



Women Advancing Microfinance - Atlanta

Investing in Microfinance

Joan Trant
IAMFI
May 22, 2008

Discussion Points

- Microfinance Funding: Demand and Supply
- Microfinance Investment Landscape
- Balancing Financial and Social Returns
- The International Association of Microfinance Investors

Microfinance Funding Demands

- Total population living under \$2/day: 2.7 billion
- Total current microfinance customers: 100 million
- Total estimated potential customers: 1.5 billion
- Total estimated microfinance loans outstanding: \$30 billion
- Estimated funding gap: \$270 billion

Microfinance Funding Options

Philanthropy

- Total U.S. giving (2006): \$12.7 billion, *but*
- Total overseas contributions (2006): \$2.3 billion

Source: Conference Board

Retail Investment

- U.S. Socially Responsible Investment (2007): \$2.7 trillion in U.S. and over EUR 1 trillion in Europe
- Estimated U.S. SRI in microfinance: fractional - but has great potential

Source: Wall Street Journal, April 21, 2008

Microfinance Funding Options, *cont.*

Retail Investment

- Retail investor has \$1,000 to donate annually, but \$100,000 to invest
- 97.6% of U.S. population are retail investors (income < \$200K per year)
- Retail households have \$5 of purchasing power for every \$1 of high net worth households, total \$22 billion

Source: MicroPlace

Microfinance Funding Options, *cont.*

Retail Investment

- 300,000 retail investors have invested \$30 million through Kiva over past 2.5 years
- MicroPlace has placed 20,000 loans since October 2007
- Calvert has \$50 million invested in 60 countries

Microfinance Funding Options, *cont.*

Institutional Investment

Institutional investors include:

- Government-owned international financial institutions (IFIs)
- Corporations
- Pension funds
- Endowments
- Private equity and hedge funds
- Foundations
- Family Offices

Microfinance Funding Options, *cont.*

Institutional Investment

Government-owned international financial institutions (IFIs)
invested \$3.0 billion in 2007 (40% CAGR 2004-07)

- Microfinance Investment Vehicles (MIVs) invested \$3.7 billion in 2007 (80% CAGR 2004-07)

Source: CGAP; some double-counting of IFI investments in MIVs

Microfinance Investment Summary

- Rapid growth in capital flows to microfinance – although much more needed
- Shift in funding from philanthropy and public sources to private and commercially driven sources
- Use by investors of investment vehicles (now numbering 95) to channel funding to microfinance institutions (MFIs)

The Business Case for Microfinance Investment

- High growth sector with huge market demand –MF penetration in 8 largest countries is only 4.4%
- MFIs exhibit attractive business attributes
 - Loyal client base means lower acquisition and operation costs
 - Interest rates are high to cover hefty operational expenses
 - Loan repayment rates are 95-98%
 - Short-term loans contribute to high solvency and liquidity

The Business Case for Microfinance Investment, *cont.*

- Microfinance offers emerging market diversification and low correlation – good for reducing investment volatility
- Microfinance helps investors align their investments with their values in an active way, not just through passive screening

The Business Case for MFIs to Formalize

- Expand outreach to more unbanked borrowers
- Respond to shrinking donor contributions
- Create more stable capital structure
- Increase range of products for clients: savings, insurance, remittances, specialized loans for education and housing
- With founding nonprofit lending institution as majority shareholder, use profits to fund services for the most vulnerable

The Business *and* Social Case for Microfinance Investment

- Donor funding is never sufficient to meet human development needs
- MFI transformation and commercialization facilitate client savings
- Savings - not microloans - alleviate poverty
- Savings provide an inexpensive, stable source of capital for MFIs
- Savings products offer clients safety and liquidity

Balancing Financial and Social Returns

- MFIs and microfinance investors are motivated by social objectives
- Financial return benchmarks are standardized and universally accepted
- Social performance metrics are not standardized and are more difficult to track
- Nascent asset class – we are only starting to observe and analyze impact of commercialization on social impact

Balancing Social and Financial Returns

- MFI networks have implemented proprietary or third party social performance measurement tools
- Many MIVs measure social performance using range of basic to comprehensive metrics
- International microfinance community is convening to develop an accepted, financially viable, standardized process

Balancing Social and Financial Returns

- Some investors are less interested in social performance measurement because, in their view:
 - Investing in microfinance de facto generates social impact
 - Measurement isn't cost effective
- Many are interested in tracking indicators that also strengthen the industry: interest rate transparency, unethical lending practices, client over-indebtedness, grievance resolution process
- Investors may select investment partners based on desired level of social performance measurement

