

The Global Microfinance Investment Congress

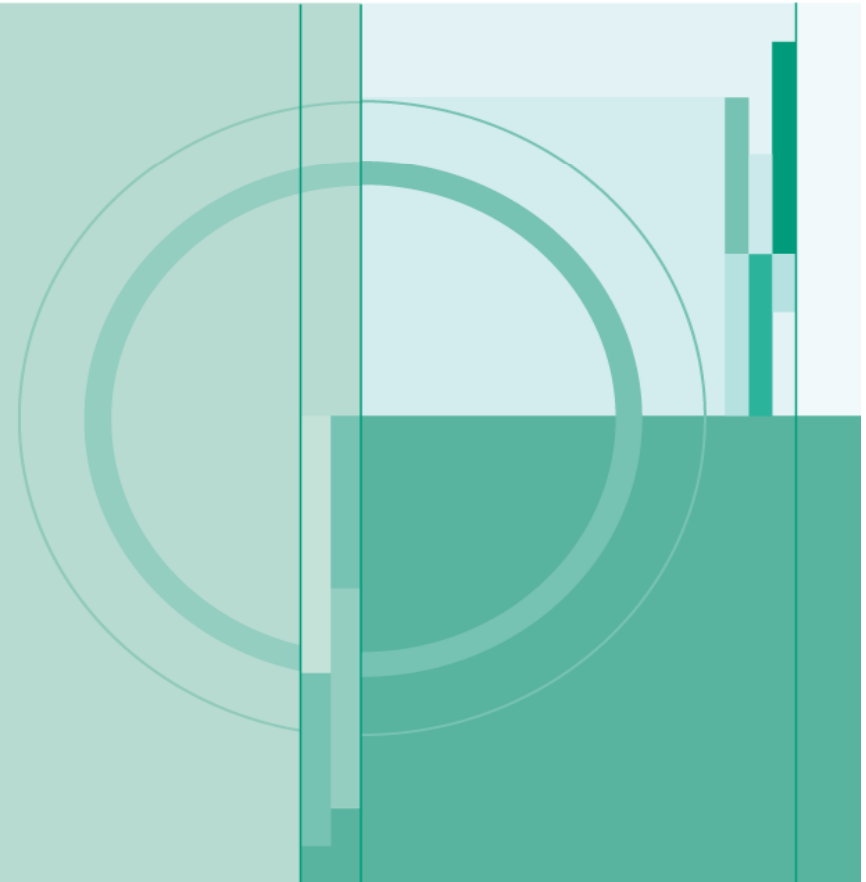
Presented by PlaNet Finance



Workshop 3: Investment Fund
Strategies in Competitive Markets

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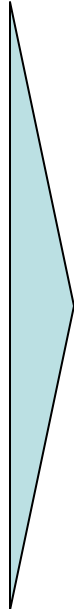
Agenda

- Taking stock of where we are: proliferation of MIVs and global financial market woes
- This creates opportunities and challenges, legal and otherwise. “Winners” will be those who understand the legal issues and are able to navigate them effectively.
- Global regulatory and legal matters to consider
 - MIV product lines: regulation and quality
 - Legal compliance: making diligence more streamlined and effective
 - Standardization of documentation
 - Default readiness
 - Taking MFIs to the next level of sophistication
- Legal perspective on what MIVs should be doing to build on accomplishments and make investing more efficient

Proliferation of Microfinance Investment Vehicles (“MIVs”)

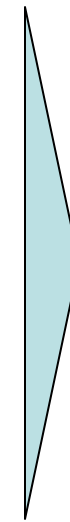
- Signal that there is a growing wave of players with social motivations and a desire to contribute to poverty reduction.
- Some MIVs may be better prepared for the task than others – what will differentiate winners from losers?
- As more MIVs with profit motives enter the markets, what will the impact be?
- Is there a risk that the market is oversaturated or too risk adverse?
- Is this asset class an anomaly or should MIVs be ready for defaults and/or increased scrutiny?

Types of MIVs

- Mission-Based
 - Not-for-Profit/NGO
 - “For-Profit”, socially motivated
 - “For-Profit”, “pure”
 - Networks
 - Commercial Banks, Investment Banks and Financial Institutions
 - Private Equity and Hedge Funds
 - Pension Funds
 - IFIs/Development Banks
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- Each has unique legal needs and challenges
 - To achieve maximum performance, MIVs need to understand and navigate the legal issues

Products offered by MIVs

- Financing
- Technical assistance
- Servicing
- Structuring and other similar advice
- Education
- Securities placement



- Sufficient infrastructure for diligence and other responsibilities?
- Sufficient training and regulatory approvals?
- Access to adequate knowledge and advice regarding legal compliance?

Consolidation of MIVs?

- The more the merrier in terms of MIVs?
 - More sources of capital
 - Different goals; global or regional; grants or debt versus equity
 - More competition and thus perhaps better terms and rates
 - Confusing to MFIs?
 - Confusing to investors?
 - Is fragmentation of capital raising methods efficient?

Legal issues: some effects of the increasing number of MIVs

- Do MFIs spend too much time fulfilling diligence and reporting requirements as opposed to focusing on their core missions?
- Can diligence be made more standard and efficient and less burdensome for MIVs and MFIs?
- Do all MIVs do adequate diligence and require adequate reporting and other covenants? If not, could faulty underwriting by some affect the perception of the microfinance sector as a whole?
- Do all MFIs fully understand what financing methods they are using or considering?
- Do MFIs fully understand what they have agreed to?
- Are there practical ways to combat lack of transparency and low liquidity and enhance competitiveness?

Are there ways to make the market smoother?

- Global information sharing "treaties"?
 - Competitive pressures, even in the world of social responsibility
 - Confidentiality expectation and requirements
 - Conflicts for MIVs offering multiple services to MFIs and other MIVs
- Standardized forms?
- Role of rating agencies and information clearinghouses like MIX

Are there ways to make the market smoother? (cont'd)

- Standardization of diligence and loan documentation, including reporting requirements and other parameters?
 - Respect for different legal regimes
 - Inherent hands-on nature required by the underlying asset class
 - Governing law, disputes and other key legal issues
 - Format/complexity/length of documents
 - Future flexibility for MFIs and MIVs
 - Secured versus unsecured

Are there ways to make the market smoother? (cont'd)

- Restructurings, workouts and defaults: is everyone ready to demonstrate the necessary skills and experience?
- Have MIVs protected themselves adequately? Can, will or should they take hard decisions?
- Low default rates: how much hidden “flexibility” (i.e. “defaults” are “fixed” without registering them) has there really been and should there be?
- Preserving rights versus relationships in stressful times

What are the next products?

- “Medio” financing
- Infrastructure: clean water, irrigation, power, transport
- Trade and export financing
- Health
- Education
- Housing
- Insurance
- Microplace platform



- Transactions more complex (legally and otherwise)?
- Entrance into new, often regulated areas?
- Dilution of mission, particularly for not-for-profits?

As the next wave of financings begins, what are the challenges?

- Whether or not defaults increase, increased scrutiny by investors and regulators
- History suggests that timely self-regulation in markets is wise: role of industry organizations or coalitions
- Pressure on rating agencies in terms of issuing ratings and making MF ratings business profitable
- Continuing to refine and adapt structures
- Diligence and disclosure
- Solving FX issues

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