

STATE OF MICROFINANCE INVESTMENT

THE MICRORATE 2010 MICROFINANCE INVESTMENT VEHICLE SURVEY



Citi Microfinance



July 2010

Table of Contents

2010 MIV Survey Highlights	3
Industry Trends and Outlook	6
MIV Asset Growth	8
Trends in MIV Size	9
MIV Composition	11
MIV Portfolio Indicators	14
Top 10 MIVs	15
Top Multi-fund MIV Managers	18
Geographic Concentration of Microfinance Assets	19
<i>Geographic Concentration of Microfinance Assets: 2006-2009</i>	21
<i>Geographic Concentration: LAC and ECA</i>	22
<i>Geographic Concentration: MENA, Africa, South Asia and EPA</i>	23
<i>Geographic Concentration: Number and Investment Size</i>	24
MIV Investor Profile	25
Conclusions	26
Annex 1: 2010 MIV Survey Participants	27
Annex 2: 2010 MIV Survey Exclusions	28
Annex 3: Definition of an MIV	29
Annex 4: MIV Classifications	30
Annex 5: MIV Investor Types	32
Disclosures	33
Sponsors	34

2010 MIV Survey Highlights

3

State of Microfinance Investment: The 2010 MicroRate MIV Survey (the “2010 MIV Survey”) marks the fifth annual publication of MicroRate’s MIV Survey (2005-2009).

78 MIVs participated in the 2010 Survey (of the 88 MIVs that qualified) resulting in an 89% response rate.

Slowing Growth Rates

- MIV assets grew 22% during 2009, from \$4.9 billion to \$6.0 billion. (2008: 28% growth)
- Microfinance assets in MIVs grew 11% during 2009, from \$3.8 billion to \$4.2 billion. (2008: 25% growth)

MIV Composition

- The share of microfinance assets in MIVs to total MIV assets declined slightly to 71% in 2009 from 78% in 2008.

MIV Size

- 5 large MIVs (MIV assets over \$200 million) accounted for 43% of microfinance assets.
- 54 small MIVs (MIV assets less than \$50 million) accounted for just 20% of microfinance assets.
- The top ten MIVs by microfinance assets accounted for 59% of total microfinance assets.
 - This percentage has declined since 2005 when microfinance assets of the top ten MIVs comprised 78% of total microfinance assets.

2010 MIV Survey Highlights

4

Microfinance Portfolio Composition

- Debt securities accounted for 82% of microfinance assets.
 - Demand for debt funding decreased in 2009 due to sluggish demand from MFIs.
- Equity securities as a percentage of microfinance assets grew in 2009 to 18% from 13% in 2008.
- Guarantee facilities have also waned, comprising 0.5% of microfinance assets in 2009 vs. 0.8% in 2008.
- MIV investments in other MIVs increased slightly in 2009 to \$167 million from \$152 million in 2008.
- By 2009, MIVs held 3,033 individual investments with an average investment size of \$1.4 million.

Geographic Distribution

- Investments in Latin America and the Caribbean (LAC) and Europe and Central Asia (ECA) comprise 72% of all microfinance assets.
- Microfinance assets in East Asia and Pacific (EAP) grew 124% during 2009.

MIV Investor Profile

- Private institutional investors were the top investor type, collectively representing \$1.5 billion in investments and accounting for 47% of total investors.

2010 MIV Survey Highlights

5

Managers

- Microfinance assets held by the top five multi-fund managers grew 11% since 2008.
- The largest, Blue Orchard, managed over \$1 billion in assets, representing 17% of this year's total MIV assets

Liquidity

- MIVs held approximately \$1 billion in liquid assets, or roughly 17% of total MIV assets.

New MIVs and Participants

- 14 new MIVs participated in this year's Survey.
 - Of the new participants, five were equity funds, four were debt and the remainder were blended.
- 11 of the 14 new MIVs were launched in 2009.
 - 1 MIV focuses specifically on microfinance investments in India.

Expected Growth

- 47 MIVs projected \$2 billion in new investments in 2010.

Industry Trends and Outlook

6

- There has been a slowdown in the growth of microfinance assets over the past year.
 - The credit crunch is partly at fault as MFIs have been forced to scrutinize their underwriting policies and client selection process.

- MIVs increased equity investments as demand decreased for debt financing.
 - Growth in microfinance equity assets has only compensated to a limited extent.

- 17% of assets under management or \$1 billion was held by MIVs in liquid funds, an unprecedented level.
 - Investor interest in MIVs continued to be strong and development institutions continued to disburse funds, further exacerbating MIV liquidity.
 - responsAbility suspended acceptance of new funds in the responsAbility Global Microfinance Fund (a MIV that had been open to retail investors) to address excess liquidity.

- Pressure to disburse funds together with fewer investment opportunities could lead to a deterioration of portfolio quality as managers find themselves under increasing pressure to reduce liquidity.

