



Promoting Microfinance as an Asset Class

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1

IFC in Brief

- In FY07, IFC committed US\$8.2 billion and mobilized an additional US\$3.9 billion through loan participations and structured finance for 229 investments in 69 developing countries
- IFC will typically contribute 5%-20% in equity investments and maintain the investment for 8 to 15 years.
- IFC is profit oriented, charging market rates for its products and services.
- IFC's bonds are in strong demand all over the world and are assigned the highest rating (AAA/Aaa) by Moody's, S&P and Fitch.

Overview of IFC's History & Strategy in Microfinance

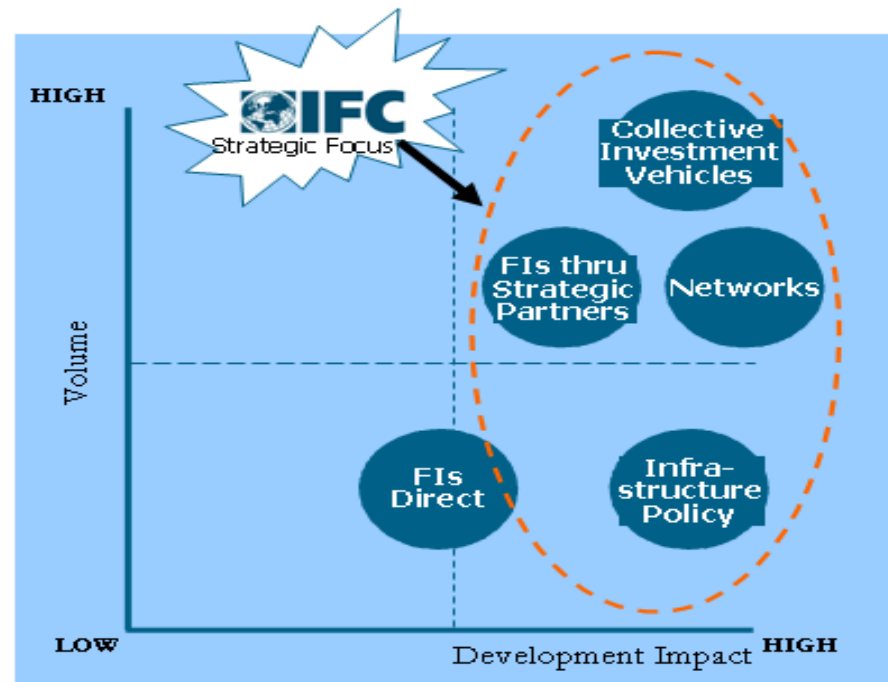
IFC at the forefront of the industry's development through advancing:

- Transformations
- Specialized MF banks and networks
- Collective investment vehicles
- Mobilize local and international financial resources
- Build capacity of FIs to serve bottom of the pyramid
- Selectively address binding constraints at financial infrastructure and policy levels

Milestones:

- Mid 1990s: Creation of the MF Bank of BiH
- 2000-2002: Roll-out of Pro Credit model/transformation of Aceda and Compartamos
- 2003-2007: Diversification into debt & equity funds, (AIM, Shorecap, GMF, EFSE), credit enhancement for bonds/syndications for individual MFIs (Compartamos, Edyficar, MiBanco)
- 2008+: New strategy to anticipate market trends

