
The State of Microfinance Investment

MicroRate's 2009 Microfinance Investment Vehicle Survey

MicroRate, Inc.

August 2009

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 of US\$3.8 billion to US\$5 billion. During 2007, MIV assets grew 96%.
- ❑ MIV microfinance portfolio grew 29% during 2008, from US\$3.04 billion in 2007 to US\$3.92 billion in 2008, compared to 106% growth during 2007.

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

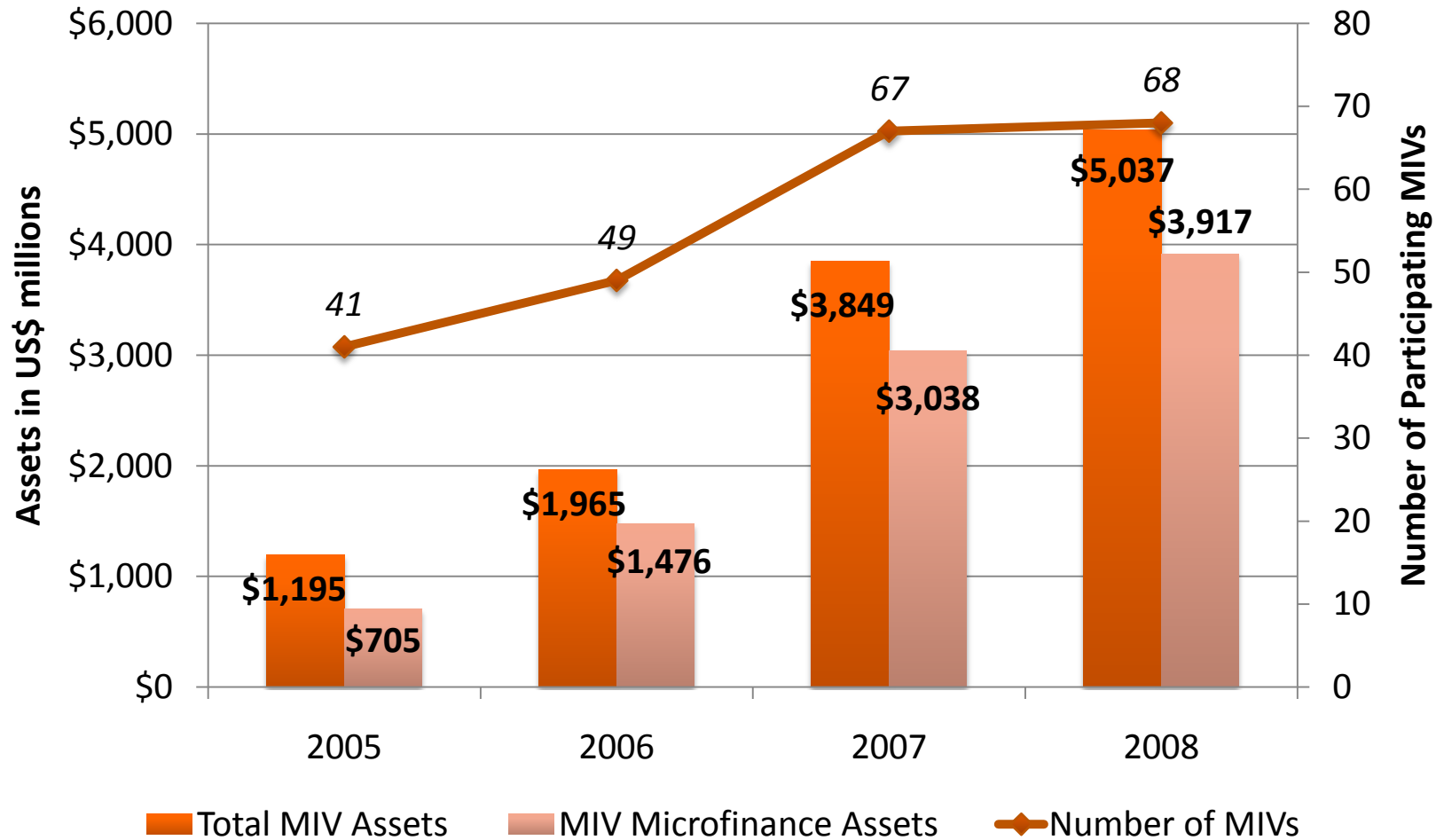
- ❑ There were 8 new MIVs identified in 2008 compared with 11 in 2007.