Industry Trends and Outlook

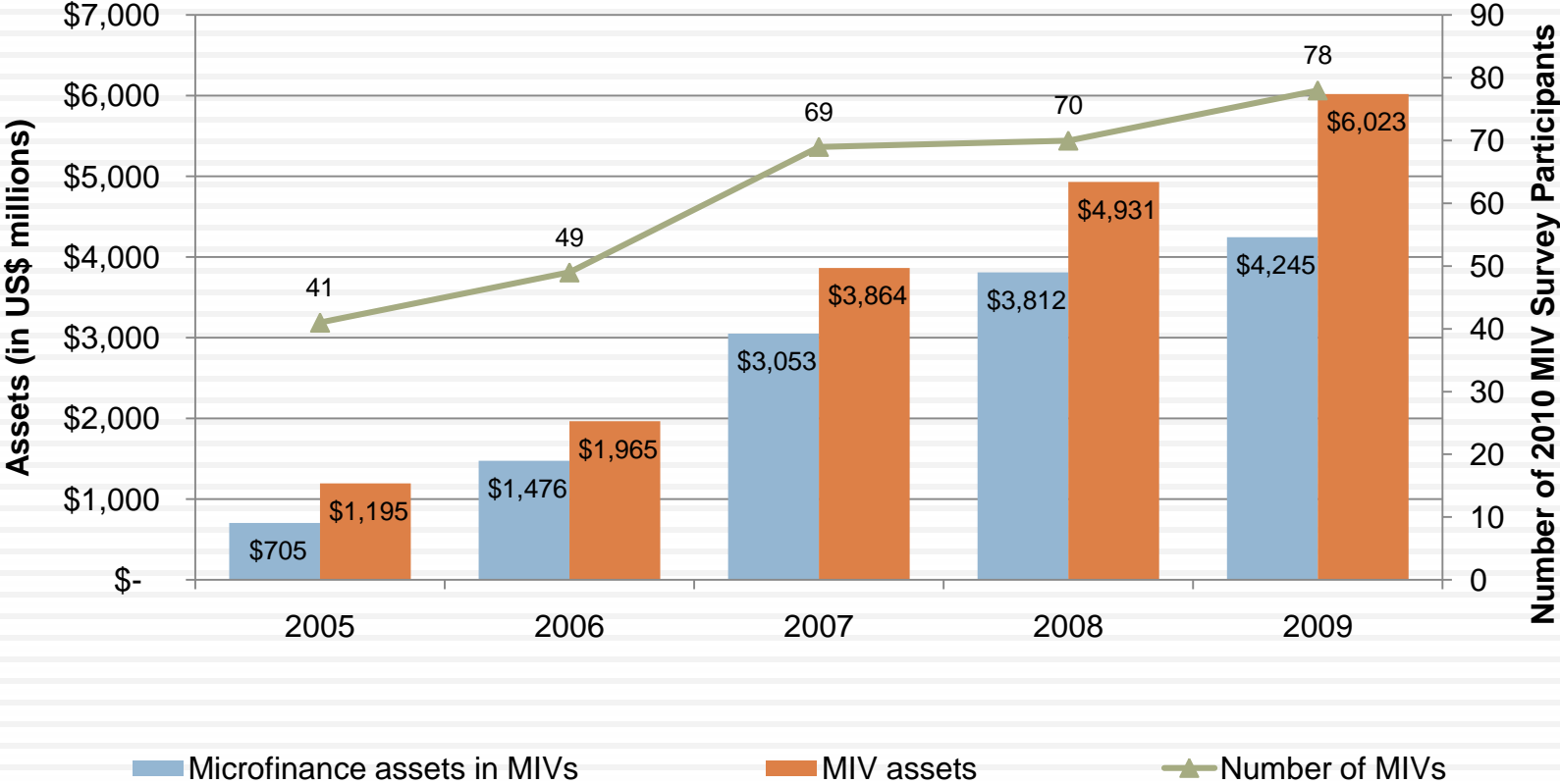
7

- The extent of the effects of the financial crisis on MFIs is still unknown.

- Borrowing preferences of MFIs shifted in 2009.
 - ▣ Local financing appears to be beating out cross-border funds, thereby contributing to excess MIV liquidity.
 - ▣ Increased availability of low-rate, local funds which are preferred to hard currency financing that introduces FX risk.
 - ▣ MIVs have responded by lending in local currency to remain competitive with local financing sources.
 - Local lending by MIVs has been facilitated by hedging facilities which mitigate risks associated with exchange rate volatility.

MIV Asset Growth

MIV Assets, 2005-2009



Trends in MIV Size

Small MIVs (Less than \$50 million)

- 54 MIVs
- Microfinance assets of small MIVs were \$844 million, representing 19.9% of total microfinance assets.

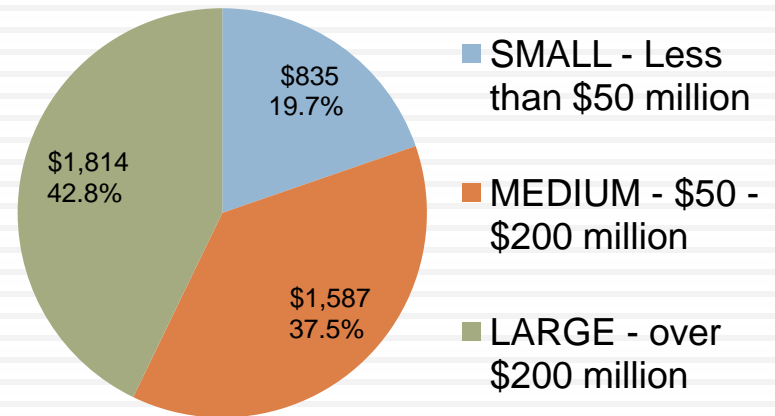
Medium MIVs (\$50 - \$200 million)

- 17 MIVs
- Microfinance assets of medium MIVs totaled \$1.6 billion, representing 37.4% of total microfinance assets.

Large MIVs (over \$200 million)

- 5 MIVs
- Microfinance assets of large MIVs were \$1.8 billion, representing 42.7% of total microfinance assets.

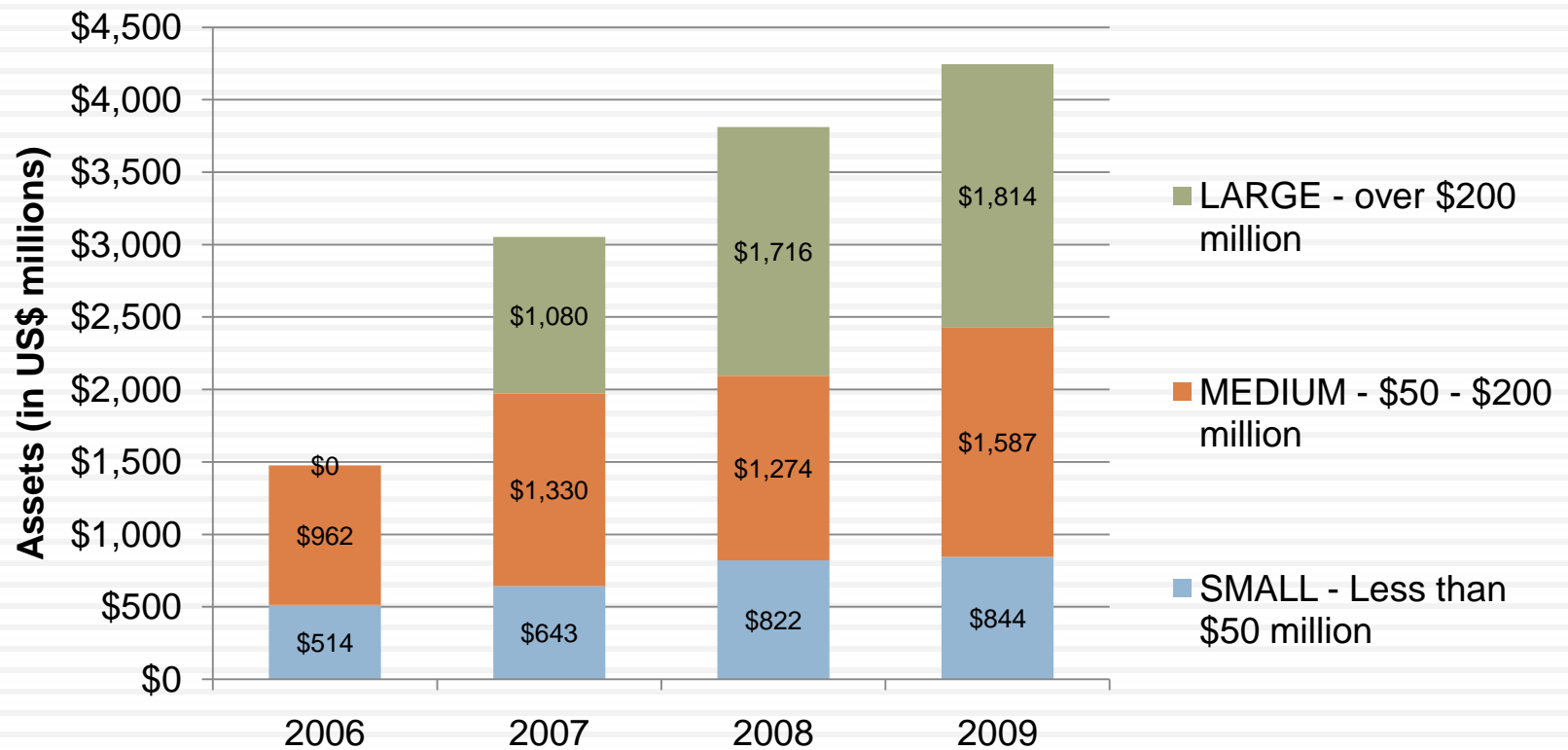
Microfinance assets by Size as of 2009 (in US\$ millions)



