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# Making Capital Markets Work for the World's Entrepreneurial Poor

*Is Commercial Funding of MFIs an  
Oxymoron?*

Presented by:

Gil Crawford, General Manager, MVCM LLC.

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# Agenda

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- Introduction of MicroVest (MV) and Gil Crawford
- Talk: Is commercial funding of MFIs an Oxymoron?
- Questions from Maya Chorengel, Managing Director, Dignity Fund
  1. Evolution
  2. MV: a profile of a commercial fund
  3. Current MF investment issues
- General Q & A

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***Is Commercial Funding of MFIs an  
Oxymoron?***



# *Microfinance Is...*

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- Small, unsecured loans that enable the working poor to start or expand small businesses.
  - 40%-60% of the economically active population in many developing economies.
- Loans increase working productivity and family income.
  - On average, every dollar loaned increases family income by 25-35 cents.
  - Leads to improvements in health, education, and general welfare.
- Microfinance has helped bring economic independence to 100 million borrowers and their families over the last 25 years.

***Microfinance is about wealth creation,  
not wealth redistribution.***

# *Conventional Wisdom:*

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You can't make money lending money  
to the poor.

- Can't charge high enough interest rates
- It will cost too much to make loans
- The poor just simply will not repay

# *Microfinance Institutions*

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Typical Microfinance "Bank"	
Portfolio Yield	30%
Cost of Funds	8%
Loan Losses	2%
Operating Exp	16%
ROA	4%

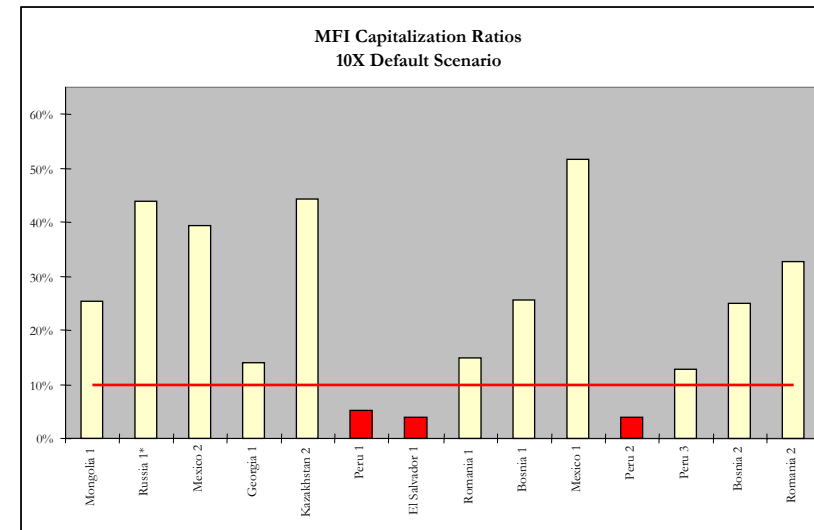
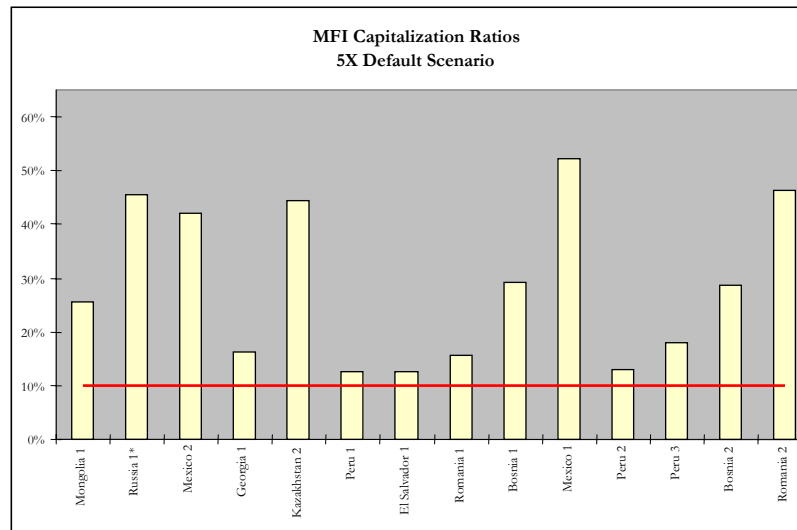
All figures as percent of Total Assets.

# *Historical Write Off Ratio: MV's Portfolio*

	2001	2002	2003	2004	2005	Arithmetic Mean	Standard Deviation
<b>MicroVest LP, I Portfolio</b>							
1 FINCA Mexico	0.20%	0.00%	1.80%	0.00%	0.10%	0.42%	0.008
2 FJ Nieborowski	1.30%	0.40%	0.00%	0.40%	0.02%	0.42%	0.005
3 FINDESA		0.20%	0.84%	0.80%	1.50%	1.11%	0.007
4 MI-BOSPO	0.90%	0.85%	0.83%	1.19%	0.73%	0.79%	0.003
5 EDYFICAR	6.42%	3.27%	5.76%	1.73%	1.49%	3.52%	0.020
6 Confianza	0.21%	1.00%	1.65%	2.62%	1.85%	1.06%	0.010
7 EKI	1.57%	0.45%	0.30%	0.44%	0.43%	0.78%	0.006
8 Crear Tacna			2.20%	1.28%	1.09%	1.29%	0.008
9 Xac Bank	0.29%	0.08%	0.20%	1.07%	0.04%	0.33%	0.004
10 Solidario	0.00%	0.27%	1.33%	0.49%	0.46%	0.77%	0.007
11 CAPA	0.60%	0.40%	0.70%	0.20%	0.14%	0.41%	0.002
12 FORA	1.73%	1.73%	1.59%	0.62%	0.00%	1.13%	0.008
13 Apoyo Integral			0.60%	0.70%	1.72%	1.01%	0.006
14 AMC	1.30%	1.50%	0.60%	0.90%	0.30%	0.77%	0.006
15 OMRO			0.17%	1.38%	2.73%	1.43%	0.013
16 OMB			0.26%	1.38%	1.24%	0.96%	0.006
17 Constanta	0.40%	0.21%	0.93%	1.51%		0.97%	0.007
18 Partner	0.27%	0.16%	0.24%	0.26%	2.77%	0.71%	0.010
						<b>Arithmetic Mean</b>	<b>0.99%</b>
							<b>0.008</b>

# Default Sensitivity Analysis

Default Scenario Multiplier**	Number of MFIs whose capitalization falls <10% (out of 14 total MFIs)
2X	0 MFIs
3X	0 MFIs
5X	0 MFIs
10X	3 MFIs
15X	4 MFIs



\* Because 2005 write-off ratio was 0.00%, 2-year average used

\*\* The default scenario multiplier is the factor by which the historical rate of default is being increased

