



responsAbility

Foreign Investments in Microfinance: Demand, Supply and Trends

Estimates and findings from Microfinance market studies

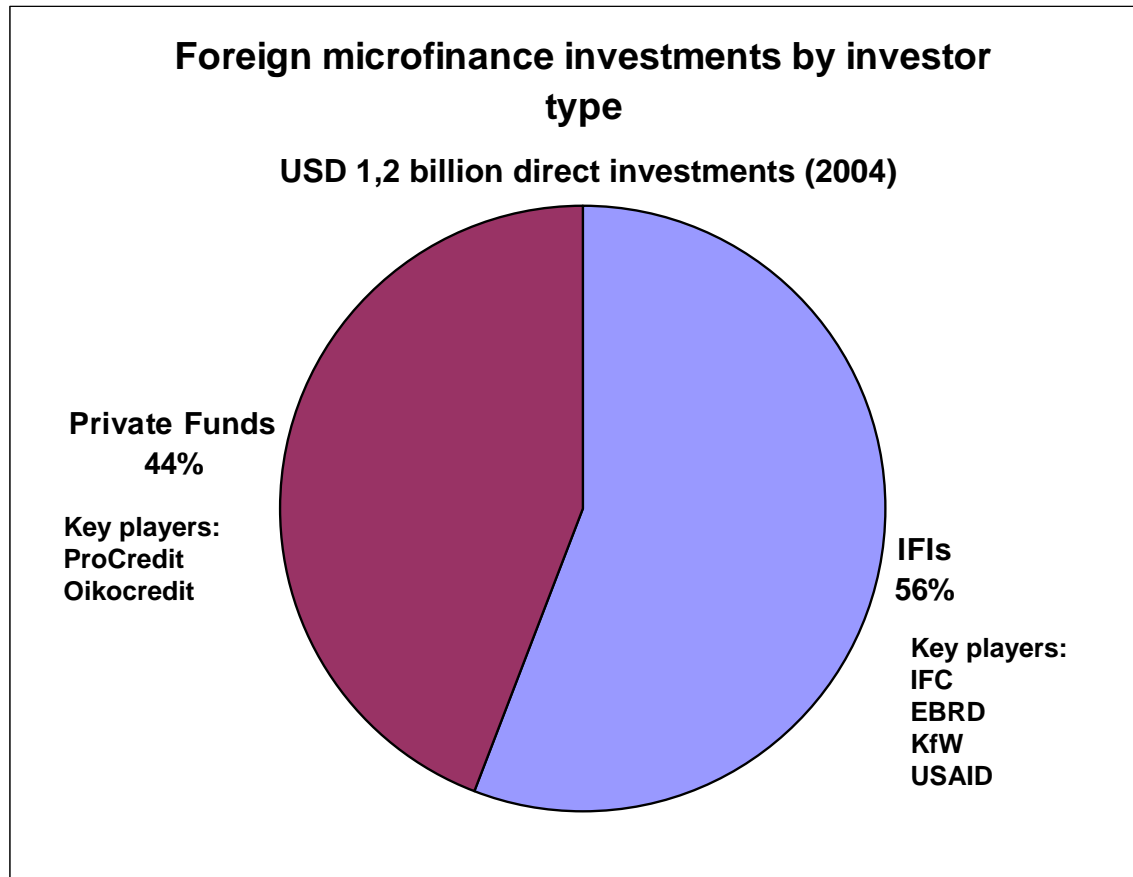
Some assumptions to estimate demand

- Estimations of theoretical total microfinance market size go up to USD 31 billion (IMD)
- Plausibility check:
 - 500 mio microentrepreneur worldwide (CGAP)
 - 10% credit worthy
 - USD 500 average loan size
 - => refinancing needs of USD 25 billion
- Assumed demand today:
 - 10% of potential clients reached by MFIs
 - => USD 2.5 billion demand for refinancing
- Assumptions to project future demand for foreign investments:
 - 50% of total refinancing needs supplied by international investors
 - Debt/Equity ratio 4:1
 - => USD 2.5 billion equity, USD 10 billion debt
- Demand for debt investments expected to grow up to an estimated demand of USD 3.1 USD by 2009*).

*) Source:

Marc de Sousa-Shields, Cheryl Frankiewicz (2004): Financing Microfinance Institutions: The Context for Transitions to Private Capital. Microreport Nr. 8, USAID.