Trends in MIV Size

10

MIV Size, 2006-2009



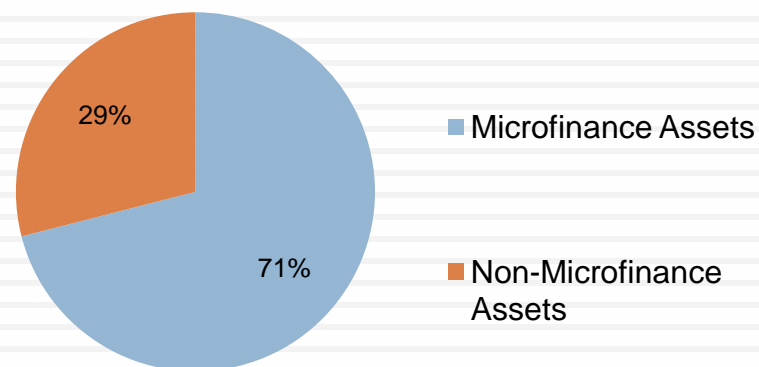
MIV Composition

11

Decrease in Proportion of Microfinance Assets

- The proportion of microfinance assets to total MIV assets decreased slightly from 78% in 2008 to 71% during 2009. Non-microfinance assets are comprised of cash and other investments.

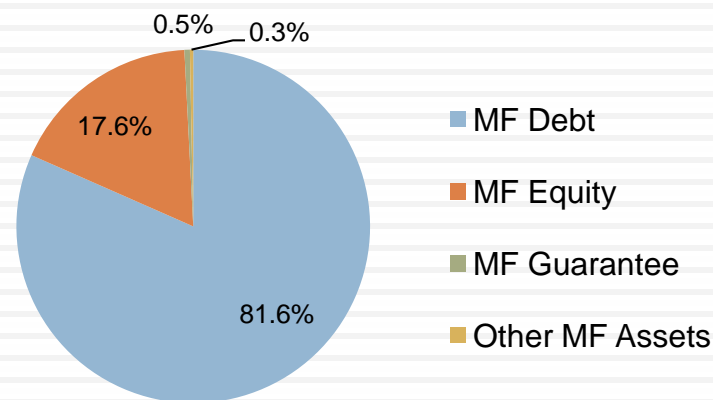
MIV Asset Composition



Microfinance Portfolio Composition

- Debt continues to make up the majority of the microfinance portfolios at approximately 82%. Equity represents nearly 18% of the microfinance portfolios and guarantees 0.5%.

Microfinance Asset Composition



MIV Composition

12

Debt

- Debt as a proportion of total microfinance assets decreased during 2009 from 85% to 82%.
- For the most part, debt has remained a relatively constant proportion of microfinance assets since 2005. The slight decline in 2009 could be attributed to the credit crunch and the resulting slowdown in demand for hard currency financing.

Equity

- Equity assets made up 18% of microfinance assets, the highest proportion since this Survey began in 2005.
- Average size of an equity investment was \$2.4 million, a significant increase from the \$1.7 million average size of an equity investment in 2008.
- Of the new MIVs established during 2009, five were equity funds.

Guarantees

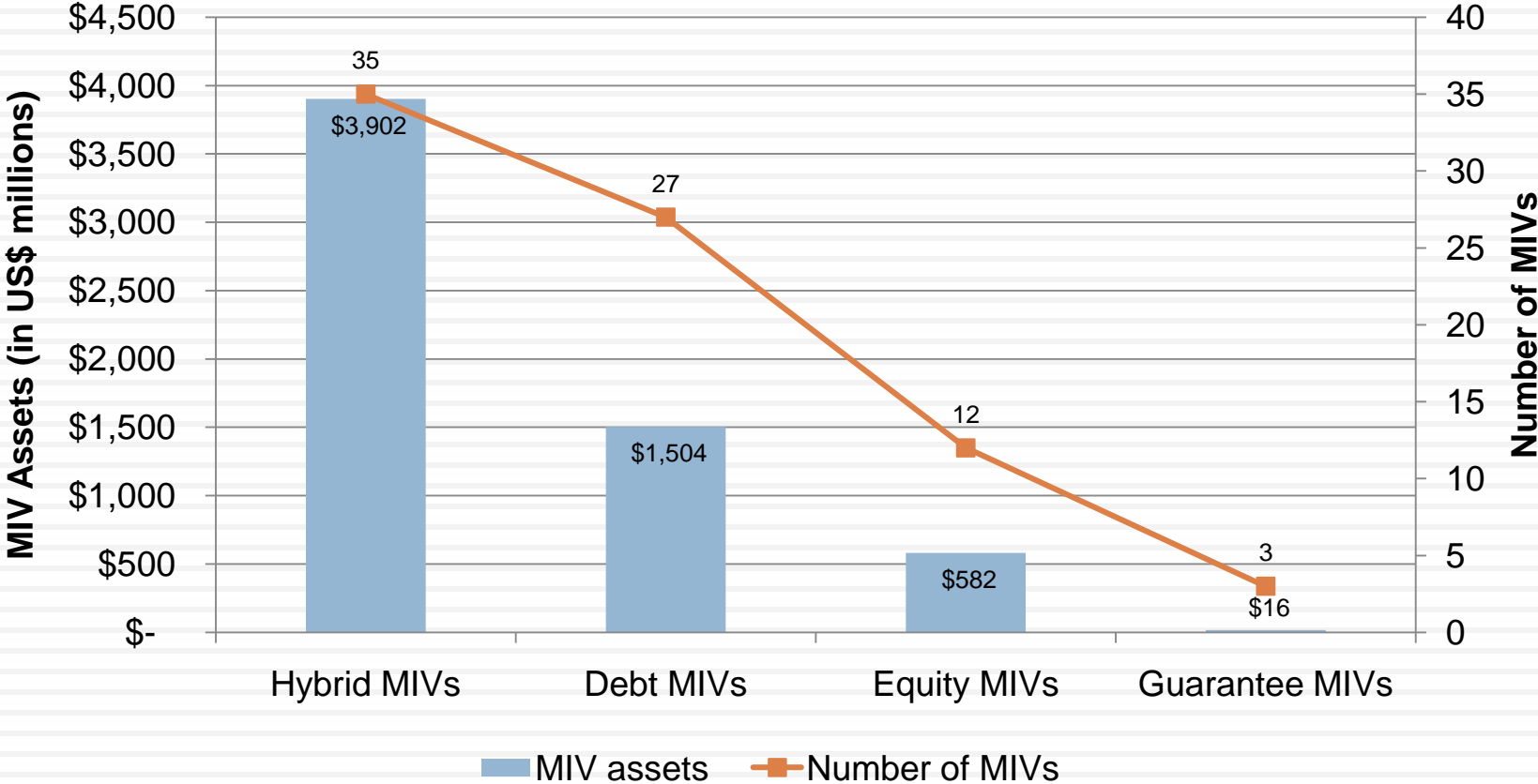
- Guarantees fell to 0.5% of MIV microfinance investments in 2009, primarily due to a decrease in guarantees provided by the Global Commercial Microfinance Consortium.