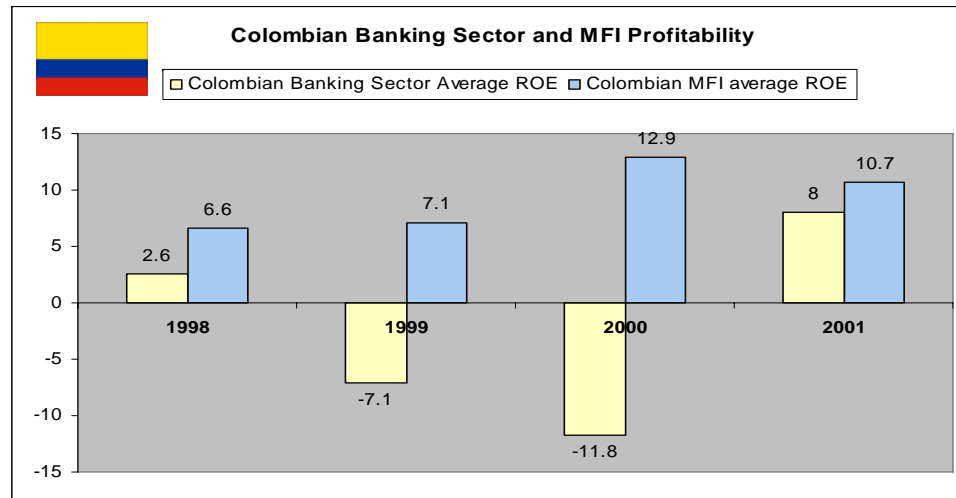
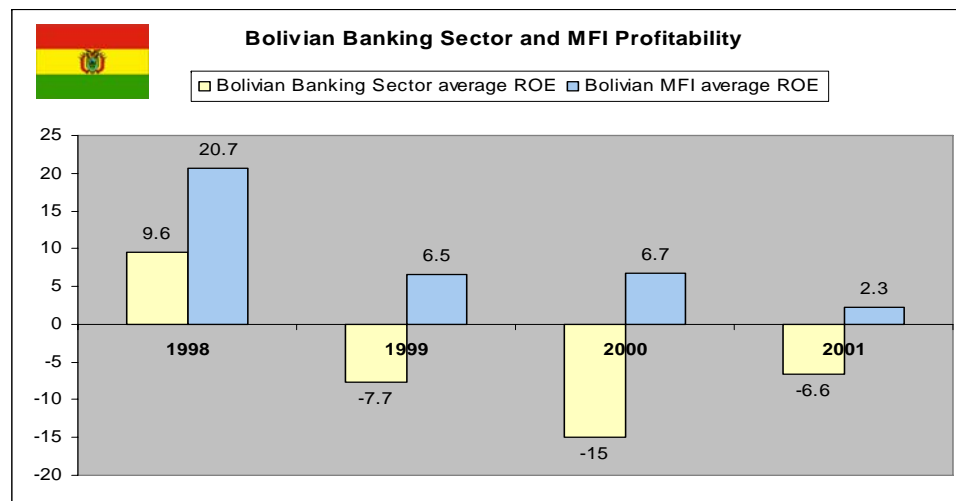
Source: Microfinance Information Exchange, MicroRate, Company Report

# *Informal Sector Outperforms Formal Sector*

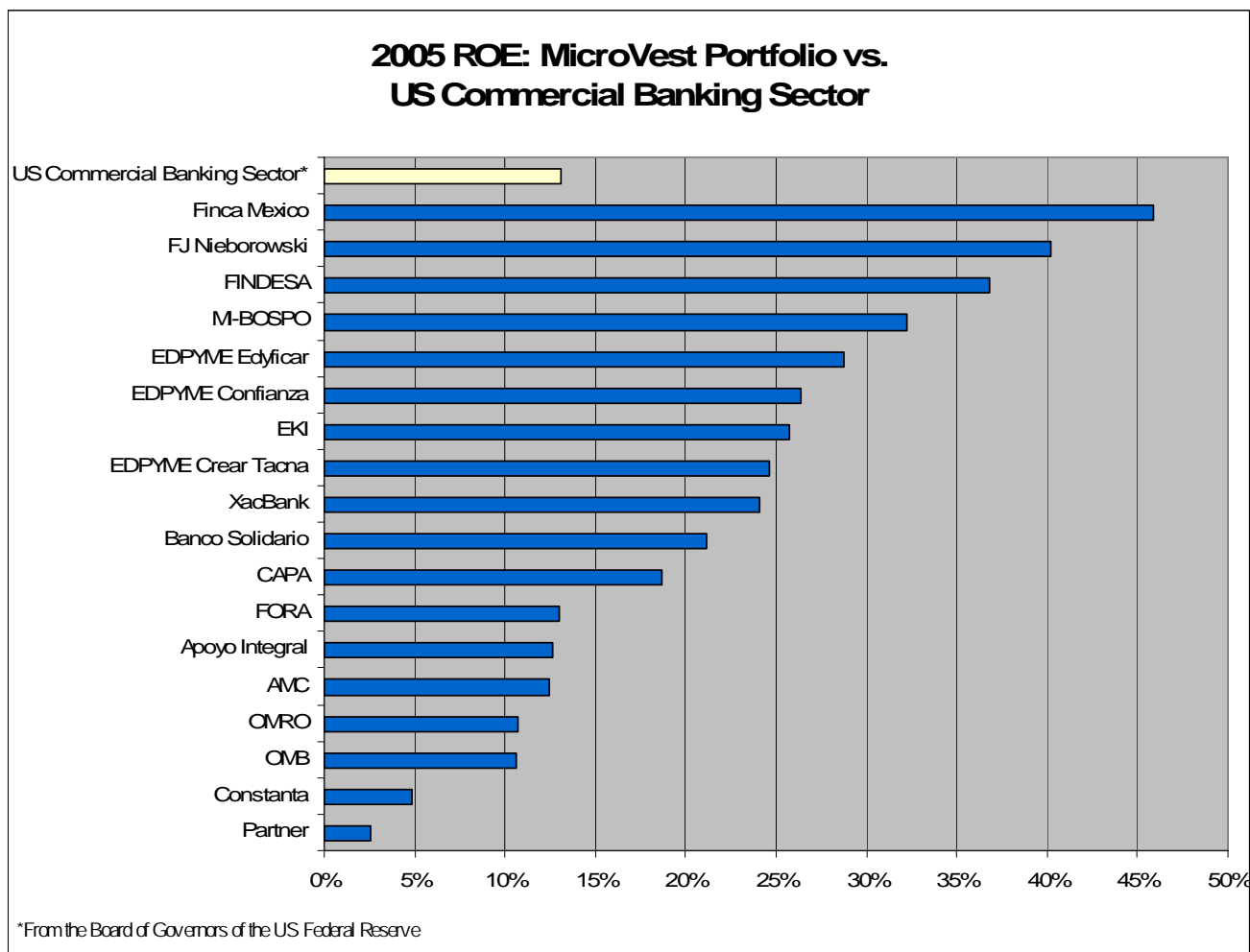
- **Microfinance performance is not highly correlated with overall emerging market economies.**

- During recessions, the microfinance sector outperforms other banking sectors, as was the case in Bolivia and Colombia between 1998-2001.