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



MIV Composition

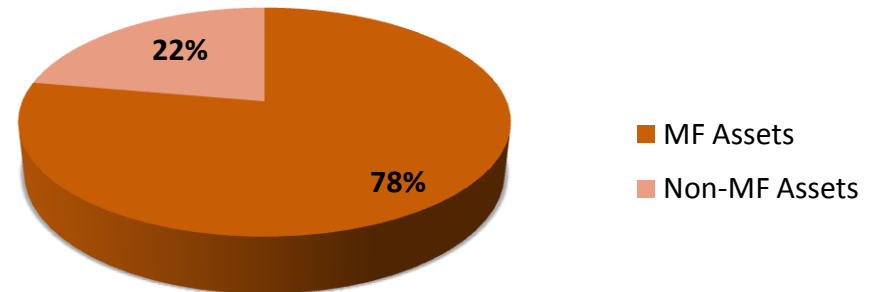
Consistent Proportions of Microfinance Assets

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

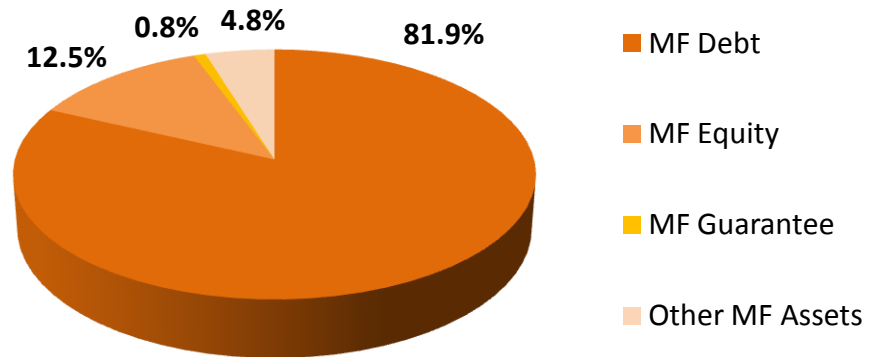
MIV Microfinance Portfolio Composition

- 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.

MIV Asset Composition



Microfinance (MF) Portfolio Composition



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.

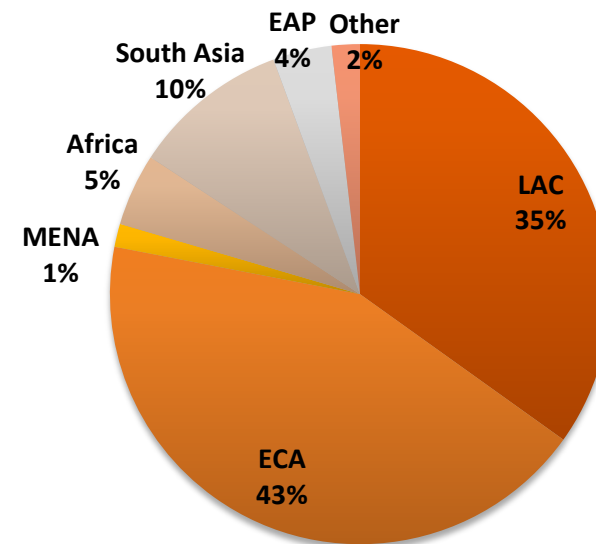
* <http://www.blueorchard.com/>

**<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.

Regional Distribution of Microfinance Assets



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

- Microfinance investment in Africa declined 11% in 2008 from US\$194 million to US\$172 million in 2008.

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.