MIV Investments in Other MIVs

- Of the 78 2010 MIV Survey participants, 20 MIVs disclosed investments in other MIVs of \$167 million, an increase from \$152 million in 2008.

MIV Composition

MIVs by Type of Vehicle



MIV Portfolio Indicators

14

	2005	2006	2007	2008	2009
Number of Qualified Survey Participants	41	49	69	70	78
Total MIV Assets*	\$1,195	\$1,965	\$3,864	\$4,931	\$6,023
Debt	--	\$1,618	\$3,038	\$3,762	\$4,065
<i>% total MIV Assets</i>	--	82%	79%	76%	67%
Equity	--	\$223	\$545	\$655	\$903
<i>% total MIV Assets</i>	--	11%	14%	13%	15%
Guarantees	--	\$8	\$52	\$36	\$22
<i>% total MIV Assets</i>	--	<1%	1%	1%	<1%
Microfinance Assets*	\$705	\$1,476	\$3,053	\$3,812	\$4,245
<i>% of Total MIV Assets</i>	59%	75%	79%	77%	71%
Debt	\$611	\$1,248	\$2,524	\$3,254	\$3,463
<i>% total Microfinance Assets</i>	87%	85%	83%	85%	82%
Equity	\$75	\$190	\$471	\$488	\$749
<i>% total Microfinance Assets</i>	11%	13%	15%	13%	18%
Guarantees	\$9	\$4	\$47	\$33	\$21
<i>% total Microfinance Assets</i>	1%	<1%	2%	1%	<1%

* In US\$ millions

Top 10 MIVs

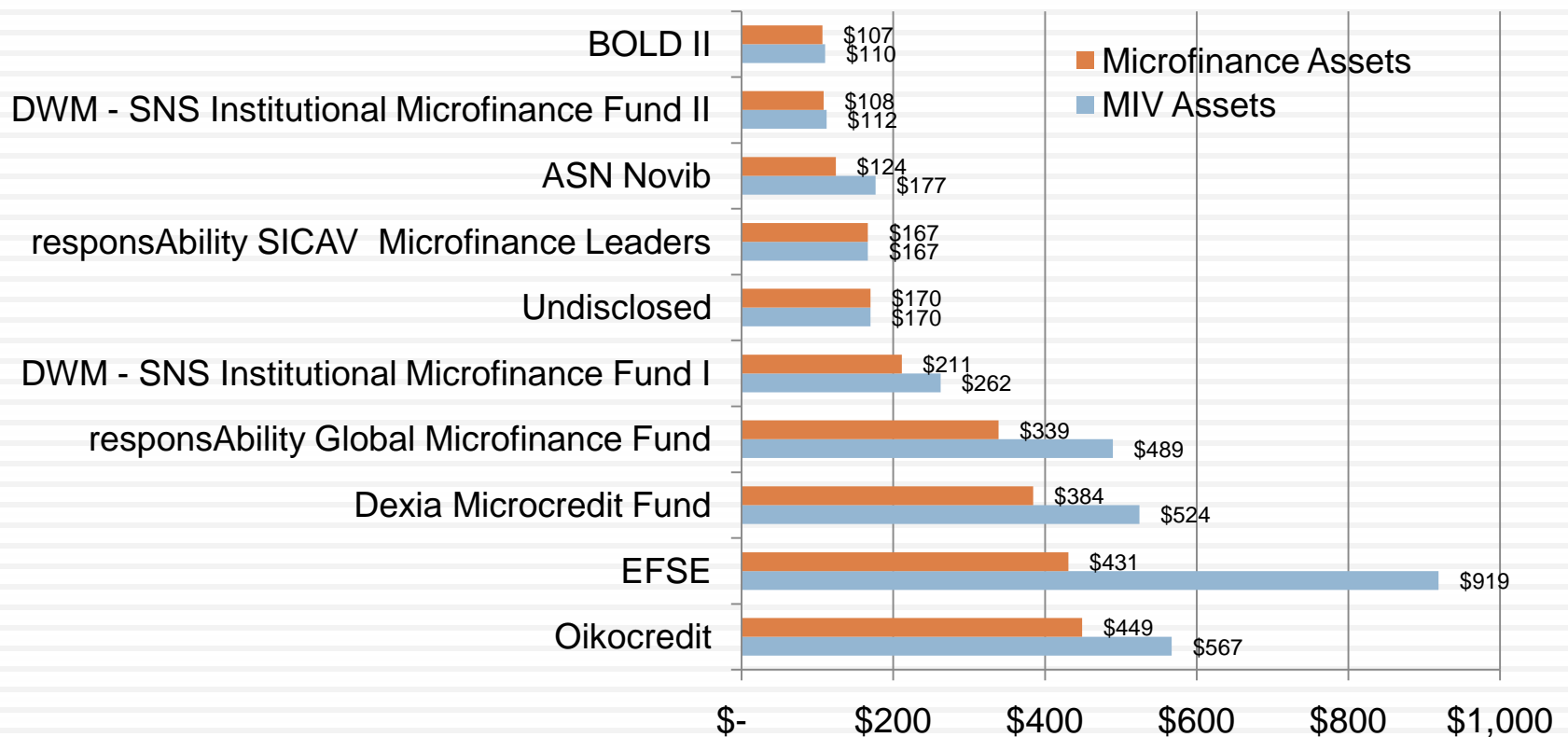
15

- In 2009, the top ten MIVs (by microfinance assets) accounted for 59% of total microfinance assets.
- Concentration has declined as evidenced by a five year drop in the percentage totals of the top ten MIVs (by microfinance assets).
- The top ten MIVs all have microfinance portfolios over \$100 million.
- The top ten MIVs (by microfinance assets) are composed primarily of debt investments; however, some MIVs make equity investments and guarantees.

Top 10 MIVs

16

Top 10 MIVs by Microfinance Assets (in US\$ millions)



Top 10 MIVs

17

Rank	2007		2008		2009	
	MIV	Size*	MIV	Size*	MIV	Size*
1	EFSE	\$308	EFSE	\$417	Oikocredit	\$449
2	Oikocredit	\$303	Oikocredit	\$415	EFSE	\$431
3	Dexia Microcredit Fund	\$255	Dexia Microcredit Fund	\$354	Dexia Microcredit Fund	\$384
4	ACCION Gateway	\$214	responsAbility Global MF Fund	\$286	responsAbility Global MF Fund	\$339
5	responsAbility Global MF Fund	\$183	DWM SNS Institutional MF Fund I	\$245	DWM SNS Institutional MF Fund I	\$211
6	responsAbility MF Leaders Fund	\$129	responsAbility MF Leaders Fund	\$160	Undisclosed	\$170
7	DWM SNS Institutional MF Fund I	\$111	BOLD SA	\$107	responsAbility MF Leaders Fund	\$167
8	BOLD SA	\$106	ASN Novib	\$103	ASN Novib	\$124
9	BOLD SA - 2006 -1	\$96	BOLD I	\$97	DWM SNS Institutional MF Fund II	\$108
10	ASN Novib	\$80	Dual Return	\$94	BOLD II	\$101
	2007 Total	\$1,785	2008 Total	\$2,278	2009 Total	\$2,490