Source: MicroRate, "The Finance of Microfinance" October 2002.



# Microfinance Performs



Although they work with the world's poor, in 2005 many of the MFIs in MicroVest's portfolio **performed as well or better than the US commercial banking sector.**

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# **Microfinance *Is* Business**

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# World Demand

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*Households with Access to  
Funding from Microfinance  
Institutions*



**The World Bank estimates worldwide microfinance demand at \$150 - \$250 bn.**

The majority of the world's population is effectively "red lined".

**Of the remaining 93% of the world's population...**

- Households are willing to pay for financial services
- Traditional financial institutions are not offering these services at any price
- Microfinance institutions currently lack the resources to meet demand

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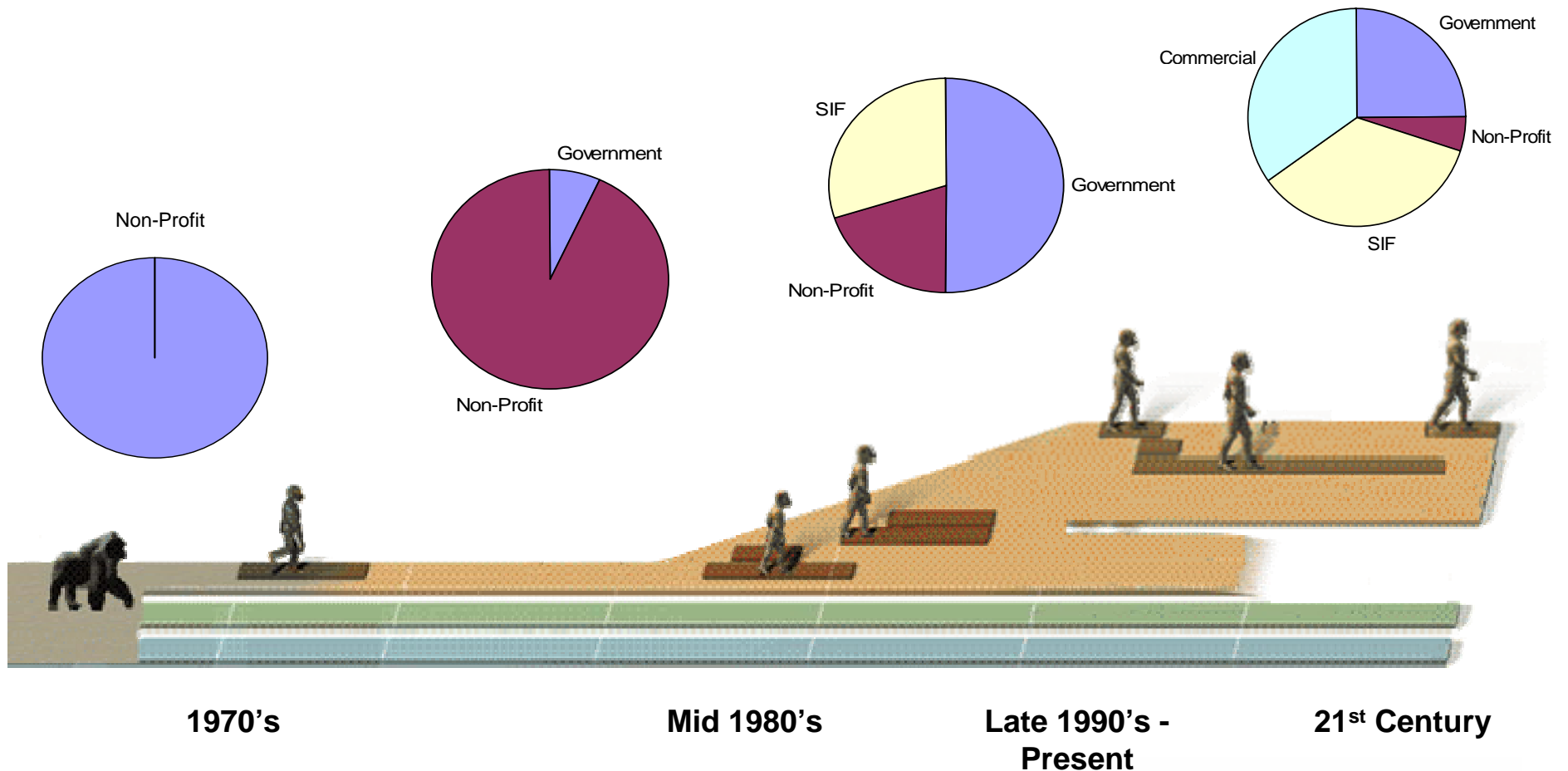
# *Questions from Maya*

1. Evolution of MF capital markets
2. MicroVest profile and differences from other funds
3. Current issues facing MF investing

# *Evolution of MF Capital Markets*

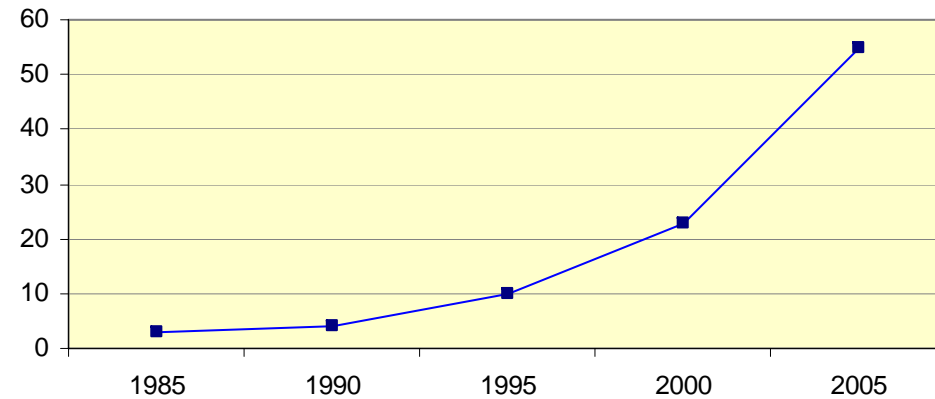
- Sr. Debt: Is it played out?
- MIVs: the coming specialization
- Structured Deals