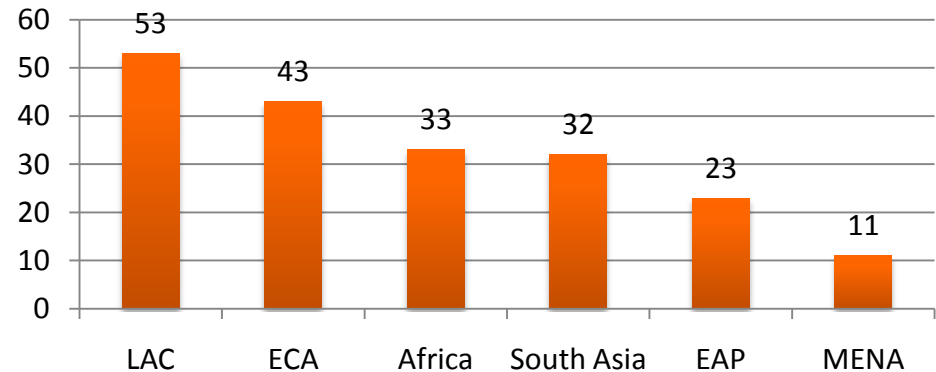
East Asia & the Pacific (EAP)

- EAP investment grew 30% from US\$107 million in 2007 to US\$139 million in 2008.

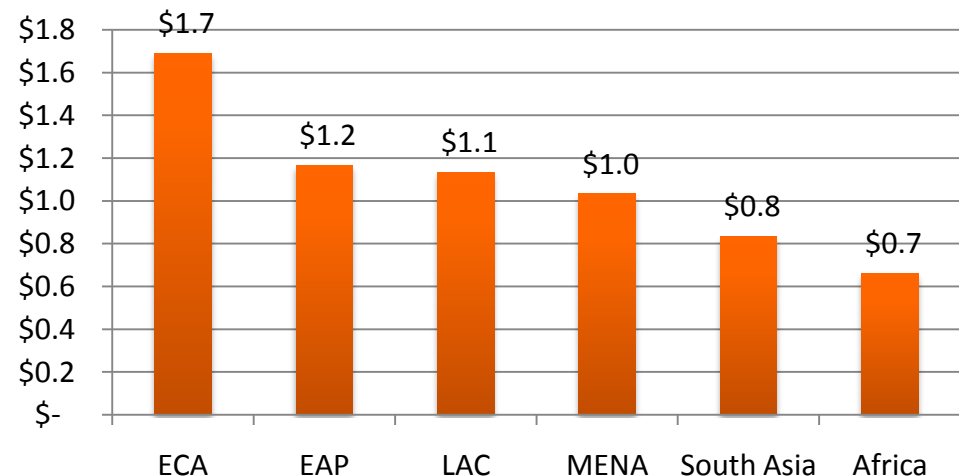
Geographic Concentration

- 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.

Number of MIVs Investing in the Region



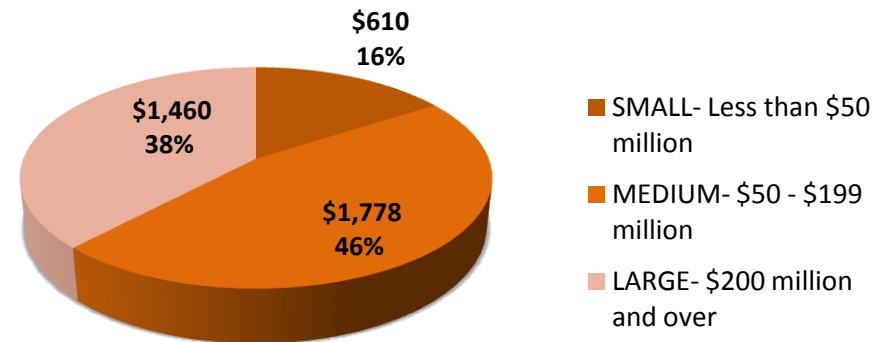
Average Investment Size by Region



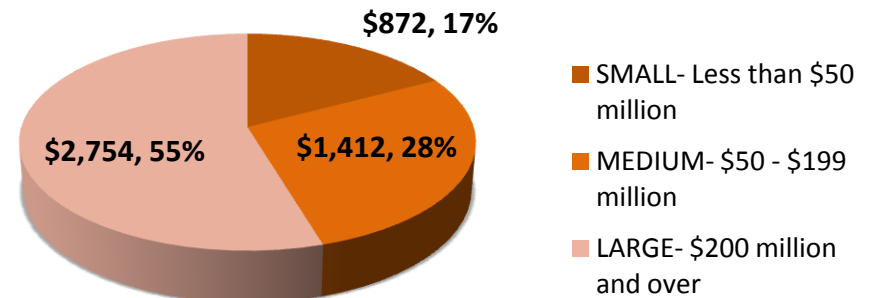
Trends in MIV Size

- **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

**Total MIV Assets by Size as of 2007
(in US\$ millions)**



**Total MIV Asset by Size as of 2008
(in US\$ millions)**

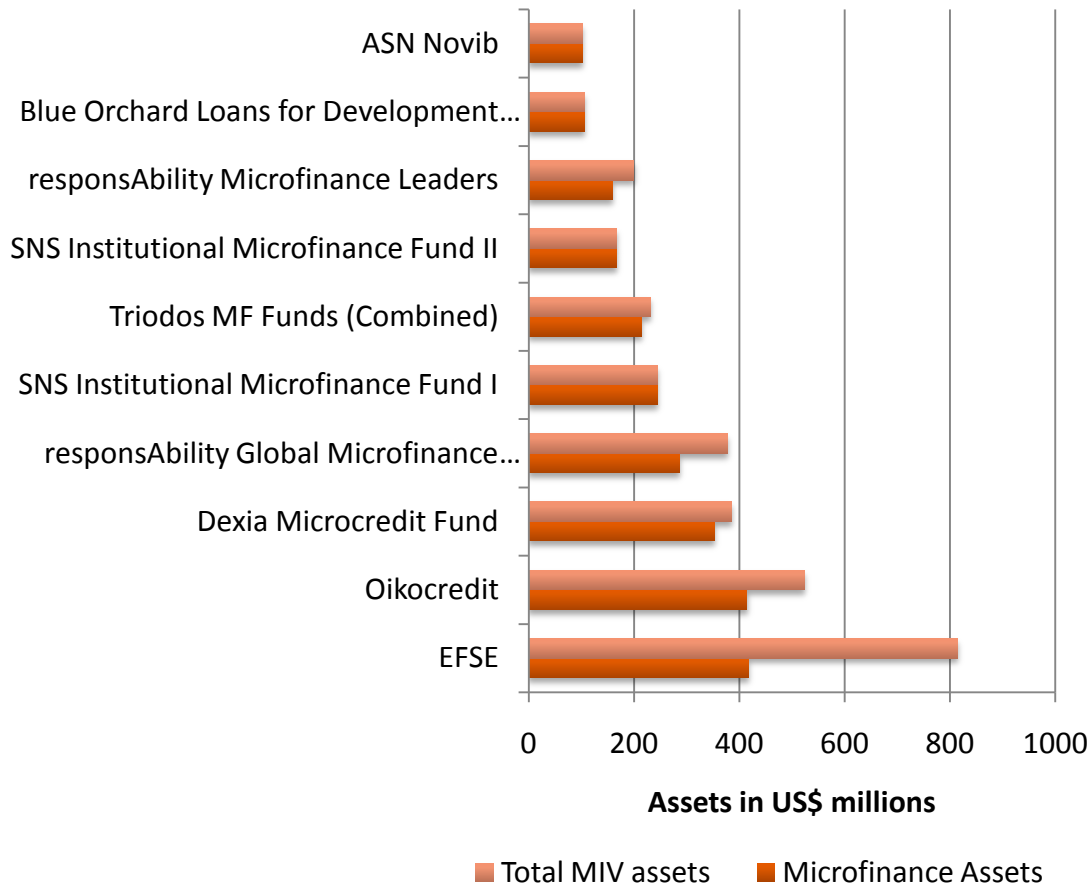


Trends in MIV Size

- **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%

Size of MIVs (by Total MIV Assets)	Total MIV Assets (in \$US millions)			Number of MIVs (only includes those reporting assets)		Average MIV Size (in US\$ millions)		% of Change
	2007	2008	% of Change	2007	2008	2007	2008	
SMALL - Less than \$50 million	\$ 610	\$ 872	42.9%	42	46	\$ 15	19	30.4%
MEDIUM - \$50 - \$199 million	\$ 1,778	\$ 1,412	-20.6%	19	15	\$ 94	94	0.6%
LARGE - \$200 million and over	\$ 1,460	\$ 2,754	88.6%	4	7	\$ 365	393	7.8%
Total	\$ 3,849	\$ 5,037		65	68	\$ 473	506	

Top 10 MIVs

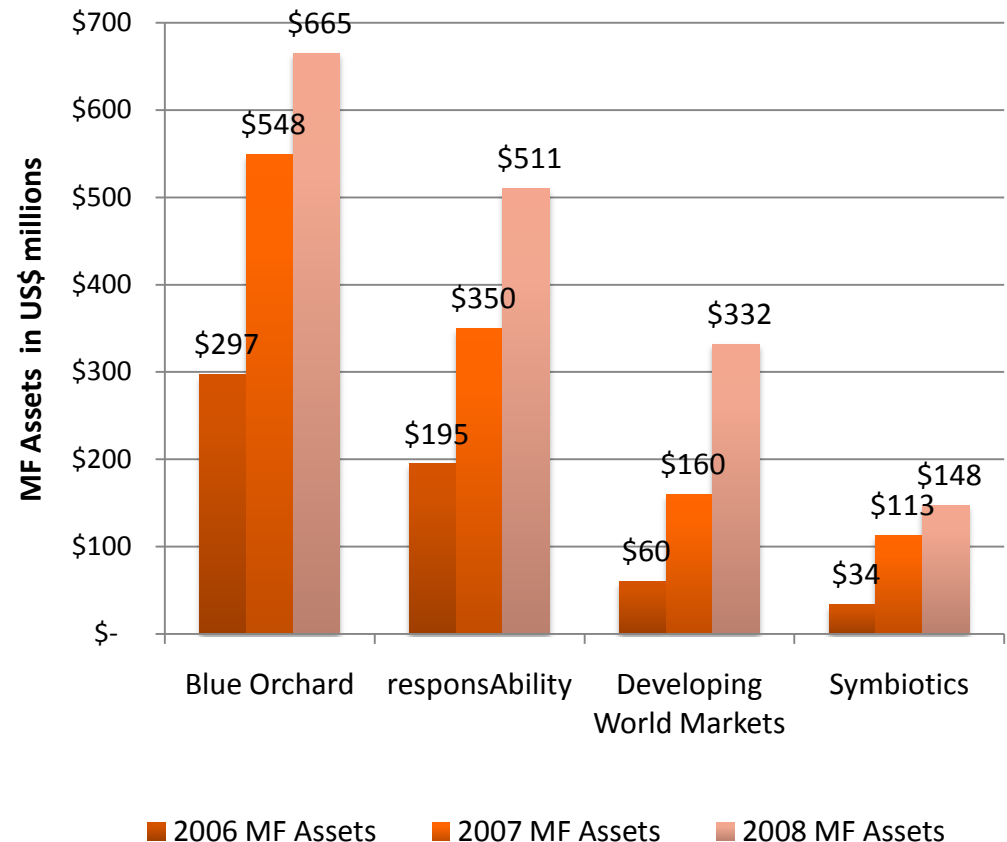


- The top 10 MIVs account for 63% of the total microfinance assets, consistent with previous years.
- The microfinance assets of the top 10 MIVs grew 33% during 2008 (2007: 91%).
- SNS Institutional Microfinance I grew 121% and responsAbility Global Microfinance Fund 56% in 2008 compared to the average microfinance assets growth rate of 28%.
- The top 10 included one new MIV, SNS Institutional Microfinance Fund II, which ranked 7th.

Top MIV Managers (2006-2008)

- 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.

Assets of Top MIV Managers

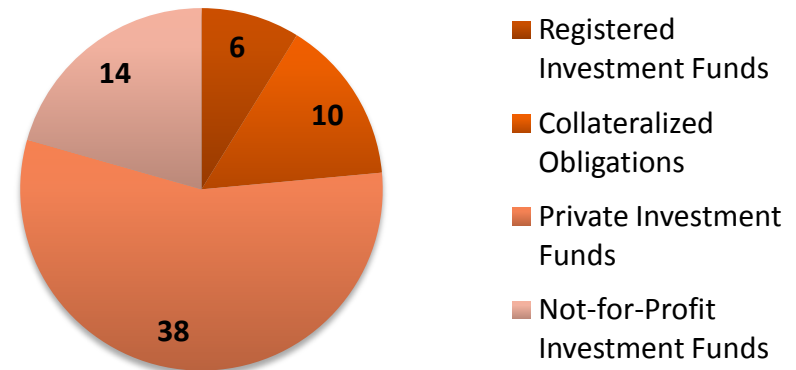


MIV Peer Group Trends

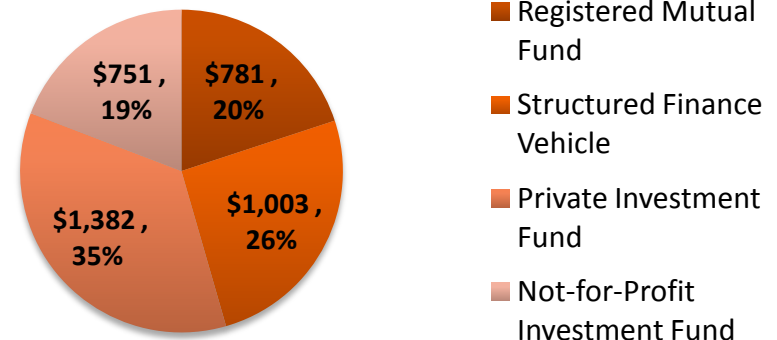
- In 2009, MicroRate redefined MIV peer group classifications to reflect their legal structure. The following peer groups were analyzed:
 - Registered Investment Funds (6 MIVs)
 - Collateralized Obligations (14 MIVs)
 - Private Investment Funds (38 MIVs)
 - Not-for-Profit Investment Funds (10 MIVs)

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

Number of MIVs by Peer Group



MIVs' MF Assets by Peer Group



New MIVs

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

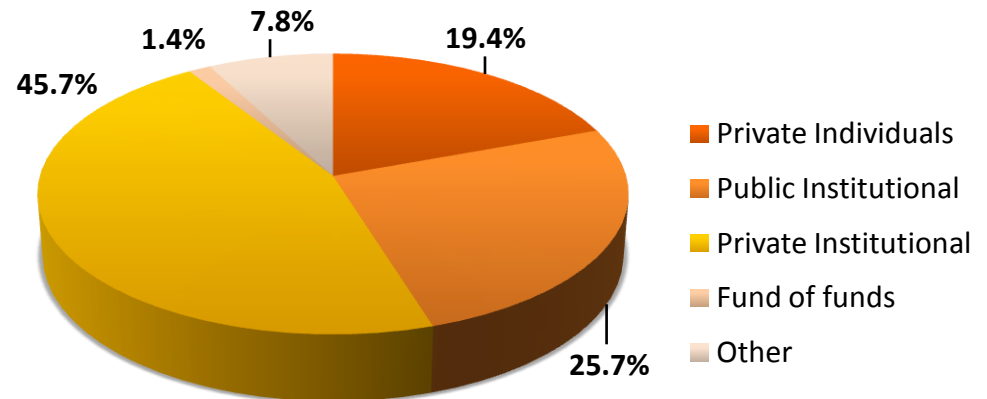
- In 2008, 8 new MIVs were identified.
- The new MIV, SNS Institutional Microfinance II, was one of the top 10 MIVs.
- Two of the 8 new MIVs were structured as private equity funds (Blue Orchard Private Equity Fund and Catalyst Microfinance Investors).
- Global Microfinance Facility did not participate in the Survey.