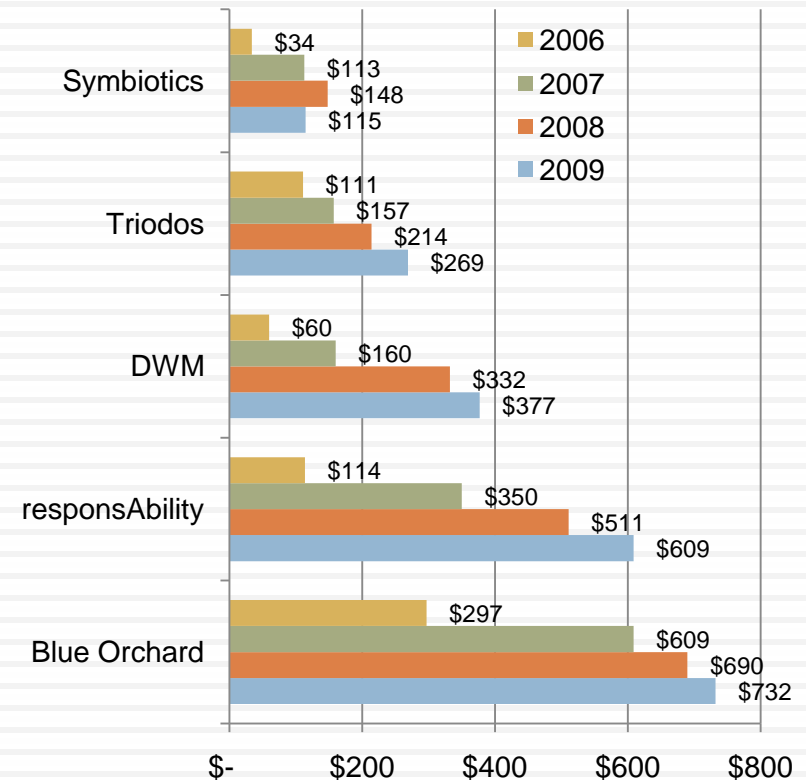
* in US\$ millions

Top Multi-fund MIV Managers

18

- For the first time, a Multi-fund MIV manager, Blue Orchard, crossed the \$1 billion mark for assets under management.
- Developing World Markets (DWM) is the fastest growing Multi-fund MIV manager and has experienced a compound annual growth rate in microfinance assets of 84.5% from 2006 to 2009.
- The top five managers in 2009 remained unchanged from 2008.

Top 5 Multi-fund MIV Managers by Microfinance Assets (in US\$ millions)



Geographic Concentration of Microfinance Assets

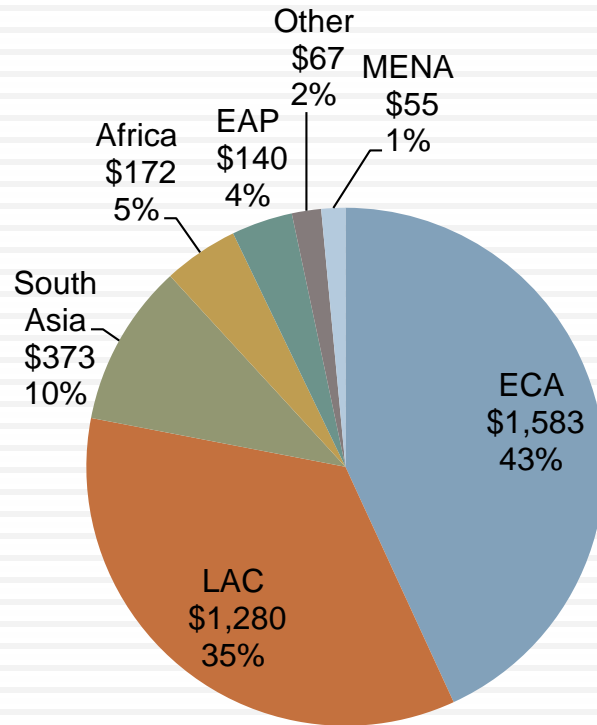
19

- Microfinance assets continued to be concentrated in Latin America and the Caribbean (LAC) and Europe and Central Asia (ECA), together comprising 72% of all microfinance assets.
- Investments in LAC, ECA, Africa, South Asia, and East Asia and Pacific (EAP) have more than doubled since 2006.
- Investments in the Middle East North Africa (MENA) region have a negative compound annual growth rate of 49% from 2006 to 2009.

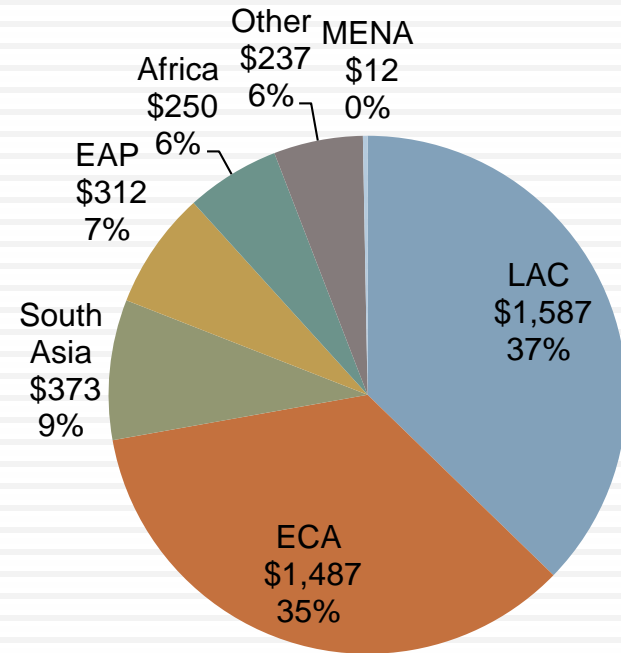
Geographic Concentration of Microfinance Assets