# Evolution of Funding

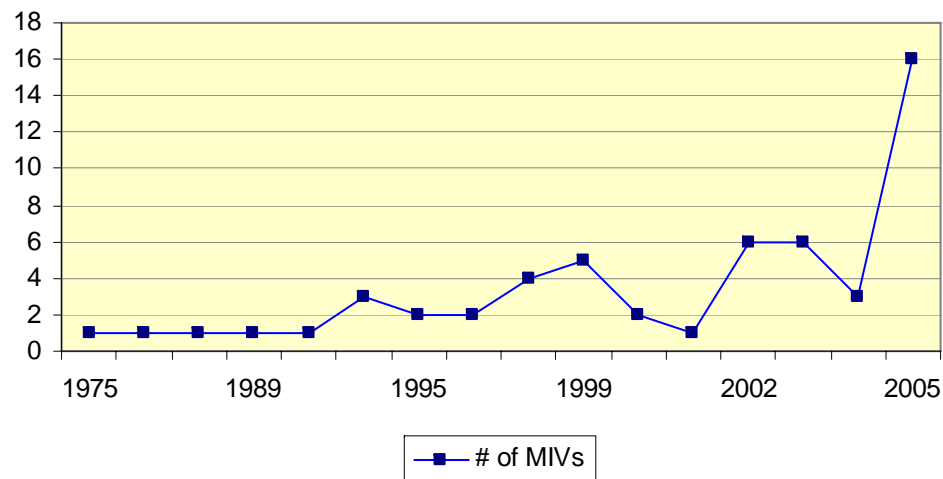


# Over the Years: MIV Growth

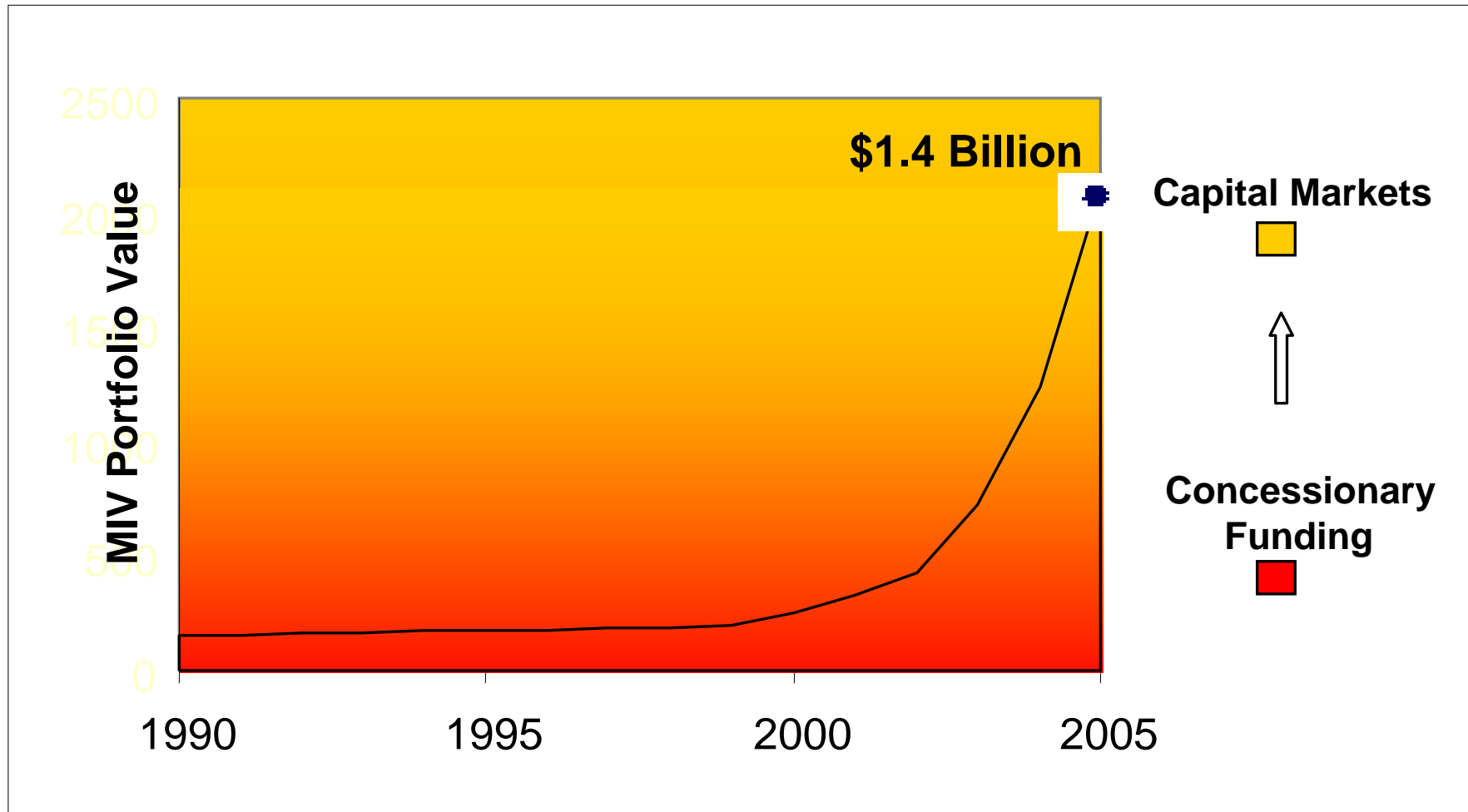
Cumulative Number of MIVs



Yearly Addition of MIVs



# MIV Portfolio Growth

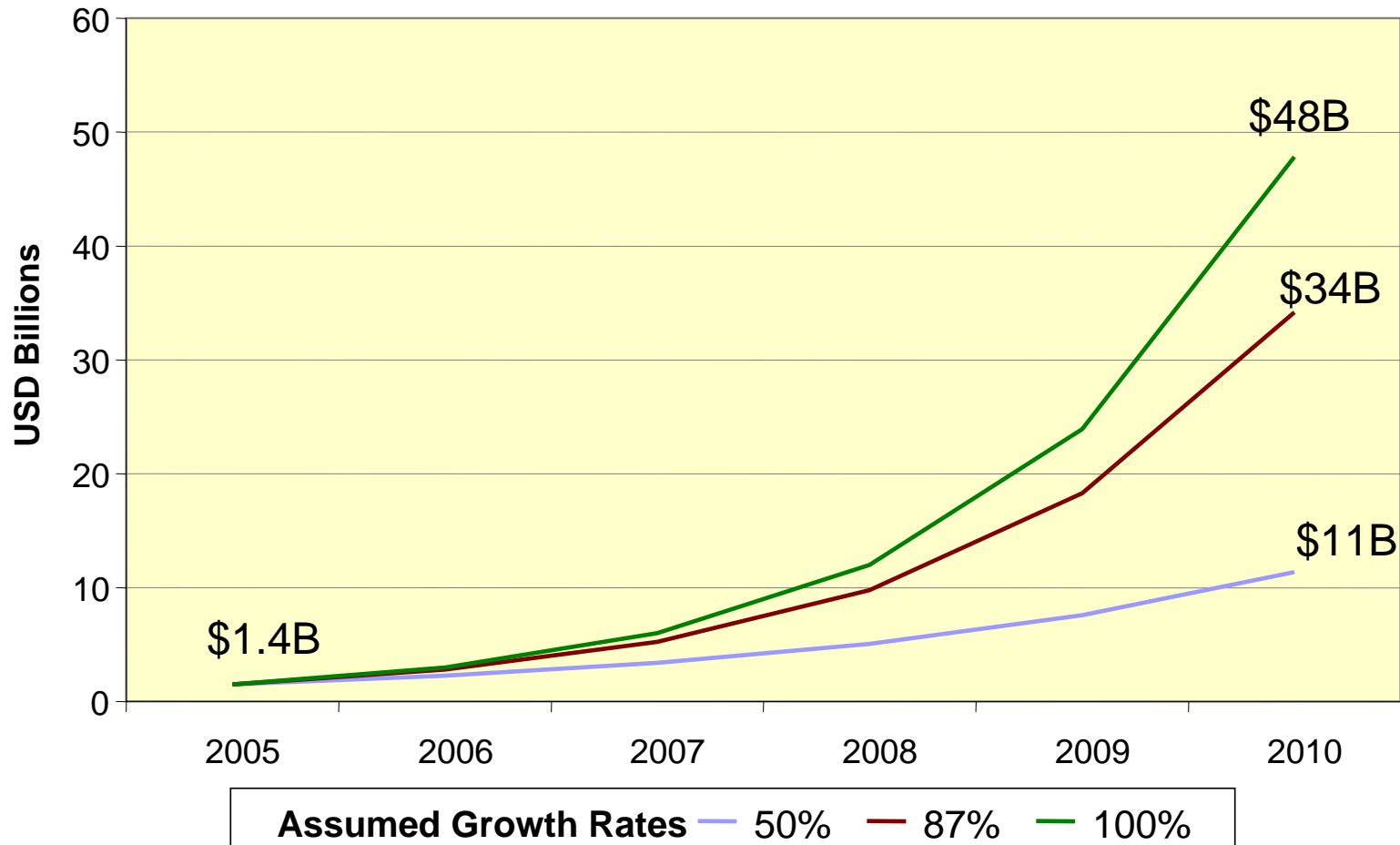


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# CDOs and Securitizations

Regional	2001	2002	2003	2004	2005	2006	2007
Latin America	Mi Banco S/.20 MM	Compartamos US\$10 MM	Mi Banco S/.20 MM S/.10 MM	Compartamos US\$50 MM	WWB Colombia \$30 MM \$22 MM	WWB Colombia US\$20 MM	
	Finamerica US\$2 MM		Compartamos US\$5 MM US\$5MM				
India				SMF India US\$4.3 MM			BRAC \$180MM
International						Global Comercial Mf US\$75 MM	
						European Investment Fund US\$30 MM	
				BOMFS - I US\$40 MM		BOMFS - II US\$47 MM	BOLD - III US\$99 MM
							XXEB US\$60 MM

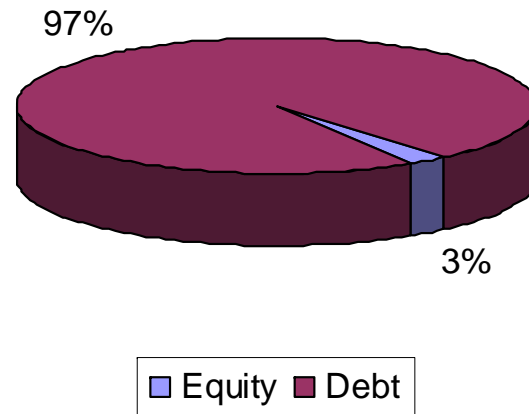
# *MIV Portfolio Growth to 2010*



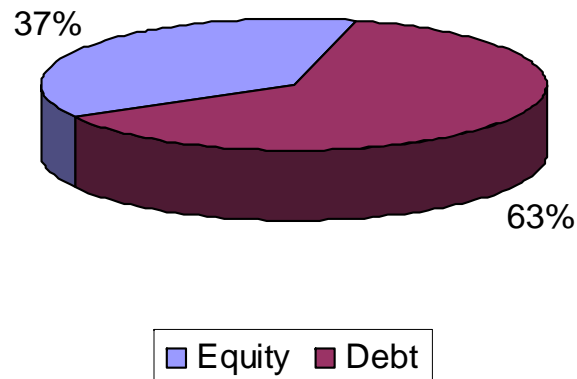
# Portfolio Composition

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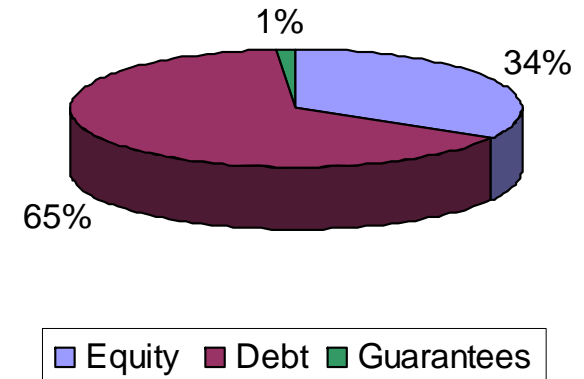
Composition of Commercial MIV Portfolios



Composition of Quasi-Commercial MIV Portfolios



Composition of Microfinance Development MIV Portfolios



# *MicroVest Profile*

*How it's different from other funds.*

History of MV

MV's "Secret Recipe" for Due Diligence

# *A Competitive Landscape*

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- There are approximately 25 cross-border, non-government social investment funds with assets over US\$5 million
  - + Eight make commercial investments targeting commercial returns
  - + MicroVest is the largest private fund in microfinance
- MicroVest focuses exclusively on microfinance
  - + The fund is not involved in Fair Trade promotion, education, health or other development initiatives
  - + Focus on the industry in which the fund has expertise
  - + No conflicts of interest – Ex: technical assistance contracts with MFIs
- **MicroVest is truly independent**
  - + Not beholden to any microfinance sponsoring organizations or their affiliates.
  - + Not affiliated with any governmental agency.