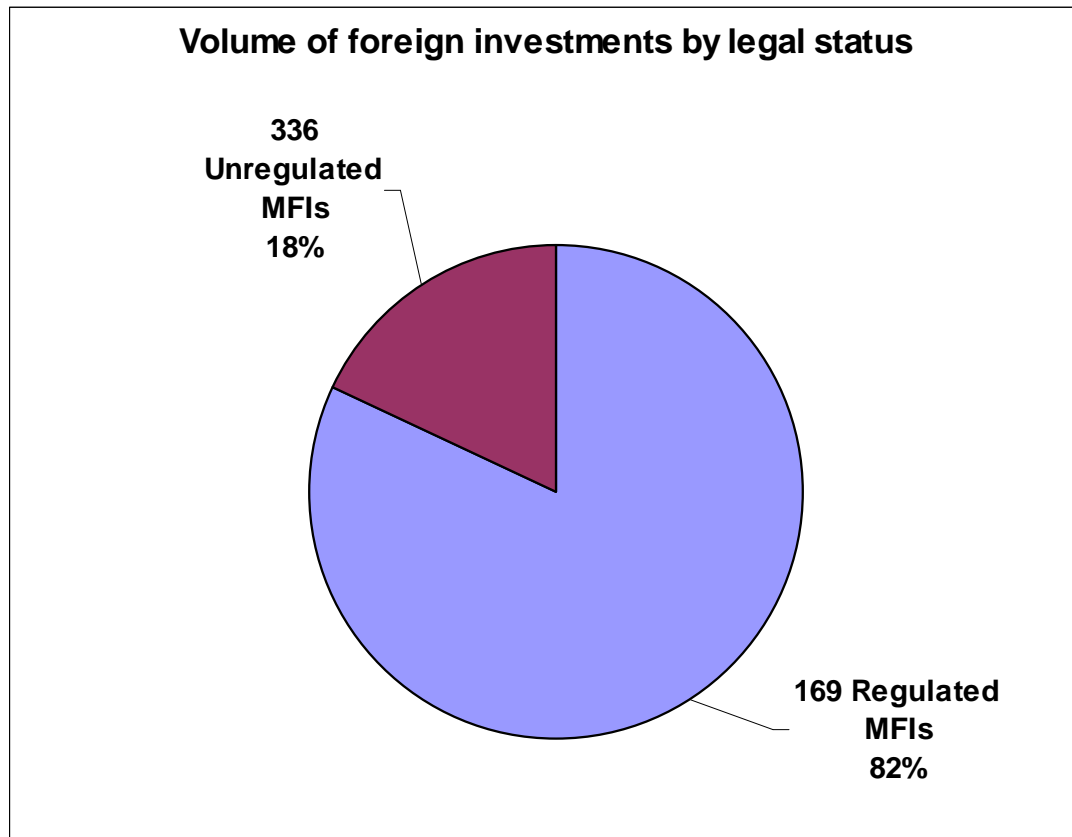
Volumes and sources of supply



- Majority of foreign investments supplied by just a few players
- About USD 650 mio expected to be available in the near term via private funds (2004)
- 2005 update (Microrate):
USD 1.465 billion via private microfinance investment funds

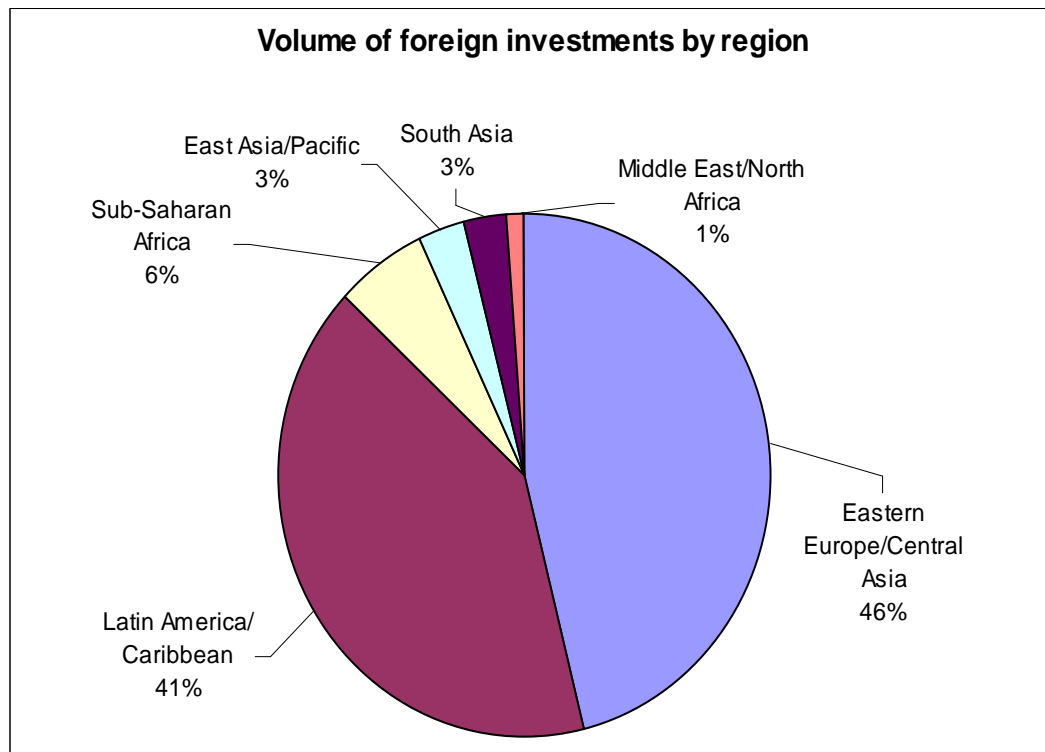
Source
2004 CGAP-MIX survey of MFI funding needs; Data: 2003 to mid-2004