20

**Regional Distribution of Microfinance Assets in 2008
(in US\$ millions)**



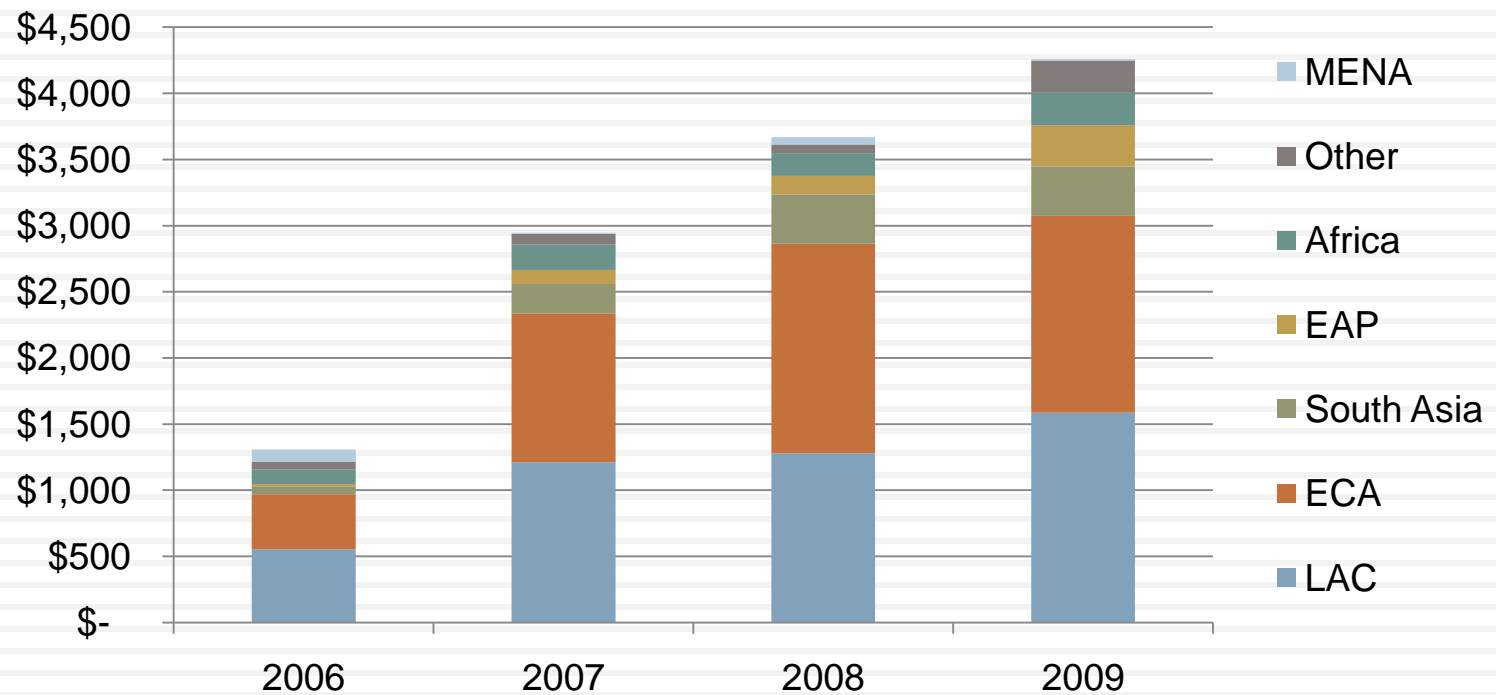
**Regional Distribution of Microfinance Assets in 2009
(in US\$ millions)**



Geographic Concentration of Microfinance Assets: 2006-2009

21

Regional Distribution of MF Assets 2006-2009 (in US\$ millions)



Geographic Concentration: LAC and ECA

22

- From 2006 to 2009, microfinance investments in ECA grew at a faster compound annual growth rate (53%) than microfinance investments in LAC (42%).
- In 2008, ECA had a larger market share (43%) than LAC (35%). However, 2009 saw a reversal of this position, as investors moved back into the more mature LAC market (37% compared to ECA's 35%).

Rank	Top 5 LAC MIVs 2009 by Microfinance Assets		Top 5 ECA MIVs 2009 by Microfinance Assets	
	MIV	Size*	MIV	Size*
1	Oikocredit	\$180	EFSE	\$299
2	Undisclosed	\$164	responsAbility Global MF Fund	\$149
3	responsAbility Global MF Fund	\$143	Undisclosed	\$111
4	Dexia Microcredit Fund	\$135	Oikocredit	\$92
5	Undisclosed	\$74	Dexia Microcredit Fund	\$83
	Total	\$696	Total	\$733
	Total LAC Microfinance Assets	\$1,587	Total ECA Microfinance Assets	\$1,488
	Top 5 LAC MIVs as % of Total LAC Microfinance Assets	44%	Top 5 ECA MIVs as % of Total Microfinance Assets	49%

* In US\$ millions

Geographic Concentration: MENA, Africa, South Asia, EPA

23

South Asia – 9%

- South Asia has witnessed a compound annual growth rate in microfinance assets of 82% since 2006, yet experienced no growth over 2008.
- Both responsAbility and Dexia increased their exposure in South Asia, while Oikocredit reduced investments in this region by over 50%.

East Asia and the Pacific (EAP) – 7%

- Strongest regional growth in microfinance assets was in EAP which grew 124% since 2008.

Africa – 6%

- Microfinance investment in Africa grew by 45% in 2009 from \$172 million to \$250 million representing 6% of MIV microfinance assets worldwide.
- Oikocredit increased its exposure to the African region by almost 300% in 2009 from \$15 million to \$58 million.

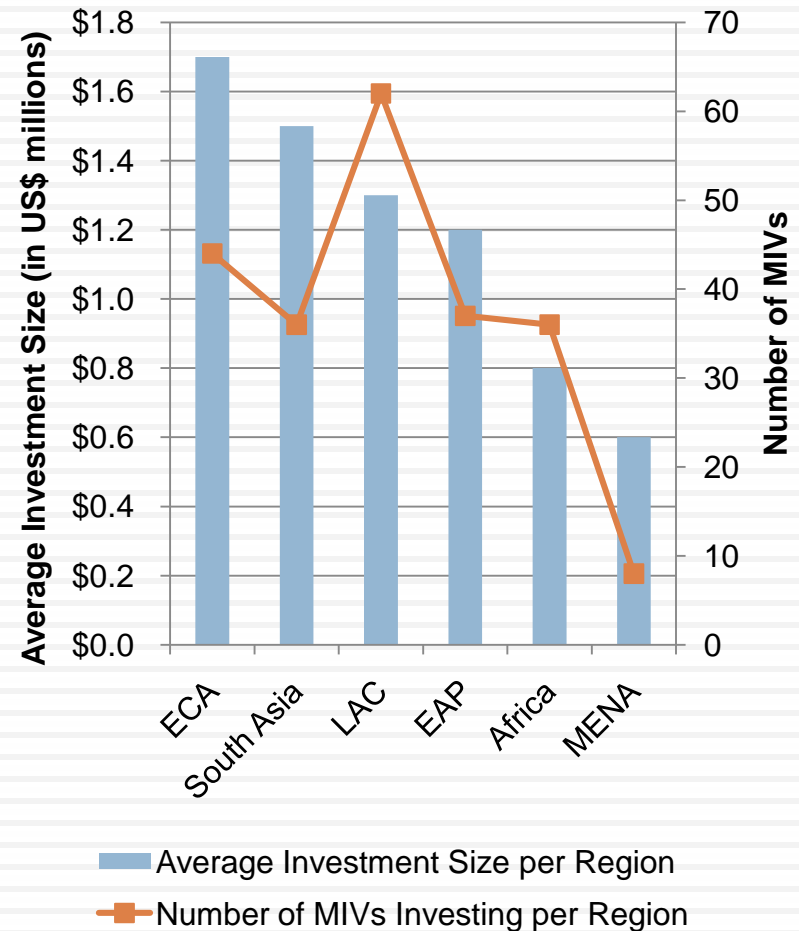
Middle East and North Africa (MENA) – <1%

- MIVs reduced their investments in MENA to less than 1% of total microfinance investments.
- The reduction is due in part to Oikocredit and Triodos Doen Foundation's drastic scaling down of investments in this region. (In 2008, these two funds had a combined market share of 90% in the MENA region.)

