

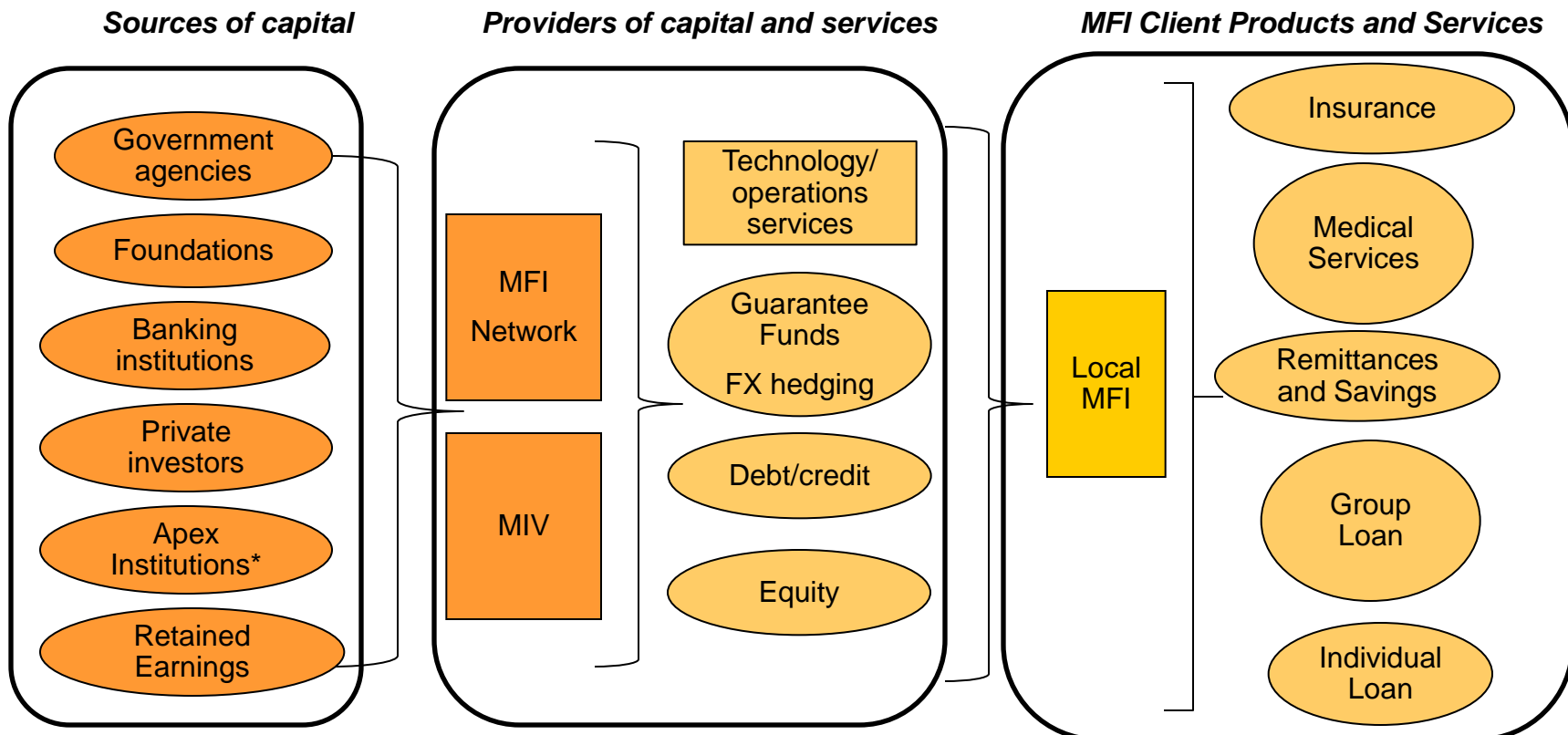


MFI Investor Readiness

Module developed in conjunction with Grameen Foundation

Financing is Critical for Growth and Stability

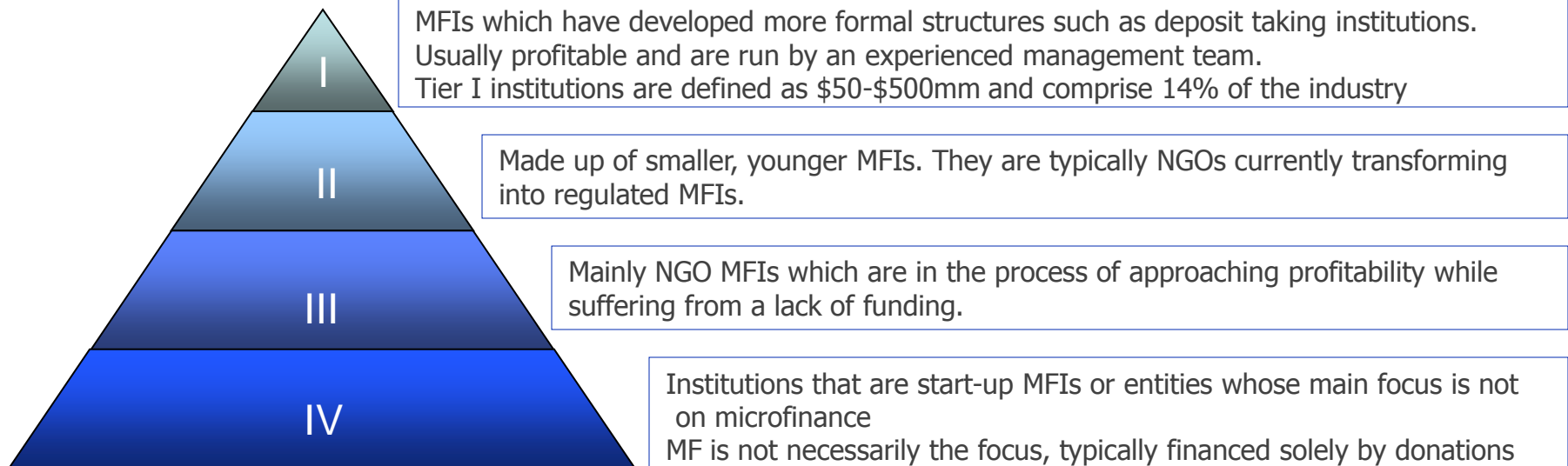
- Growing number of MFI client services requires access to diverse and stable capital sources as well as services to support the MFI itself
- The ability to accept savings and to offer other financial services generally requires MFIs to become regulated entities, or “transform”



*As defined by CGAP, an *apex institution* is a second-tier or wholesale organization that channels funding (grants, loans, guarantees) to multiple *microfinance institution* (MFIs)

Debt vs. Equity Financing

- **Historical imbalance between debt and equity in favor of debt as primary financing source – no equity financing available for Tier II and III MFIs.**
- **Start-up MFIs are characterized by a larger dependency on donations in the form of equity grants and technical assistance**
- **More advanced MFIs tend to turn to debt financing through domestic or foreign borrowing.**
- **Especially the most advanced tier-1 MFIs use domestic deposits and debt financing, with some accessing capital markets by issuing bonds, going public or securitizing their loan portfolios. – Deutsche**



MFI Funding Sources by Stage

Early Stage

Grants and donations:

Foundations, microfinance networks, government agencies and development organizations

Debt: Term loans and credit lines

- Concessional terms: Microfinance networks, government agencies, government banks
- Commercial terms: **Local commercial banks**, microfinance investment funds (MIVs)

Savings: Younger institutions may not meet regulatory requirements

Retained Earnings

Growth Stage

Savings: Accessible if regulatory requirements met

Debt: Term loans, credit lines, **overdraft facilities**, and **structured debt instruments**

- Concessional terms: Microfinance networks, government agencies, government banks
- Commercial terms: **International commercial banks**, microfinance investment funds
- Structured debt instruments: **Commercial banks**, institutional investors, microfinance investment funds

Equity: Preferred and common shares

Mature Stage

Savings: Accessible if regulated

Debt: Term loans, credit lines, overdraft facilities, and structured debt instruments

