

The “Social Finance” Investor’s Perspective

**GMIC
21st January 2008**

A natural proximity with Microfinance



- ✓ **Microfinance in developing countries: a “renewal” of cooperative banking established in the XIXth century in Europe**
 - Providing better access to credit to underserved segments of working population
 - Deeply rooted in the local environment
 - ➔ Most MFIs have been created as cooperatives or associations

- ✓ **Initially, simultaneous development of credits and savings ➔ stability of the liabilities, robustness in crisis situations.**

- ✓ **Financial institutions with a social mission, dedicated to their member-clients, based on strong cooperative values: statutory reserves, “one man one vote”, cooperative rebate (e.g. lower interest rate).**

Not only social – Not just for profit



- ✓ **Credit Coopératif: a proficient and profitable bank, and itself a banking cooperative of cooperatives.**
 - ❑ Strongly attached to cooperative values : support of Kafo Jiginew
 - ❑ Constant financial innovation to serve its member-clients : pioneer and leader in the Solidarity saving and investment funds in France (Loi Fabius)

- ✓ **Action philosophy: supporting the “moral promoters” of the MFI (e.g. NGO, local communities, etc.) in order not to compromise the initial social mission**

- ✓ **“Second tier”, middle-sized, peri-urban and rural MFIs targeted**

- ✓ **What do we observe?**

Concerns about microfinance regulations



- ✓ In many countries, microfinance regulations prevent MFIs from collecting savings and support or impose the joint-stock legal form (e.g. Romania, Bulgaria, Central Asia, ...)
- ✓ while cooperative status is very rarely regulated and/or supervised by National Financial Authorities (some notable exceptions in Latin America, Albania, Lithuania, ...)
- ✓ **Attracts external investors, but also**
 - threatens the social mission of MFIs because of high expected ROA/ROE
 - weakens small and medium MFIs lacking access to affordable capital markets and debt funds

Noticeable limits of fixed income investments



- ✓ **Still a quite high spread between the Interest rate paid to the investors and the Interest rate offered to the MFI investees**
 - ❑ Management fee: burdens efficient management of the funds with heavy due diligence, and costly remote monitoring/reporting.
 - ❑ Tax issues: withholding taxes on paid interests

- ✓ **The financial place of Paris could and should play a leading part and actively lobby to find solutions.**

→ How to avoid the risk of compromising the social mission of these MFIs, while supporting their economic development and sustainability in the transformation process?

The partnership approach : from debt to equity



- ✓ MFIs in transformation process: how to allocate the accumulated profit while preserving social goals?
- ✓ Need of long term liquidities
 - ❑ but standard debt products are not enough → the “quasi-equity gap”
 - ❑ CoopEst is dedicated to supply this missing financial cog with high leverage effect
- ✓ Besides, the MFIs often express the need to find strategic long term investing partners, they can trust will preserve their character
- ✓ Valuation of the investment in the long term: today’s MFIs are tomorrow’s middle-size local banks: added value embedded in the potential future conversion rather than in the interest rate.

Crédit Coopératif microfinance involvement



- ✓ 1983: creation of 1st solidarity sharing investment fund Faim et Développement to support the SIDI, the French Apex of CCFD
- ✓ 1987: creation of Kafo Jiginew in Mali, 800 k EUR disbursed
- ✓ 1991: creation of BISE Bank in Poland for SMEs and local financing
- ✓ 2002: creation of Choix Solidaire, investing part of the asset in French « Entreprises Solidaires » SMEs
- ✓ 2004 - 2006: investment in GMF (3 M USD) and EFSE (2 M EUR)
- ✓ 2005 :creation of CoopEst (3,1 M EUR)
- ✓ 2007: equity and quasi equity in MFIs