Geographic Concentration: Number and Investment Size

24

- LAC led with 62 MIVs investing in the region, followed by ECA with investments from 44 MIVs.
- MENA has the lowest number of MIVs investing in the region with 8 MIVs.
- ECA has the largest average investment size of \$1.7 million, followed by South Asia at \$1.5 million and LAC at \$1.3 million.
- Africa and MENA have the smallest average investment sizes at \$0.8 million and \$0.6 million, respectively.

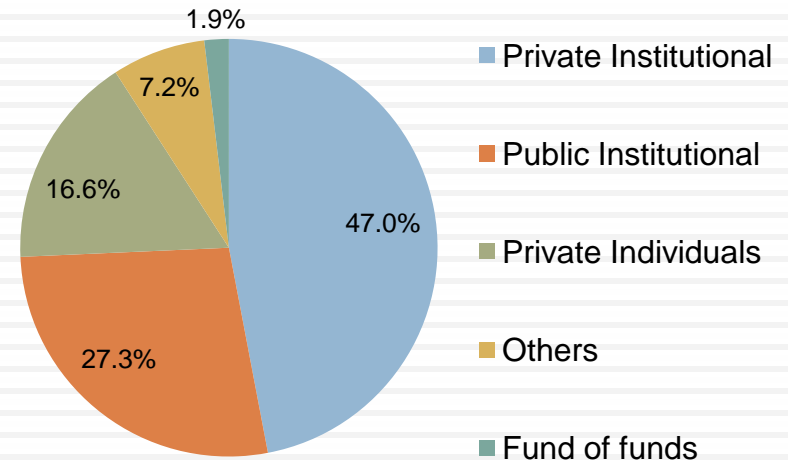


MIV Investor Profile

25

- 58 of the 77 MIV participants (74%) provided data on those that invested in their funds (“MIV Investors”)*, representing \$3.2 billion of total MIV assets.
- Private institutional investors are the top investor type, representing \$1.5 billion (47%).
- Public institutional investors are the second largest group at \$876 million, representing 27.3%.
- Investor interest in MIVs appears to have increased despite the financial crisis.

MIV Investor Types by Investment Amount



* See Annex 5 for MIV Investor Types.

Conclusions

26

- The MIV industry appears to be poised for growth in 2010, albeit at a slower rate than in years past.

- There are several potential areas where MIVs could deploy funds such as untapped equity markets and other social impact and environmentally oriented industries.
 - The cooling off period is a blessing in disguise for MIVs as it prevented the industry from growing at unsustainable levels.

 - This time period can be utilized positively
 - MIV managers can become more selective in their investment approach, increase transparency, and focus on delivering the products and services that MFIs truly require.

Annex 1: 2010 MIV Survey Participants

1. Aavishkaar Goodwill India Microfinance Development Company
2. Access Bank Bond Issue*
3. ACCION Gateway Fund LLC
4. ACCION International Global Bridge Fund
5. ACCION International Latin American Bridge Fund
6. ACCION Investments in Microfinance SPC
7. Advans SA Sicar (old name La Fayette Investissement)
8. Africap Microfinance Investment Company Ltd.
9. ALTERFIN
10. Antares Equity Participation Fund
11. ASN Novib Fund
12. BBVA Codespa Microfinance Fund
13. Bellwether Microfinance Fund Private Limited
14. Blue Orchard Loans for Development 2006-1
15. Blue Orchard Loans for Development SA (BOLD II)
16. Blue Orchard Microfinance Securities 1
17. Blue Orchard Private Equity Fund (BOPEF)
18. Calvert Foundation
19. Catalyst Microfinance Investors
20. Consorzio Etimos SC
21. Development International Desjardins FONIDI
22. Dexia Microcredit Fund
23. Dignity Fund (Fund closes in 2010)
24. Dual Return Fund (SICAV)
25. Dutch Microfinance Fund * †
26. DWM Microfinance Equity Fund * †
27. DWM - XXEB
28. DWM Microfinance Fund I
29. Elevar Equity Fund II * †
30. Envest Microfinance Cooperative *
31. European Fund for Southeast Europe
32. FINCA Microfinance Fund B.V. * †
33. Global Commercial Microfinance Consortium
34. Global Microfinance Equity Fund * †
35. Global Partnerships Microfinance Fund 2005
36. Global Partnerships Microfinance Fund 2006
37. Global Partnerships Microfinance Fund 2008
38. Gray Ghost Microfinance Fund LLC
39. Hivos Triodos Fund Foundation
40. Impulse Microfinance Investment Fund NV
41. Incofin CVSO
42. India Financial Inclusion Fund * †
43. Investisseur et Partenaire Pour le Developpement
44. LocFund
45. LokMicro *
46. Luxembourg Microfinance Development Fund * †
47. MicroAccess Trust 2007
48. MicroCredit Enterprises
49. Microfinance Loan Obligation Compartment LC
50. Microfinance Loan Obligations SA Compartment Opportunity Eastern Europe 2005-1
51. Microfinance-Invest. Nr 1
52. MicroVentures Investments SCA, SICAR * †
53. MicroVentures spa
54. Microvest I, LP
55. MicroVest II * †
56. Minlam Microfinance Offshore Master Fund, LP
57. MLC Frontiers LLC
58. MV Microfin Pvt Ltd (MicroVentures India) * †
59. Nowergian Microfinance Initiative Frontier Fund
60. Nowergian Microfinance Initiative - NMI Global Fund
61. Oikocredit Ecumenical Development Co-op Soc
62. PGGM
63. responsAbility Global Microfinance Fund
64. responsAbility SICAV (Lux) Microfinanz Fonds
65. responsibility SICAV (Lux) Microfinance Leaders
66. Rural Impulse Fund S.A.
67. Saint Honore Microfinance
68. Sarona Risk Capital Fund and Sarona Risk Capital Fund 1 LP (formerly, MEDA)
69. ShoreCap International
70. Solidarite Internationale pour de Developpment et l'Investissement
71. SNS Institutional Microfinance Fund I
72. SNS Institutional Microfinance Fund II
73. Societe Cooperative Fonds International de Garantie (FIG)
74. Triodos -Doen Foundation
75. Triodos Fair Share Fund
76. Triodos Microfinance Fund * †
77. Unitus Equity Fund LP
78. Working Capital for Community Needs, Inc

* New Participating MIV

† New MIV in 2009

Annex 2: 2010 MIV Survey Exclusions

Exclusions to the 2010 MIV Survey

1. Access (*did not qualify as an MIV per MicroRate's definition*)
2. AXA (*did not qualify as an MIV per MicroRate's definition*)
3. Community Needs, LLC (*did not qualify as an MIV per MicroRate's definition*)
4. Luxmint (*closed during 2009*)
5. Microfinance Enhancement Facility (*closed during 2009*)

