei	0,4	0,4	30. Sep 04	0,4	0,3	Kolibri Kapital ASA	Microfinance Development Fund	Private individuals & Church-relatd inst. Investors	100%	0%	0%
La Fayette Participations	France	Société par actions simplifiée	Groupe Horus	0,5	**0,4**	31. Dez 04	0,5	**0,4**	Horus Development Finance	Quasi-commercial Microfinance Inv Fund	Social Inst. Investors	100%	0%	0%
MicroVest I, LP	Delaware USA	Limited Partnership	MEDA, CARE & SEED	**15,0**	11,0	31. Dez 04	**9,1**	6,7	MicroVest Capital Management LLC	Commercial Microfinance Inv Fund	Mainly private investors incl. 2 mutual funds	8%	92%	0%
Oikocredit	Netherlands	Co-operative Society	NA	332,5	**245,3**	31. Dez 04	80,8	**59,6**	Oikocredit	Microfinance Development Fund	Essentially church-related organisations incl. local parishes	14%	85%	1%
Opportunity Transformation Investments Inc. (OTI)	USA	Investment company	Opportunity International	**21,9**	16,1	31. Dez 04	**21,8**	16,0	Opportunity International	Microfinance Development Fund	Opportunity International	91%	9%	0%
ProCredit Holding AG	Germany	Bank Holding Investment Company	Initiative of IPC	**135,1**	99,0	31. Dez 04	**108,3**	79,4	ProCredit Holding AG	Quasi-commercial Microfinance Inv Fund	Social and commercial Inst. Investors	74%	26%	0%

Microfinance Investment Fund Legal Name	Country of Incorporation	Legal status	Sponsor	Total Fund Assets		As of Date	Microfinance Portfolio		Fund Manager	Category of Microfinance Investment Fund	Shareholders	Financial products actually offered (in percentage of microfinance portfolio)		
				USD Million	EUR Million		USD Million	EUR Million				Equity	Loans, debt	Guaran-tees
PROFUND	Panama	Investment Fund as an S.A.	Calmeadow	**13,4**	9,8	31. Dez 04	**13,4**	9,8	Omtrix S.A., Costa Rica	Quasi-commercial Microfinance Inv Fund	Mainly Social Institutional Investors	97%	3%	0%
responsAbility Global Microfinance Fund	Luxembourg	Fonds Commun de Placement	Crédit Suisse	**12,6**	9,8	29. Apr 05	**11,7**	9,1	Credit Suisse MF Fund Mgt Cy (responsAbility Social Inv Ser. as Advisor)	Commercial Microfinance Inv Fund	Social Inst. Investors and private individuals	11%	81%	0%
Sarona Global Investment Fund, Inc.	USA	Nonprofit Corporation	MEDA	**5,5**	4,5	30. Sep 04	**2,2**	1,7	MEDA Investments, Inc.	Microfinance Development Fund	MEDA as shareholder and inst. and private ind. as lenders	32%	68%	0%
ShoreCap International	Cayman Islands	For-profit Investment Company	Shorebank Corporation, Illinois	**28,3**	20,7	31. Dez 04	**5,5**	4,0	ShoreCap Management Ltd	Quasi-commercial Microfinance Inv Fund	Mainly Social Institutional Investors + Financial Inst.	86%	14%	0%
SIDI (Solidarité Internationale pour le Développement et l'Investissement)	France	S.A.	Comité Catholique contre la Faim et pour le Développement	7,2	**5,3**	31. Dez 04	6,4	**4,7**	SIDI	Microfinance Development Fund	Social Inst. Investors and private individuals	55%	43%	2%
Triodos Fair Share Fund	Netherlands	Mutual Fund	Triodos Bank	11,2	**8,2**	31. Dez 04	7,0	**5,1**	Triodos International Fund Man-agement B.V.	Commercial Microfinance Inv Fund	Social Inst. Investors and private individu-als in Holland	10%	90%	0%
Triodos-Doen Foundation	Netherlands	Foundation	Triodos Bank and Doen Foundation	35,1	**25,7**	31. Dez 04	30,8	**22,6**	Triodos International Fund Manage-ment B.V.	Microfinance Development Fund	Doen Foundation	31%	69%	0%
Total for existing Microfinance Investment Funds				**725,2**	**536,0**		**354,9**	**261,6**	The term Social Institutional Investors refers to Development Agencies, Private Donors and other such institutional investors					
					Of which	**Equity**	**179,0**	**131,5**						

Annex B

Microfinance Investment Fund Legal Name	Country of Incorporation	Legal status	Sponsor	Total Fund Assets		As of Date	Microfinance Portfolio		Fund Manager	Category of Microfinance Investment Fund	Shareholders	Financial products actually offered (in percentage of microfinance portfolio)		
				USD Million	EUR Million		USD Million	EUR Million				Equity	Loans, debt	Guaran-tees
Gray Ghost Microfinance Fund LLC	USA	Limited Liability Company	Robert Patillo	**50,0**	40,5	30. Mai 05	**8,5**	6,9	Gray Ghost	Commercial Microfinance Inv. Fund	Private indiv.	-	-	-
Oikocredit Nederland Fonds	Netherlands	Mutual Fund	Oikocredit	39,4	**29,1**	31. Dez 04	27,4	**20,2**	Oikocredit	Microfinance Development Fund	Retail investors in the Netherlands	2%	98%	0%
Total for existing Microfinance Investment Funds				**89,4**	**69,6**		**35,9**	**27,1**						

Annex C

Microfinance Investment Fund Legal Name	Country of Incorporation	Legal status	Sponsor	Total Fund Assets		As of Date	Microfinance Portfolio		Fund Manager	Category of Microfinance Investment Fund	Shareholders	Financial products actually offered (in percentage of microfinance portfolio)		
				USD Million	EUR Million		USD Million	EUR Million				Equity	Loans, debt	Guarantees
La Fayette Investissement (launched in August 05)	Luxembourg	Venture Capital Investment Company (SICAR)	Horus Development Finance	17,4	**14,1**				Horus Development Finance	Quasi-commercial Microfinance Inv Fund	Social Institutional Investors	-	-	-
Balkan Financial Sector Equity Fund (launched in December 05)	Netherlands	Limited Partnership	Opportunity/ Oikocredit	30,9	**25,0**				Development Finance Equity Partners	Quasi-commercial Microfinance Inv Fund	Social Institutional and Private Investors	-	-	-
MicroCred (launched in July 2005)	France	Investment Company	PlaNet Finance	38,9	**31,5**				PlaNet Finance	Quasi-commercial Microfinance Inv Fund	Social Institutional and Private Investors	-	-	-
Total for new Microfinance Investment Funds				**87,2**	**70,6**									

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