The State of Microfinance Investment

MicroRate’s 2009 Microfinance Investment Vehicle Survey

MicroRate, Inc.
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Background

- This is the fourth year (2005-2009) MicroRate has conducted the Survey to assess the growth of Microfinance Investment Vehicles (MIVs).

- The 2009 MIV Survey includes only qualified MIVs as defined by MicroRate. MicroRate identified 74 MIVs at the end of 2008 of which 68 participated for a response rate of 92%.

- Data were collected as of December 31, 2008. The exchange rates used in the Survey are based on published year-end rates.

- The 2009 MIV Survey includes additional information from previous years’ Surveys:
  - Updated MIV classifications
  - Number of investments made under each asset class and geographic region
  - Investments made in ‘Fund of Funds’
  - MIV investor profiles
MIV Survey Highlights

**Slowing Growth Rates** *(see following slide)*:
- MIV assets grew 31% during 2008, from US$3.8 billion to US$5 billion. During 2007, MIV assets grew 96%.

**Consistent Proportions of Microfinance Assets**:
- The share of microfinance assets to total fund assets remained constant during 2008 at 78%.

**Concentration**
- The top 10 MIVs account for 63% of the total microfinance assets, consistent with previous years.

**New MIVs**
- There were 8 new MIVs identified in 2008 compared with 11 in 2007.

**Average Investment Size** - *New in 2009 Survey*
- MIVs held 2,826 microfinance investments for an average investment size of US$1.4 million.
MIV Asset Growth

MIV Assets, 2005-2008

Assets in US$ millions

2005 2006 2007 2008

$1,195 $1,476 $3,849 $5,037

$705 $1,476 $3,038 $3,917

Number of Participating MIVs

2005 2006 2007 2008

41 49 67 68

MIV Asset Growth

Total MIV Assets  MIV Microfinance Assets  Number of MIVs
MIV Composition

Consistent Proportions of Microfinance Assets

- The proportion of microfinance assets to total MIV assets remained unchanged during 2008 at 78%.

MIV Microfinance Portfolio Composition

- Debt continues to make up the majority of MIVs’ microfinance portfolio at 82%. Equity represents nearly 13% of the microfinance asset portfolio and guarantees, 1%.

- Debt remained constant as a proportion of microfinance portfolio whereas equity decreased from 16% in 2007 to 13% in 2008. Guarantees continue to be insignificant and on a decline.
**MF Portfolio Composition**

**Equity:**
- Overall, MIVs’ equity grew by 22%, but microfinance equity only grew 4%.
- 2007’s top 10 MIVs (by microfinance equity assets) saw an absolute decline in equity by 33% in 2008.
- Two private equity funds were launched in 2008
  1. Blue Orchard Private Equity Fund (target size US$131 million)*
  2. Catalyst Microfinance Investors (target size US$125 million)**

**Fund of Funds:**
- This year’s Survey included additional data collection on fund of funds. Of the 12 MIVs that disclosed this information, fund of funds investments totaled US$152 million.

* http://www.blueorchard.com/
**http://www.microcapital.org/
Geographic Concentration

- Latin America and the Caribbean (LAC) and Eastern Europe and Central Asia (ECA) continue to dominate the regional distribution. Combined they make up 78% of the investments in microfinance.

- ECA is outpacing LAC in regional growth.
  - Microfinance investments in LAC grew by 52%, from US$1.21 billion to US$1.28 billion
  - Microfinance investments grew 95% in ECA, from US$1.13 billion to US$1.58 billion.
Geographic Concentration

Middle East and North Africa (MENA)
- In 2008, investment in the MENA region grew 552%, from US$8 million to US$55 million as OikoCredit and Triodos MF Funds increased investment in the region.
- Of the 10 MIVs investing in MENA, OikoCredit and Triodos MF Funds combined make up 90% of investment.

Africa

South Asia
- South Asia witnessed growth in microfinance assets of 67% from US$223 million in 2007 to US$373 million in 2008. This is on account of new and increased investments by OikoCredit, Blue Orchard group, responsAbility and Triodos MF Funds.