Balancing Social and Financial Returns, examples

- MIVs BlueOrchard and Developing World Markets, et. al., track:
 - Average loan size/per capita GDP (<20% = poorest)
 - Percent of women served
 - Rural v. urban customers (rural outreach is harder)
- ProMujer uses Grameen's Progress Out of Poverty Index (PPI)
 - 15 additional questions customized to its services
 - Cost of measuring impact: 4.8% of total operating costs
 - Acknowledges constraints of business model to growth

Balancing Social and Financial Returns, examples

- Incofin
 - Using 36 indicators, measures five dimensions
 - Mission/vision
 - Scale and outreach
 - Customer service quality
 - Human resource development
 - Environmental and social contribution
- Estimated cost: 3 hours at in-take and at monitoring/renewal

Balancing Social and Financial Returns, examples

Incofin, *cont.*

- Bases investment decisions on *blended* financial and social rating
 - Low score – investment denied
 - High score – more favorable investment terms
- Top five performers: 3 commercial, 2 non-profit; highest: Non-Bank Financial Institution
- Bottom five performers: 2 commercial, 3 non-profit; lowest: nonprofit organization

Balancing Social and Financial Returns: Conclusions

- Strong financial performance improves institutional capacity to serve the target population
- Strong social performance improves customer loyalty, referrals and repayment rates, lowering costs and risks
- Financial and social returns are linked and mutually reinforcing
- Commercialization should not be used as an inverse proxy for development impact

Balancing Social and Financial Returns - Conclusions

- We still have a lot to learn about the relationship between MFI commercialization and serving the target population well
- We need to keep asking the right questions
- It's good to have a wide range of options for investment and social impact appetites

Introduction to the International Association of Microfinance Investors

- Reasons for IAMFI's creation
- IAMFI's mission
- Member services

Microfinance Investment Environment

- Non-standardized information collected by diverse sources
- Most information focused on MFI and donor needs
- Lack of transparency, deal standardization, consensus on best practices
- Fewer investor services compared to more established asset classes
- Need for dialogue among sector actors to improve the investment environment

Microfinance Investment Environment, *cont.*

- Many MFIs seek commercial capital, but only about 200 are investor-ready
- MIVs play a critical role in facilitating flow of funds to MFIs
- Investors want to commit capital but seek more transparency and standardization from both MFIs and MIVs

IAMFI seeks to promote the virtuous circle of capital flows between private sector sources, investment vehicles and microfinance institutions, enabling greater access to financial services for the working poor throughout the world.

IAMFI's Genesis: Investor Roundtable in Fall 2006

- Participants:
 - Steve Hardgrave and Crystal Hutter, *Omidyar Network*
 - Sam Moss, *Gray Matters Capital*
 - Ian Callaghan, *Morgan Stanley*
 - Gil Crawford, *MicroVest*
 - Sandra Darville and Tomás Miller, *IDB/MIF*
 - Elizabeth Funk, *Unitus* and *Dignity Fund*
 - Ann Miles, *Blue Orchard*
- Strategic Plan and infrastructure completed in 2007
- Officially launched in January 2008

IAMFI's Mission

Address the needs of microfinance investors, particularly Limited Partner investors that invest through MIVs, by providing information, research, education and networking services designed to help them reach their goals as investors in microfinance assets.

IAMFI's Members

Limited Partners (LPs): Active and potential investors who invest in an investment vehicle rather than investing directly in microfinance institutions. Example: TIAA-CREF

General Partners (GPs): Public and private entities that manage a fund or investment vehicle in which there are many investors. Ex.:
BlueOrchard

Service Providers (SPs): Entities that help advise, structure, consult or broker investments in the microfinance industry. Ex.: Morgan Stanley

IAMFI's Services

Information Portal

- Robust web site with third-party information and data about microfinance and microfinance investing
- Reviewed for relevance and accuracy so that investors may evaluate information more efficiently
- Password-protected “Members Only” section

Research

- White papers, reference materials
- Original research

IAMFI's Services, cont.

Newsletter – news, commentary, trends

Education, Conferences and Events

- Hosted and co-hosted international conferences on microfinance investing
- Issue-specific events and seminars for special interest groups within the Association's membership

Community

- Forum for members to discuss interests, goals and concerns
- Vehicle for dialogue among all sector actors

IAMFI's Values

- Integrity
- Transparency
- Independence
- Sustainability
- Action orientation
- *Inclusion*
- *Value added, not redundant*
- *Collaboration*

The International Association of Microfinance Investors (IAMFI) is a global membership organization exclusively dedicated to serving current and potential market-driven microfinance investors, especially those who invest in funds and other vehicles.

IAMFI helps investors achieve their goals by offering credible, objective industry information, facilitating dialogue, and working to improve the global environment for microfinance.

The association seeks to promote the virtuous circle of capital flows between private sector sources, investment vehicles and microfinance institutions, enabling greater access to financial services for the world's working poor.