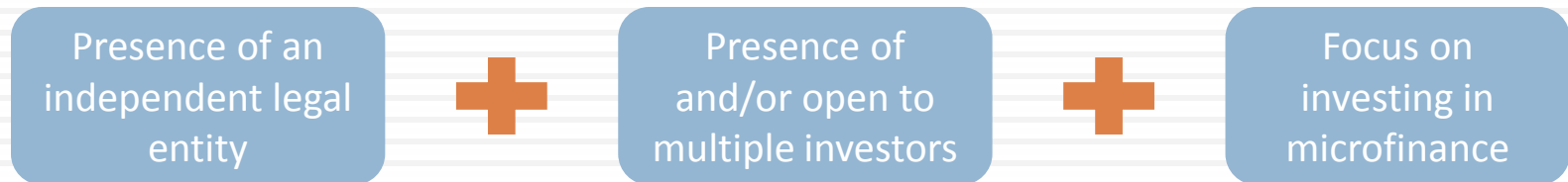
MIVs which did not respond to the 2010 MIV Survey

1. Aavishkar
2. Balkan Financial Sector Equity Fund
3. CredSud spA
4. Latin American Challenge Investment Fund S.A. (Cyrano Management)
5. Finethic Microfinance Fund (Symbiotics)
6. LokCapital
7. Kolibri Kapital ASA
8. Wallberg Global Microfinance Fund (Symbiotics)

Annex 3: Definition of an MIV

29

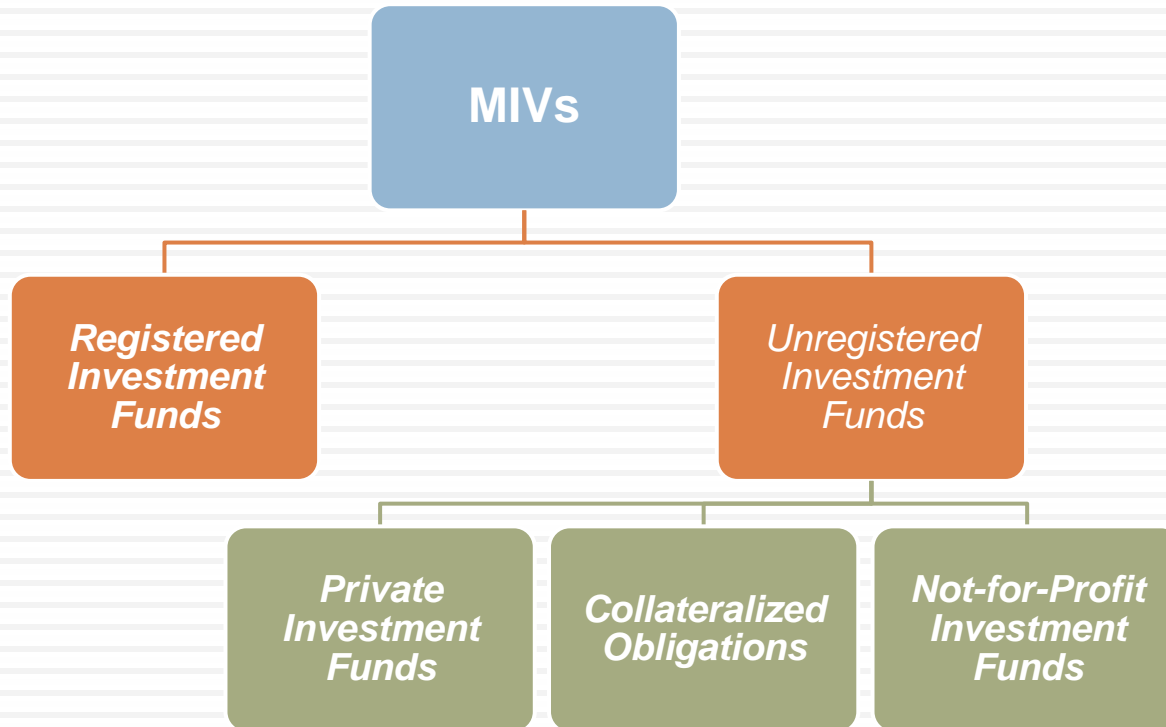
- MicroRate defines an MIV as an independent investment vehicle, which satisfies the following three criteria:



1. The investment vehicle must be an independent legal entity for raising and investing funds (i.e. independent of the Microfinance Institutions (MFIs) being funded).
 - MFI holding companies such as ProCredit Holdings are excluded from this Survey.
2. There must be a presence of multiple private investors or the vehicle must be open to such investors.
 - Investment vehicles which are only sponsored by development agencies or government bodies and are not set up collectively with private investors, or open to them, are excluded.
 - An investment vehicle supported only by donors does not qualify as a MIV.
 - E.g. Grameen Foundation, Omidyar Tufts Microfinance Fund, Deutsche Bank Start Up Fund and Deutsche Bank Microcredit Development Fund.
 - Investment vehicles that accept both donor and investment capital, like MicroCredit Enterprises, are included.
3. The investment vehicle must focus on investing in microfinance.

Annex 4: MIV Classifications

30



In the 2009 and 2010 MIV Surveys, MicroRate simplified the classifications of MIVs, defining them by legal structure.

Annex 4: MIV Classifications

- **Registered Investment Funds** are open to retail investors and are regulated by local market authorities. They publish their net asset value on a regular basis.
- **Private Investment Funds** are open to qualified, accredited investors seeking a return. As private companies, they are typically not subject to regulation by local market authorities and are not open to retail investors.
- **Collateralized Obligations** offer investors two or more classes of investment (tranches), each reflecting different levels of risk and return based on the cash flows of the underlying portfolio.
- **Not-for-Profit Investment Funds** are non-profit organizations, including NGOs and cooperatives, that reinvest most or all returns. These private organizations are typically exempt from regulation by local market authorities.

Per MicroRate's definition of an MIV, holding companies are not considered to be MIVs and are therefore excluded from the 2010 MIV Survey.

Annex 5: MIV Investor Types

32

- MicroRate breaks down MIV Shareholders into the following categories:
 - **Private Individuals** - High-net-worth, retail, etc.
 - **Public Institutions** - Development Finance Institutions, International Financial Institutions, or other Public money
 - **Private Institutions/Commercial Investors** - banks, pension funds, etc.
 - **MIVs Investments in Other MIVs** - Investments in other MIVs
 - **Others** - NGOs, Foundations and Investors with religious affiliations

Disclosures

- Copyright © MicroRate Incorporated. 3300 North Fairfax Drive, Suite 202, Arlington, Virginia 22201. All rights reserved. Reproduction or retransmission is permitted, provided credit is given to “MicroRate Incorporated”.
- Data included in the 2010 MIV Survey was reported as of December 31, 2009 and exchange rates used are based on published year-end closing rates.
- Data from MIVs who opted for non-disclosure of individual 2010 Survey information (36% of participants) has been used on an aggregate basis only.
- Data from previous years’ Surveys will differ from information presented here as certain MIVs have been included or removed from older Surveys’ data based on consistency with the MIV definition and new information collected. The overall impact of these updates is negligible. Some MIVs updated their 2010 MIV Survey information from that which was provided in 2008, hence the variance with the previous years’ Survey results.
- Please note this presentation was compiled primarily on the basis of information provided by participants for the 2010 MIV Survey. The information is provided for informational purposes only and without any obligation, whether contractual or otherwise. No warranty or representation is made as to the correctness, completeness and accuracy of the information given.

Sponsors

34

State of Microfinance Investment: The MicroRate 2010 MIV Survey
was made possible by the generous support of:

