

**SPECIAL PURPOSE INVESTING - II : “RESPONSABILITY” GLOBAL MICROFINANCE FUND*****What is Microfinance?***

Microfinance (*mf*) provides financial services for poor but economically active people in developing and transitioning countries. Access to credit and other financial services is crucial in development terms, since it promotes micro-entrepreneurial activity, which contributes towards the end of creating a stable and sustainable income stream. Unlike people in industrialised nations, access to financial services for these people is difficult to manage owing to a lack of adequate collateral.

Mf offers various financial services that are adapted to meet the needs of these people. The most important *mf* services include: commercial loans (micro-credit); savings (micro-savings). Other financial services include: payment services, insurance and pension funds (micro-insurance) and housing loans.

Access to micro financial services can have a positive impact on the income of micro-enterprises as it enables them to boost productivity, attain security and gain independence.

Mf thus makes an important contribution to alleviating poverty in developing and transition countries.

Peculiarities displayed by the sector?

- The key risks borne are of a political nature and presumably, the sector has a higher exposure to natural disaster risks
- Only few microfinance institutions (*mfi*) are regularly rated by established credit rating agencies such as Moody's, S&P
- Public transparency offered by *mfi* tends to be much lower than in traditional asset classes
- The virtual non existence of secondary market trading implies lower liquidity, but also less price volatility

What criteria must micro finance institutions satisfy to be selected in the “responsAbility” portfolio?

In general, the minimum requirements for *mfis* to qualify for an investment are:

- Total assets amounting to at least USD 1 million
- Successful organizational track record of at least 5 years, including externally audited annual reports
- Sound business plan; superior quality portfolio
- Profitability or the ability to break even within a reasonable time frame
- Legal status that enables borrowing from abroad via Promissory Notes

At what stage do you tend to lend money?

We tend to invest in mature institutions but we also consider less mature micro finance institutions. In fact, we have already financed some start-up initiatives that show a strong growth potential.

Do you have studies/statistics to show that it is favourable to invest in certain geographical areas?

Our target is to diversify globally with an emphasis on attaining maximum exposure for individual countries. We tend to minimise allocations to those our research qualifies as “high risk countries.” The specific regional target allocation is defined by our investment committee on a yearly basis. It is determined by the objective of achieving high global diversification. Also borne in mind would be the current status of our portfolio. Currently the *mf* investment opportunities are mainly to be found in Latin America and Eastern Europe – hence the portfolio is currently overweighed in these markets.

There are many specific regional studies on microfinance markets published on: ***The Mix Market*** www.mixmarket.org.

Do you believe those interested in investing in microfinance, are all chasing the same names?

Only around 200 of the estimated 10'000 *mfis* worldwide are currently accessible to private investors. Hence, there is a certain concentration. Nevertheless, this is changing on two fronts. First, international donors (currently still one of the main financing sources for leading *mfis*) are drawing back on their engagements. Simultaneously the private sector is playing a more active role. Secondly, we are witnessing the rapid evolution of a breed of professionally managed *mfis* which are structured to and are capable of accepting private capital.

How do you uncover new names in the space?

Thanks to our reputation and solid track record of being one of the fastest growing funds in this space. We are perceived as being a reliable and efficient partner. Additionally, we are also the only fund that works with several investment partners specialising in microfinance investment placements and have so built relationships with the leading Microfinance Networks.

Do investments in micro finance display cyclical behaviour patterns?

Generally no, the industry is rather stable as the main business is micro and small enterprise financing - which serves the basic needs of a population. As small consumer credits are becoming an increasingly important business for some *mfis* - this might change. Due to the media limelight - the microfinance industry is awash with ‘cheap’ money from donors, foundations, etc.

This is exerting some downward pressure on the interest rates. We believe this is a transient phenomenon that will likely fade after:

- a) the undue attention has shifted
- b) a consolidation among *mfis* and Microfinance Investment Funds takes place

How long this will take though, is difficult to say.