# *A Critical Intermediary*

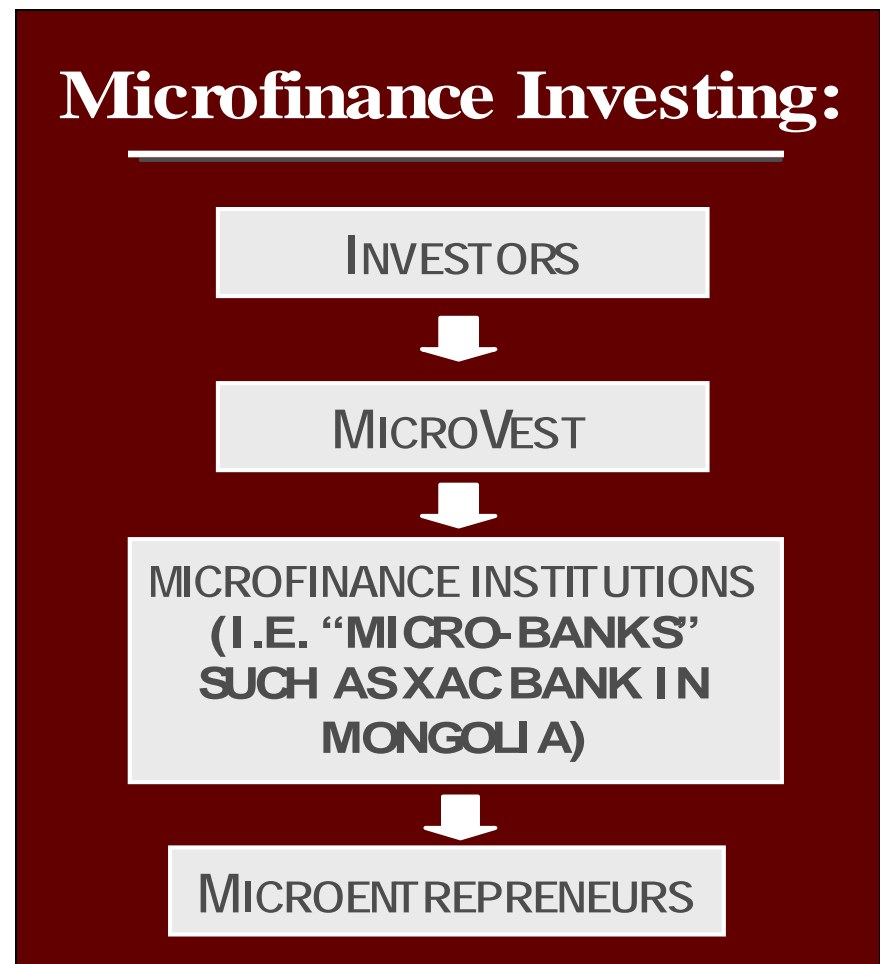
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**MicroVest is a Global  
Microfinance Intermediary  
Linking Microentrepreneurs in  
the Developing World with  
Developed Capital Markets.**

**MicroVest Provides:**

- Debt, quasi-equity and equity financing on commercial terms
- Financing customized to meet the particular needs of each MFI
- A record of efficiency, flexibility, transparency, and reliability
- Transactions executed by a team experienced in global capital markets and microfinance

## **Microfinance Investing:**



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# *MV I, LP – “The Fund”*

Committed Capital:  
\$14.7 million

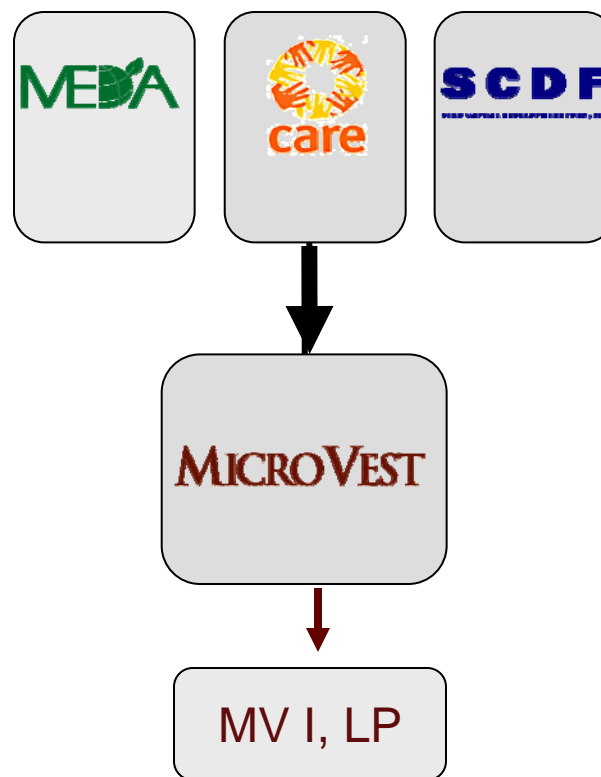
Committed Borrowings:  
\$10.1 million

As of Aug. 31, 2006

Targeted (2008) Debt to Equity Ratio:  
2:1

FY06 Net Income:  
Over \$500,000

Created by:  
**MicroVest Capital General Partner:**



# *MicroVest: A Commercially Oriented Player*

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## **Market Rate-Adjusted Returns**

The Fund offers investors low-credit risk and market rate of returns in global markets.

## **Ability to Tap Underdeveloped Markets**

The Fund identifies market imbalances and fills significant funding gaps that meet the commercial needs of the poor.

## **Uncorrelated Asset Class**

Microfinance not only offers a low default rate, but moves in a cycle that is not correlated with any traditional asset class.

## **Fund Diversification**

MicroVest's portfolio currently includes 21 MFIs in 13 countries and covers three continents. Geographic diversification will continue to increase.

## **Professional Due Diligence**

The experience of the management team allows the Fund to identify top investment opportunities in developing countries.

# *An Experienced Team*

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## **Senior Management Team:**

**Gil Crawford: General Manager**

*20 years experience*

Investing in microfinance and capital markets - *International Finance Corporation, Chase Manhattan Bank.*  
Extensive work in Latin America, Africa, and Asia.

**Candace Smith: Chief Financial Officer**

*20 years experience*

International development and finance - *Inter-American Investment Corporation, Continental Illinois National Bank.*

**Matthew Speh: Investment Officer**

*12 years experience*

Investments - *BancBoston Capital.*

**Lori Atwood: Director of Business Development**

*13 years experience*

International investing and fund development- *ShoreBank International*

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## **Board of Directors:**

W. Bowman Cutter, Joe Landy:

Dana Halberg:

Lauren Hendricks, Joe Iarocci:

Bob Pattillo:

Gerhard Pries, Julie Redfern:

R. Clair Sauder:

Bruce C. Tully:

Fred Wall:

Jim Torrey:

**Warburg Pincus**

**Mellon Financial Corporation**

**CARE-USA**

**Gray Ghost Microfinance Portfolio**

**MEDA**

**MMA Praxis**

**Beehive Ventures**

**Sarona Global Investment Fund**

**The Torrey Funds**

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# Bringing Capital to the Creditworthy