MIV Investor Profile

- 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

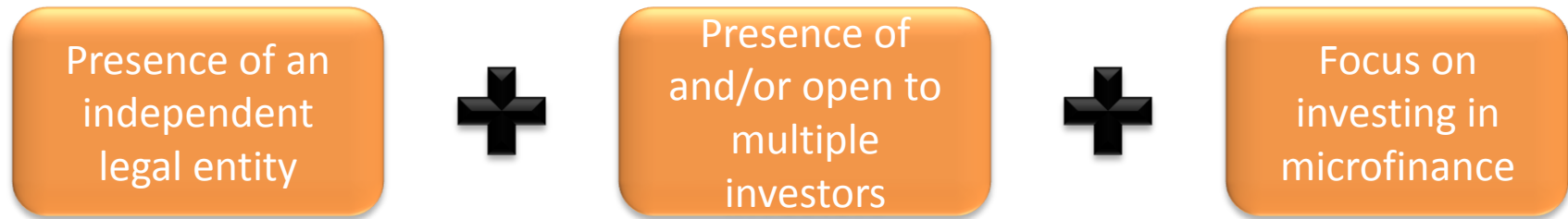
- 52 of the 68 MIV participants provided investor profile data, representing US\$3.1 billion of total MIV assets.
- Private institutional investors is the top investor type at 46%, representing US\$1.4 billion.
- Investments by public institutions and private individuals made up to 26% and 19% of total MIV assets, respectively.