East Asia & the Pacific (EAP)
Geographic Concentration

- Regarding number of MIVs investing in a region, LAC led with investment from 53 MIVs, followed by ECA with investment from 43 MIVs.

- MENA has the lowest number of MIVs investing in the region with 11 MIVs.

- ECA has the largest average investment size of US$1.7 million, followed by EAP at US$1.2 million and LAC at US$1.1 million.

- South Asia and Africa have the smallest average investment sizes at US$0.8 million and US$0.7 million respectively.
Trends in MIV Size

- **Small MIVs (Less than US$50 million)**
  - Total MIV assets for small MIVs were $872 million, representing 17% of total MIV assets.

- **Medium MIVs (US$50-199 million)**
  - MIV assets for medium MIVs were $1.4 billion, representing 28% of total MIV assets.

- **Large MIVs (US$200 million or more)**
  - Total MIV assets for large MIVs were $2.8 billion, representing 55% of the MIV portfolio.
  - This segment saw the largest growth from US$1.4 billion to $2.8 billion.
Trends in MIV Size

- **Small MIVs**
  - Assets in this size grew 43% while the number of MIVs only grew 10%.
  - Largest average MIV growth at 30%

- **Medium MIVs**
  - Both assets and number of MIVs in this size decreased by 21%, suggesting that in 2008 several grew in size to become large MIVs
  - Average MIV size remained the same

- **Large MIVs**
  - Large MIVs saw the largest growth in size and number
  - Total MIV assets held by large MIVs grew 89%, from US$1.4 billion to US$2.7 billion while the number of large MIVs grew 75% from 4 to 7
  - Average MIV size grew 8%

<table>
<thead>
<tr>
<th>Size of MIVs (by Total MIV Assets)</th>
<th>Total MIV Assets (in $US millions)</th>
<th>Number of MIVs (only includes those reporting assets)</th>
<th>Average MIV Size (in US$ millions)</th>
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<tbody>
<tr>
<td></td>
<td>2007</td>
<td>2008</td>
<td>% of Change</td>
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<tr>
<td>SMALL- Less than $50 million</td>
<td>$610</td>
<td>$872</td>
<td>42.9%</td>
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<tr>
<td>MEDIUM- $50 - $199 million</td>
<td>$1,778</td>
<td>$1,412</td>
<td>-20.6%</td>
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<tr>
<td>LARGE- $200 million and over</td>
<td>$1,460</td>
<td>$2,754</td>
<td>88.6%</td>
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<td>Total</td>
<td>$3,849</td>
<td>$5,037</td>
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</table>
The top 10 MIVs account for 63% of the total microfinance assets, consistent with previous years.

The microfinance assets of the top 10 MIVs grew 33% during 2008 (2007: 91%).

SNS Institutional Microfinance I grew 121% and responsAbility Global Microfinance Fund 56% in 2008 compared to the average microfinance assets growth rate of 28%.

The top 10 included one new MIV, SNS Institutional Microfinance Fund II, which ranked 7th.
The ranks of the four leading MIV managers remained unchanged over 2006-2008.

While Blue Orchard leads (US$ 665 million of microfinance assets), Developing World markets had the largest growth rate (108%) in 2008.
MIV Peer Group Trends

- In 2009, MicroRate redefined MIV peer group classifications to reflect their legal structure. The following peer groups were analyzed:
  - Registered Investment Funds (6 MIVs)
  - Collateralized Obligations (14 MIVs)
  - Private Investment Funds (38 MIVs)
  - Not-for-Profit Investment Funds (10 MIVs)

- Private Investment Funds were the largest group in number of MIVs (56%) and total MF Assets (US$1.4 billion, 35%)
New MIVs

<table>
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<th>New MIVs</th>
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<tr>
<td>1  Blue Orchard Private Equity fund</td>
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<tr>
<td>2  Catalyst Microfinance Investors (Private equity issue)</td>
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<tr>
<td>3  Dutch Microfinance Fund</td>
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<tr>
<td>4  DWM Microfinance Fund I</td>
</tr>
<tr>
<td>5  Global Microfinance Facility (CDO)</td>
</tr>
<tr>
<td>6  Global Partnerships Microfinance Fund 2008</td>
</tr>
<tr>
<td>7  PGGM</td>
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<tr>
<td>8  SNS Institutional Microfinance Fund II</td>
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</table>

- In 2008, 8 new MIVs were identified.
- The new MIV, SNS Institutional Microfinance II, was one of the top 10 MIVs.
- Two of the 8 new MIVs were structured as private equity funds (Blue Orchard Private Equity Fund and Catalyst Microfinance Investors).
- Global Microfinance Facility did not participate in the Survey.
In 2009, MicroRate collected additional data on the investor profile of MIVs. The following investor types were defined:

- **Private Individuals** - High-net-worth, retail, etc.
- **Public Institutions** - Development Finance Institutions, IFIs or other
- **Private Institutions/Commercial Investors** - banks, pension funds, etc.
- **Fund of Funds** - Investment in other MIVs
- **Others** - NGOs, Foundations and church-affiliated Investors

52 of the 68 MIV participants provided investor profile data, representing US$3.1 billion of total MIV assets.

Private institutional investors is the top investor type at 46%, representing US$1.4 billion.

Investments by public institutions and private individuals made up to 26% and 19% of total MIV assets, respectively.
Appendix I: Definition of an MIV

MicroRate defines an MIV as an independent investment vehicle, which satisfies the following three criteria:

1. The vehicle must be an independent legal entity for raising and investing funds (i.e. independent of the MFIs being funded).
   - MFI holding companies such as ProCredit Holdings are excluded from this Survey.

2. There must be a presence of multiple private investors or the vehicle must be open to such investors.
   - MIVs which are only sponsored by development agencies or government bodies and are not set up collectively with private investors or open to them are excluded.
   - An investment vehicle supported only by donors does not qualify as a MIV.
     - Examples include Grameen Foundation, Omidyar Tufts Microfinance Fund, Deutsche Bank Start Up Fund and Deutsche Bank Microcredit Development Fund.
   - MIVs who accept both donor and investment capital, like MicroCredit Enterprises, are included.

3. The investment vehicle must focus on investing in microfinance.
Appendix II: MIV Classifications

For the 2009 MIV Survey, MicroRate simplified the classifications of MIVs, defining them by legal structure.
Appendix II: MIV Classifications cont’d

1) Registered Investment Funds- are open to retail investors and are regulated by local market authorities. They publish their net asset value on a regular basis.

2) Collateralized Obligations- offer investors two or more classes of investment (tranches), each reflecting different levels of risk and return based on the cash flows of the underlying portfolio.

3) Private Investment Funds- are open to qualified, accredited investors seeking a return. As private companies, they are typically not subject to regulation by local market authorities and are not open to retail investors.

4) Not-for-Profit Investment Funds- are non-profit organizations, including NGOs and cooperatives, that reinvest most or all returns. These private organizations are typically exempt from regulation by local market authorities.

- Per MicroRate’s MIV definition, holding companies are not considered to be MIVs and are therefore excluded from the MIV Survey.
### Appendix III: 2008 MIV List