- Commercial terms: Commercial banks, microfinance investment funds
- Structured debt instruments: Commercial banks, institutional investors, microfinance investment funds
- Capital markets: **Investment banks**, institutional investors, microfinance investment funds

Equity: Preferred and common shares

Highlighted text indicates a new funding source for this stage

Additional Investor Requirements!

The Double Bottom Line

- ❑ **As the industry has matured, social impact investors also require either one of both of two additional requirements that can often be in opposition:**
 - ❑ A “double bottom line,” which requires an investment to create a positive social impact
 - ❑ Emerging market-like financial returns

Development Funds

Oikocredit
Accion Gateway
Deutsche Bank Start-Up
DID
IFC
KfW
FMO

Maintaining Capital

Quasi

AIM (Accion)
Africap
Balkan Financial Sector Equity
responsAbility Microfinance
Leaders Fund
Microcred
Shorecap
Calvert

Below Market

Commercially Oriented

AXA World Fund
Dexia Microfinance Fund (credit)
BlueOrchard Equity Fund
Gray Ghost Microfinance Facility
MicroVest (equity/debt)
responsAbility Microfinance Fund
Elevor Equity Fund
Deutsche Bank Commercial MF Fund

Commercial return

Grants
Donations

Blackstone
Sequoia

**Purely
Social**
(no financial
return sought)

**“Double” Bottom Line/
Social Impact Necessary**

**Purely
Commercial**
(no or little
consideration
for social impact)

The Challenge

- ***"Managers of microfinance institutions may be enthusiastic or even overjoyed at the prospect of the large inflows of capital toward microfinance. However, unless they are among the top 1.5% to 3% of MFIs, they may find that the process is still challenging and arduous. While they will find more investors with more money than ever before, they are also likely to find fewer with an understanding of the special needs of microfinance, a willingness to finance capacity building, or a tolerance for less than strong financial performance. Like early-stage entrepreneurs anywhere, the keys to capital-raising in microfinance are preparation, performance and perseverance. "***

THE CHANGING ROLE OF FOREIGN DIRECT INVESTMENT IN MICROFINANCE CAPITAL AND MEASUREMENT OF FINANCIAL AND SOCIAL PERFORMANCE: Doing Good Works Meets Commercial Enterprise - By Bill Harrington Mennonite Economic Development Associates (MEDA), Canada