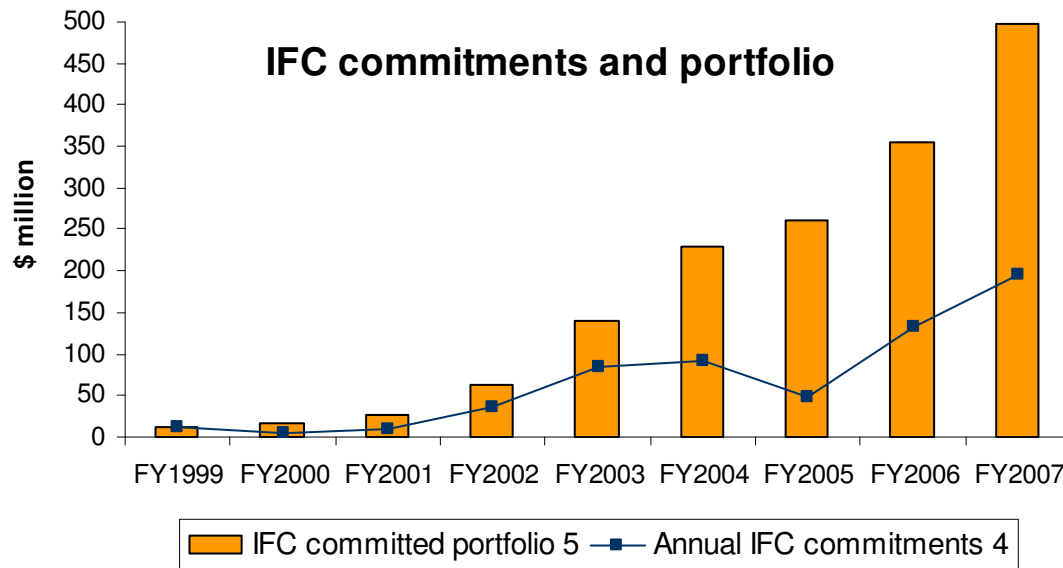
Strategic Objectives:



IFC's Role and Leadership in Microfinance

- **Record of US\$196m committed portfolio in FY07.** IFC projects to commit US\$300 million in FY08, leading to a committed portfolio of US\$1.2 billion by the end of 2010.
- Committed portfolio in over 80 leading MFIs.
- **Forefront in innovation** for developing Microfinance Investment Vehicles (MIVs) through structured finance.
- **Leader in “crowding in”** the private sector through risk sharing and market placement transactions.
- Strategic partnerships with leading global networks and banks.