- **MicroVest operates within a commercial framework**

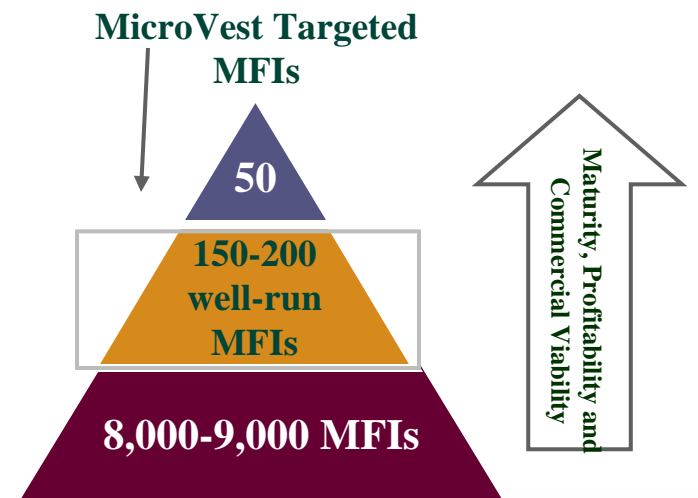
- offering near commercial returns to investors
- lending to microfinance institutions at market rates
- striving to make each investment more commercial than the last

- MicroVest believes that operating under these terms encourages MFIs to become more efficient at lending to the poor

- *Provides microentrepreneurs with better service at lower costs*

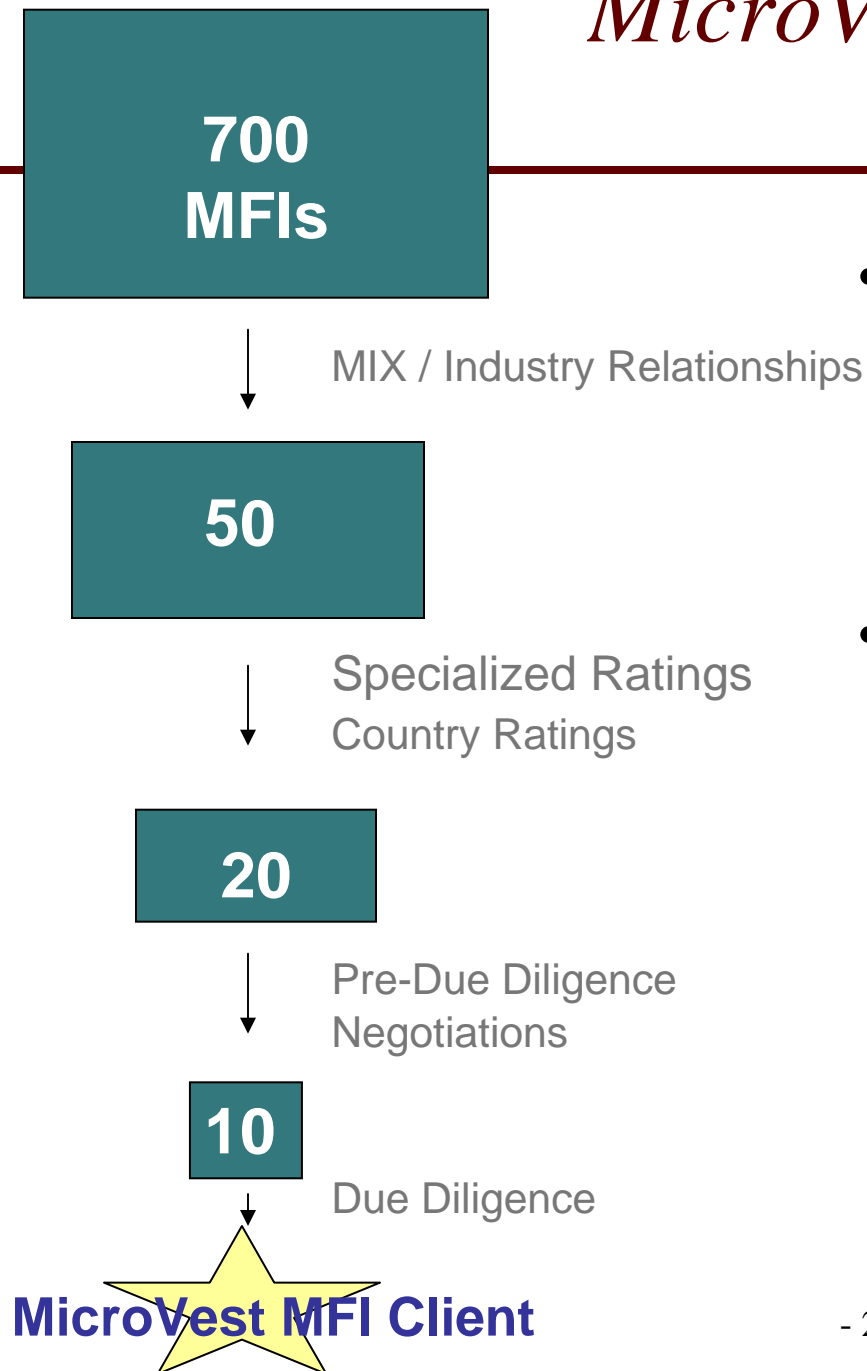
- Focus on the “middle 200” MFIs:

- High-growth institutions with proven histories of efficiency, profitability and sound management



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# MicroVest: A Due Diligence Expert



- MicroVest performs rigorous analyses on all investments
  - *Deal structures based on private sector experience*
- Most MicroVest clients have also been rated by independent agencies that specialize in microfinance

***MicroVest is well-known in the microfinance industry. We leverage our relationships to source and monitor new deals.***

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# MicroVest I, LP

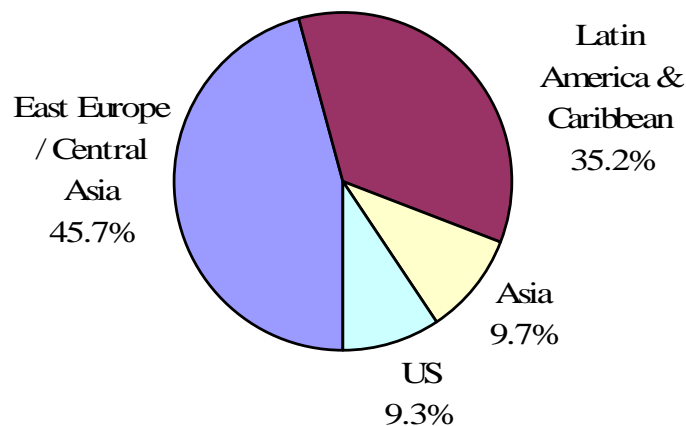
MFI portfolio of \$21.9 million as of 6/30/06.