Investor Profile



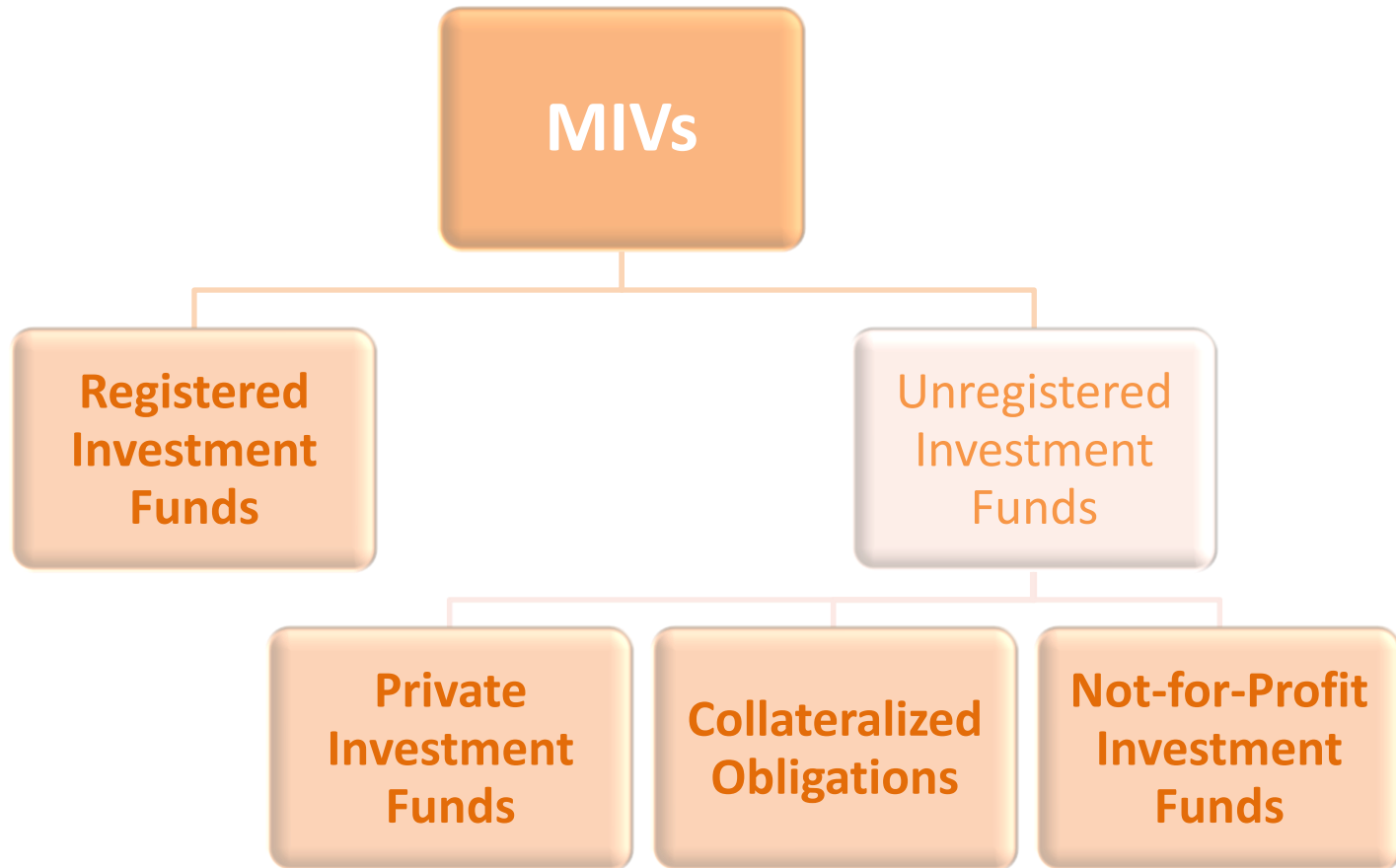
Appendix I: Definition of an MIV

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

Access Microfinance AG	Dignity Fund	Minlam Microfinance Offshore Master Fund, LP
ACCION Gateway Fund LLC	Dual Return Fund (SICAV)	MLC Frontiers LLC
ACCION International Global Bridge Fund	Dutch Microfinance Fund	Oikocredit Ecumenical Development Co-operative Society U.A.
ACCION International Latin American Bridge Fund	European Fund for Southeast Europe	PGGM
ACCION Investments in Microfinance SPC	Global Commercial Microfinance Consortium	responsAbility Global Microfinance Fund
Advans SA Sicar (old name La Fayette Investissement)	Global Partnerships Microfinance Fund 2005	responsAbility SICAV (Lux) Microfinanz Fonds
Africap Microfinance Investment Company Ltd.	Global Partnerships Microfinance Fund 2006	responsibility SICAV (Lux) Microfinance Leaders
ALTERFIN	Global Partnerships Microfinance Fund 2008 (MFF2008)	Rural Impulse Fund S.A.
Antares Equity Participation Fund	Gray Ghost Microfinance Fund LLC	Saint Honore Microfinance
ASN Novib Fund	Hivos Triodos Fund Foundation	ShoreCap International
Balkan Financial Sector Equity Fund	Impulse Microfinance Investment Fund NV	SIDI Solidarite Internationale pour de Developpment et l'Investissement
BBVA Codespa Microfinance Fund	Incofin CVSO	SNS Institutional Microfinance Fund I
Bellwether Microfinance Fund Private Limited	Investiisseur et Partenaire pour le Developpment	SNS Institutional Microfinance Fund II (SIMF II)
Blue Orchard Loans for Development 2006-1	Kolbri Kapital ASA	Societe Cooperative Fonds International de Garantie (FIG)
Blue Orchard Loans for Development SA (BOLD II)	LocFund	Triodos -Doen Foundation
Blue Orchard Microfinance Securities 1	LokCapital	Triodos Fair Share Fund
Blue Orchard Private Equity Fund (BOPEF)	Luxmint	Unitus Equity Fund LP
Calvert Foundation	Mennonite Economic Development Associates (MEDA)	Working capital for Community Needs, INC
Catalyst Microfinance Investors	MicroAccess Trust 2007	Non-Participating MIVs
Conorzio Etimos SC	MicroCredit Enterprises	AXA Investment Managers/ Axa World Funds - Responsible Development Bonds
CreSud SPA	Microfinance Loan Obligation Compartment LC	Aavishkaar Goodwell India Microfinance Development Company
Developing World Markets DWM Microfinance Fund I	Microfinance Loan Obligations SA Compartment	
Developing World Markets - Microfinance Securities XXEB	Opportunity Eastern Europe 2005-1	Global Microfinance Facility
Development International Desjardins FONIDI	Microfinance-Invest. Nr 1-First German Fund for Microfinance	Global Microfinance Facility (CDO)
Dexia Microcredit Fund	MicroVentures	Latin America Challenge Investment Fund
	Microvest I, LP	Solidus Investment fund

Disclosures

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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.