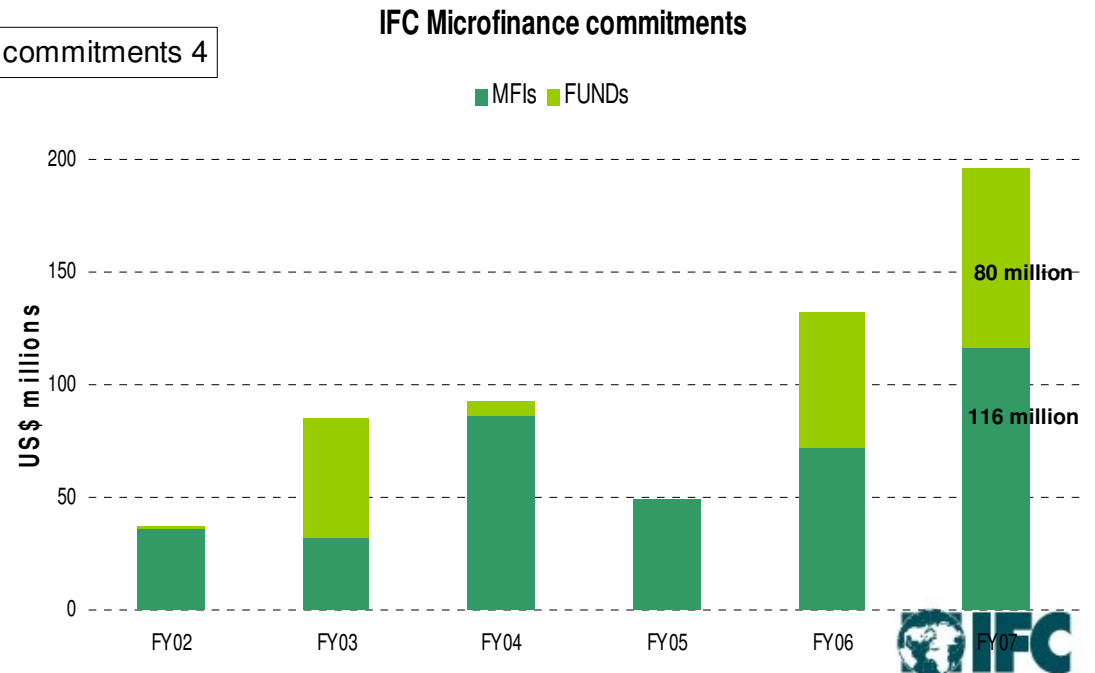
IFC Commitments in Microfinance



Record of US\$196 million committed in FY07 reaching over US\$600 million

45% of our MFI investee clients receive IFC advisory support

5



IFC's MIVs, Equity Funds & Holding Companies

- IFC's Investments in MIVs and Equity Funds
 - Global Microfinance Facility (GMF)
 - European Fund for Southeast Europe (EFSE)
 - Solidus
 - Coopest
 - ShoreCap
 - Africap
 - Latin American Challenge Investment Fund II (LACIF II)
 - Al Jaida
- IFC's investments in Holding Companies
 - ProCredit
 - MicroCred
 - Access – LFS
 - Advance – Horus
 - Accion – AIM
 - Opportunity
- 6 Others and many many more to come!!!!

IFC Project Snapshot: Global Microfinance Facility (GMF)

Background & Track Record

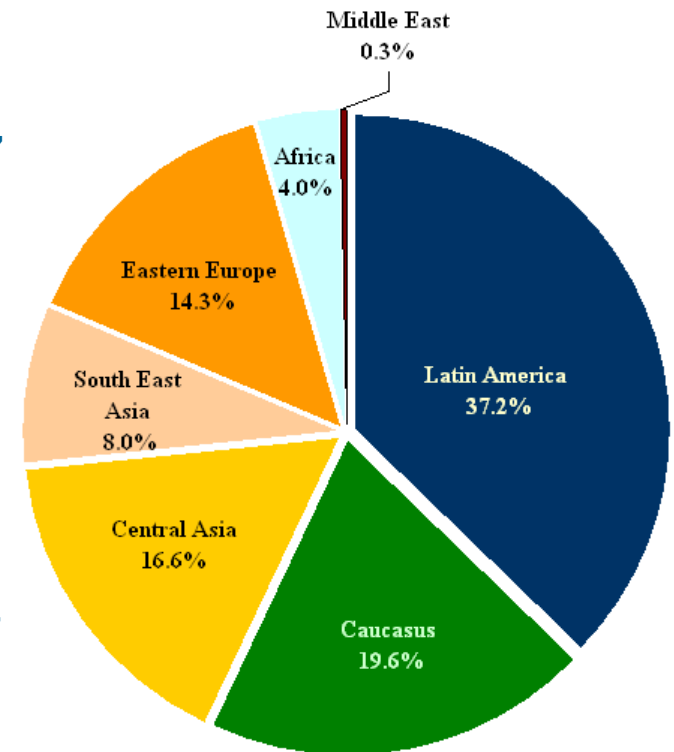


- **Cyrano Fund Management**
 - Set-up in 2000, as a specialized Fund Manager in microfinance
 - AuM: 3 specialized microfinance vehicles of impeccable record (LA-CIF, Solidus, GMF)
- **GMF (3yr track record)**
 - 2004: Creation of GMF at US\$30M w/other investors (KfW, Credit Cooperatif, Calvert, Belgian Investment Company, others)
 - IFC sole equity investor
 - IFC & KfW (both AAA) investors in Mezzanine US\$ 8m
 - IFC & KfW leveraged US\$ 20m in senior A Notes from SRIs
 - 2007: 17 MFIs in 10 countries - 20% in local currency (average loan size of US\$1.8M) up to US\$5M; Generates one of the highest returns in microfinance
- **GMF objective:** Grow to US\$165m through 2nd tranche with new sophisticated institutional investors

IFC's Global Microfinance Facility (GMF) Overview: 2008 Private Placement @ US\$165 million



Overview of GMF Today:

- **Portfolio of 30 + Microfinance Institutions (MFIs)** for a total facility of \$165 million.
- Pipeline includes industry leading **MFIs in over 17 countries** who generate the highest returns in the industry.
- **Additional IFC investment** of US\$2M in equity, US\$16 million and swap provider
- **Citigroup** as partner shareholder and arranger for private placement in US market
- US\$70 million in Senior Notes rated **AA by Fitch**



IFC's Global Microfinance Facility (GMF) Structure: 2008 Private Placement @ US\$165 million

FitchRatings
KNOW YOUR RISK
AA Rating for Placement →

Class of Note / Interest Rate	Amount (in US\$)	Placed (US\$)	To Be Placed (US\$)
A Notes A1 = 11m A2 = 69 m	80m	11m	69.0 m Private Placement Citi
B Loans	31m	31m	--
B2 Notes	35m	30m	5m
 B1 Loans	8m	8m	--
 C	11m	11m	--
Total	165m		74m

International
Finance Corporation
World Bank Group
IFC

Microfinance as an Asset Class

- **Asset class - For inclusion in an investment portfolio, it must be:**
 - Recognizable as a distinct kind of asset
 - Analytically clustered
 - Relied upon to perform consistently in similar circumstances
 - Liquid: so managers can trade, portfolios need volume, ratings, listings and research
 - Establish track record
- **Microfinance as an Asset Class:** Homogeneity brings it close to the definition, however it remains illiquid. Further milestones: a critical mass of exposure, larger number of investors so that willing buyers can be matched with willing sellers.
- **Unique Selling Points (USPs):**
 - Microfinance remains uncorrelated to other emerging market assets - reducing volatility
 - Further rating agency involvement in rating MFIs and CDOs
 - Further bank involvement in the asset class
 - DFIs involvement through credit enhancement and ability to invest in market downturns

Microfinance as an Asset Class - continued

■ Challenges

- **Less universally accepted data** (average 2-3 three years track record)
- **Less diversified** than standard CDOs for MIVs (i.e., 20 MFIs in 9 countries)
- **CDO Portfolios have shorter maturities (5-7 years)**
- **Perception of risk**
- **Current market conditions**

■ New Opportunities

- **Financial Institutions involvement in CDO placements** (Mainstream investment houses) and **investing in equity/first loss** tranches along side DFIs (Citi and IFC in GMF)
- **Rating agencies analysis** of: underlying portfolio of MFIs (track record in rating individual MFIs, i.e., Fitch)
- **Establishing a track record:** MFIs completing successful bond offerings and securitizations (ProCredit, BRAC, Compartamos, Edyficar, MiBanco)
- **DFIs working together** in First Loss/Mezzanine Tranches (IFC and KfW)

Rating CDOs in Microfinance

- **Rating Microfinance CDOs**
 - Rating Agencies beginning to understand the underlying portfolio of Microfinance CDOs through experience rating individual MFIs (Fitch, S&P)
 - Rating Agencies analyzing fund manager track record and performance
- **Importance of Mainstream Ratings for Private Placement**
 - Institutional « Mainstream » Investors
 - Diversified source of funding
 - Key ingredient for “**Asset Class**”
- **Role of DFIs in Rating:**
 - Credit Enhancement Products (IFC in GMF and LA-CIF II)
 - Mezzanine Finance, protections and waterfall payments
 - AAA Status (enhancement), global Industry knowledge and expertise
 - Large network and ability to “step-in” to support individual MFIs at the policy level or through advisory support

Sub-prime Crisis: Microfinance Flight to Equality?

- **Market standstill impacts margins and threaten economics**
- **Even SRIs are in a wait and see mode**
- **The case for rebranding needs to be vigorous**
 - Decoupling of Emerging Markets
 - De-correlation to FI turmoil
- **Asset class promotion should continue: ratings a must**
 - Big Three Rating – Thoroughness & Neutrality
 - Discipline
 - Transparency
 - Benchmarking
 - Broader data availability
- **DFI role and experience in MF: substantial rating impact, but more is needed**
 - **Advocacy and placement support!!!!!!!!!!**



Annex: GMF Fund Manager

 **Cyrano**_{fm}

Fund Family