**Well diversified with  
21 MFIs in 13 countries.**

**Allocation Estimates (by 2008):**

- Target Net Portfolio Yield including Equity is 9.6%

MVI Total Exposure by Region

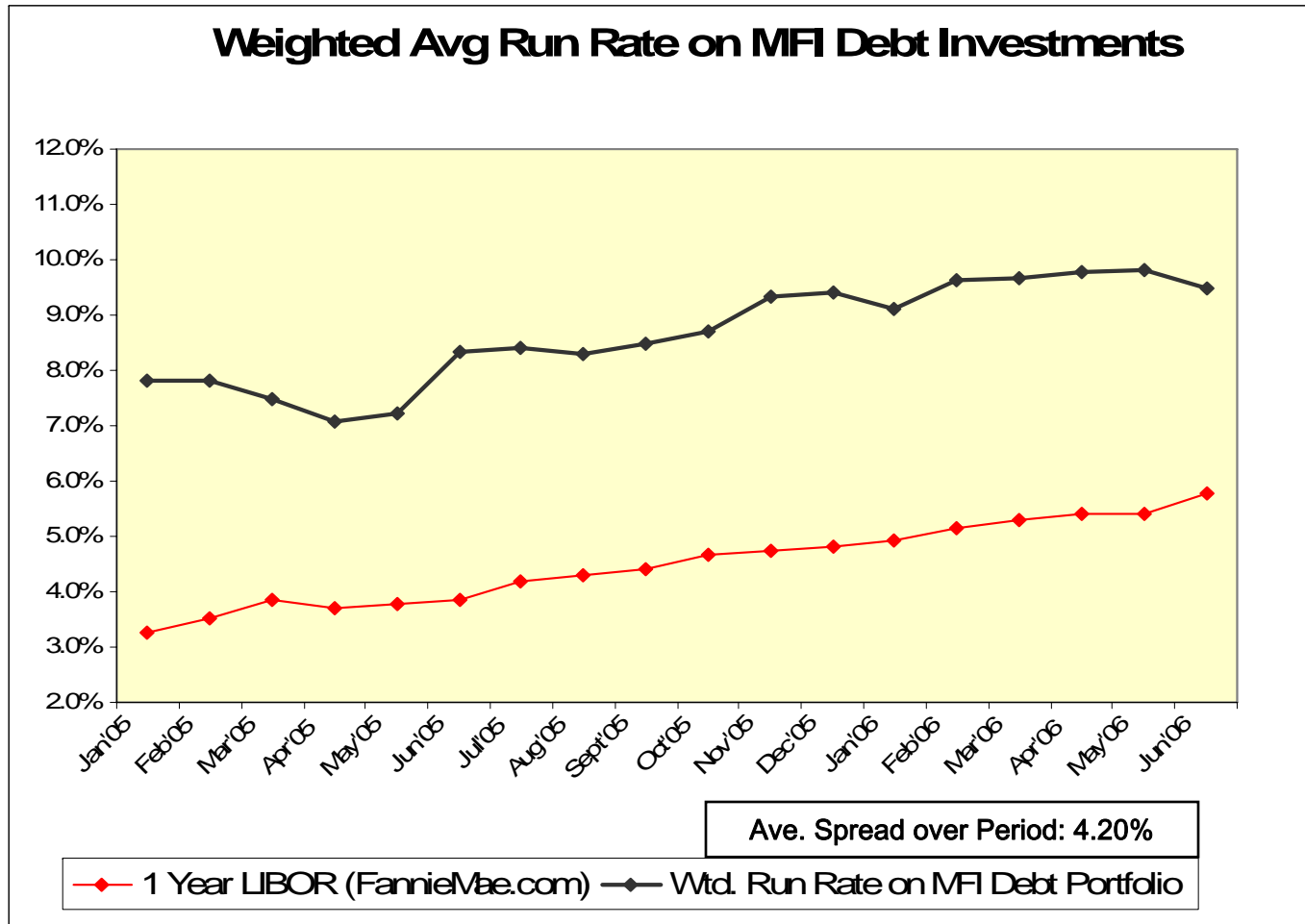


Target Portfolio	% Portfolio
Cash	5%
CDs	5%
ST Sr. Debt	20%
MT Sr. Debt	25%
LT Sr. Debt	20%
Sub-debt/quasi-equity	5%
Preferred & Common Equity	20%
<b>Total Portfolio</b>	<b>100%</b>

# Portfolio Breakout by MFI (as of 6/30/06)

By Obligor	Country	Region	Total Invested	% of Total Portfolio
EDYFICAR	Peru	LAC	3,742,446	17.1%
KLF	Kazakhstan	EECA	2,500,000	11.4%
Constanta	Rep. of Georgia	EECA	2,310,662	10.6%
XAC	Mongolia	Asia	2,135,835	9.8%
Banco Solidario	Ecuador	LAC	2,000,000	9.1%
FORA	Russia	EECA	2,000,000	9.1%
MI-BOSPO	Bosnia	EECA	1,255,070	5.7%
OMRO	Romania	EECA	1,100,000	5.0%
Opportunity East Europe	Regional - EECA	EECA	892,307	4.1%
Apoyo Integral	El Salvador	LAC	750,000	3.4%
Nieborowski	Nicaragua	LAC	750,000	3.4%
FINCA Mexico	Mexico	LAC	500,000	2.3%
Viamericas	US	US	500,000	2.3%
Opportunity Bank	Montenegro	EECA	18,653	0.1%
ProFund	Regional - LAC	LAC	15,590	0.1%
	<b>[CASH EQUIVALENTS &amp; OTHERS]</b>			
	US Cash Equivalents	US	1,556,641	7.1%
	Hedge Instruments	Other	-133,857	-0.6%
	Total Carrying Value		21,893,347	100.0%

# MicroVest I, LP



## *Current Issues Facing MF Investing*

- Local Currency
- Too much funding chasing the Tier Ones?
- Is supply stimulating demand?
- Crowding out?

# *Government Investments*

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- New government investments in MF in the last three years.
- December 2003 estimated at \$1.1bn  
December 2005 estimated at \$2.3 bn
- 2006/7 estimated at **\$4.5bn**

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# ANNEX

## MicroVest Investment Notes

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# *Microfinance Notes*

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Current offering for US\$15 million.  
Capacity to raise up to US\$30 million.

**Tenor:** 1, 2, 3, 4, 5 years.  
**Minimum Subscription:** \$500,000  
**Interest paid** on a semi-annual basis.  
**Interest rate per annum:**

1 year	5.25%
2 year	5.50%
3 year	5.75%
4 year	6.00%
5 year	<b>6.25%</b>

*As of October 1 2006*

*Please contact MicroVest at (301) 664-6680 to receive a  
current interest rate sheet and PPM*

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# *Program Related Investments*

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Program Related Investments (PRI's) allow foundations to place investments in projects that provide a financial return while meeting the foundation's charitable mission.

## **Projects must meet three basic requirements:**

1. The project's mission can not be political
2. The project must meet the mission statement/ objectives of the foundation
3. No "prudent investor" would make the investment BUT FOR the social objectives.

**Foundations can use MicroVest's Microfinance Notes to preserve their asset base while creating lasting social change.**

*For more information visit PRI Makers at: [www.primakers.net](http://www.primakers.net).*

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**For more information please contact MicroVest:**

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