<table>
<thead>
<tr>
<th>Access Microfinance AG</th>
<th>Dignity Fund</th>
<th>Minlam Microfinance Offshore Master Fund, LP</th>
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<tbody>
<tr>
<td>ACCION Gateway Fund LLC</td>
<td>Dual Return Fund (SICAV)</td>
<td>MLC Frontiers LLC</td>
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<tr>
<td>ACCION International Global Bridge Fund</td>
<td>Dutch Microfinance Fund</td>
<td>Oikocredit Ecumenical Development Co-operative Society U.A.</td>
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<tr>
<td>ACCION International Latin American Bridge Fund</td>
<td>European Fund for Southeast Europe</td>
<td>PGGM</td>
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<tr>
<td>ACCION Investments in Microfinance SPC</td>
<td>Global Commercial Microfinance Consortium</td>
<td>responsAbility Global Microfinance Fund</td>
</tr>
<tr>
<td>Advans SA Sicar (old name La Fayette Investissement)</td>
<td>Global Partnerships Microfinance Fund 2005</td>
<td>responsAbility SICAV (Lux) Microfinanz Fonds</td>
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<tr>
<td>Africap Microfinance Investment Company Ltd.</td>
<td>Global Partnerships Microfinance Fund 2006</td>
<td>responsAbility SICAV (Lux) Microfinance Leaders</td>
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<tr>
<td>ALTERFIN</td>
<td>Global Partnerships Microfinance Fund 2008 (MFF2008)</td>
<td>Rural Impulse Fund S.A.</td>
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<tr>
<td>Antares Equity Participation Fund</td>
<td>Gray Ghost Microfinance Fund LLC</td>
<td>Saint Honore Microfinance</td>
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<tr>
<td>ASN Novib Fund</td>
<td>Hivos Triodos Fund Foundation</td>
<td>ShoreCap International</td>
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<tr>
<td>Balkan Financial Sector Equity Fund</td>
<td>Impulse Microfinance Investment Fund NV</td>
<td>SIDI Solidarite Internationale pour de Developpment et l’Investissement</td>
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<tr>
<td>BBVA Codespa Microfinance Fund</td>
<td>Incofin CVSO</td>
<td>SNS Institutional Microfinance Fund I</td>
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<tr>
<td>Bellwether Microfinance Fund Private Limited</td>
<td>Investisseur et Partenaire pour le Developpment</td>
<td>SNS Institutional Microfinance Fund II (SIMF II)</td>
</tr>
<tr>
<td>Blue Orchard Loans for Development 2006-1</td>
<td>Kolbri Kapital ASA</td>
<td>Societe Cooperative Fonds International de Garantie (FIG)</td>
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<tr>
<td>Blue Orchard Loans for Development SA (BOLD II)</td>
<td>LocFund</td>
<td>Triodos - Doen Foundation</td>
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<tr>
<td>Blue Orchard Microfinance Securities 1</td>
<td>LokCapital</td>
<td>Triodos Fair Share Fund</td>
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<tr>
<td>Blue Orchard Private Equity Fund (BOPEF)</td>
<td>Luxmint</td>
<td>Unitus Equity Fund LP</td>
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<tr>
<td>Calvert Foundation</td>
<td>Mennonite Economic Development Associates (MEDA)</td>
<td>Working capital for Community Needs, INC</td>
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<tr>
<td>Catalyst Microfinance Investors</td>
<td>MicroAccess Trust 2007</td>
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<tr>
<td>Consorzio Etimos SC</td>
<td>MicroCredit Enterprises</td>
<td>AXA Investment Managers/ Axa World Funds - Responsible Development Bonds</td>
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<tr>
<td>CreSud SPA</td>
<td>Microfinance Loan Obligation Compartment LC</td>
<td>Aavishkaar Goodwell India Microfinance Development Company</td>
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<tr>
<td>Developing World Markets DWM Microfinance Fund</td>
<td>Microfinance Loan Obligations SA Compartment</td>
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<tr>
<td>Developing World Markets - Microfinance Securities XXEB</td>
<td>Microfinance-Invest. Nr 1-First German Fund for Microfinance</td>
<td>Global Microfinance Facility</td>
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<tr>
<td>Development International Desjardins FONIDI</td>
<td>MicroVentures</td>
<td>Latin America Challenge Investment Fund</td>
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<td>Dexia Microcredit Fund</td>
<td>Microvest I, LP</td>
<td>Solidus Investment Fund</td>
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<tr>
<td></td>
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<td><strong>Non-Participating MIVs</strong></td>
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**Note:** This list includes Access Microfinance AG, ACCION Gateway Fund LLC, and others as per the excerpt provided.
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Note: Data from previous years’ Surveys will differ from information presented here as certain MIVs have been included or removed from older Surveys’ data based on consistency with the MIV definition and new information collected. The overall impact of these updates is negligible.