82% of all investments go to regulated MFIs



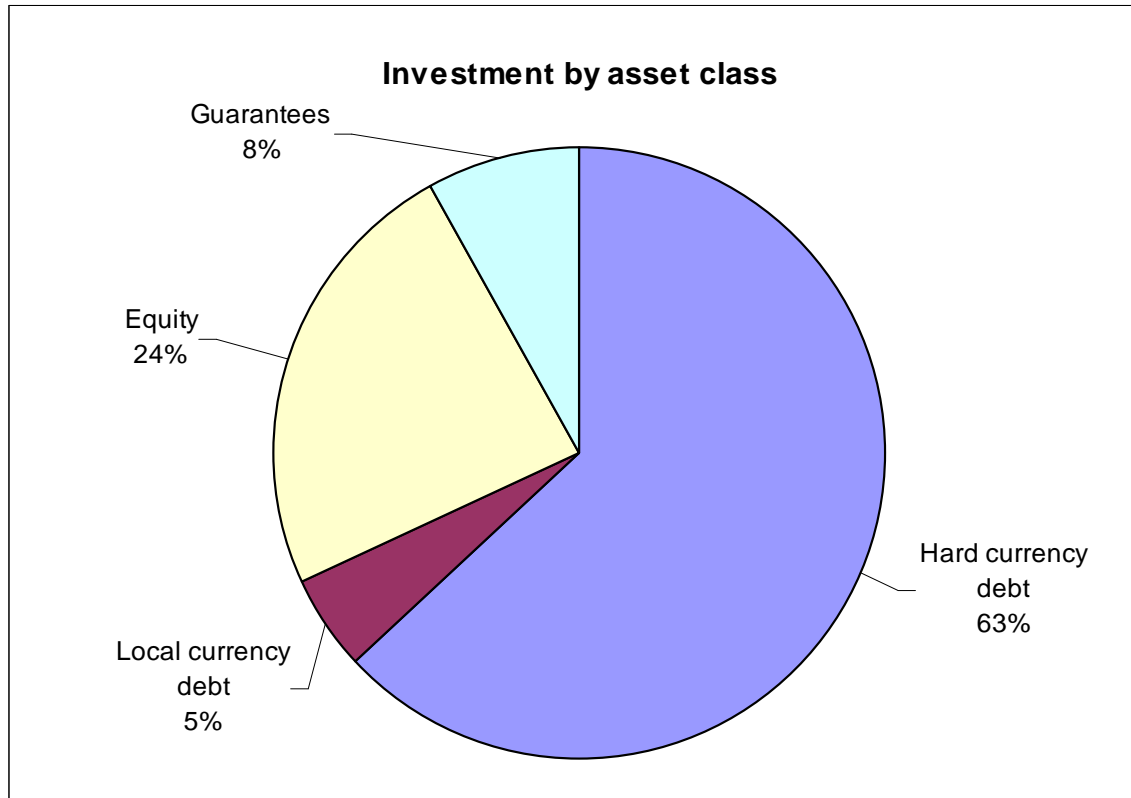
- High concentration in a few MFIs
- High operational risks, legal barriers, low transparency and high transaction costs to reach the bulk of MFIs

Regional Breakdown: 87% of total investments go to LAC and ECA



- Country and currency risks in „underserved“ markets
- Availability of donations or subsidized governmental funding sources in Africa and Asia

64% of investments come in the form of hard currency debt



- Increasingly efficient investment processes for debt investments
- Limited possibilities to provide local currency loans

Trends

- Privately sourced investment funds will play an increasingly important role
- MFIs and investors increasingly aware of unmanaged foreign exchange risks
- Regulated MFIs are expected to increasingly access local financing sources
- Demand for equity capital will increase as more MFIs transform to regulated institutions
- Future demand for debt capital will come from less well-established MFIs
- Future demand will come from countries with high country risks

Why are foreign investments attractive for MFIs?

Answers from a majority of 36 regulated and 112 unregulated MFIs/cooperatives:

- Lower interest rate
- Easier or lower amount of collateral
- Investor's willingness to negotiate
- Tenor (length of loan)
- Ability to attract other lenders and investors
- Better range of products
- Technical assistance provided with foreign capital

Source: 2004 CGAP-MIX survey of MFI funding needs

Barriers for foreign microfinance investments

- High transaction costs
- Country risks
- Limited possibilities for investors to manage foreign exchange risk
- Large and profitable MFIs continue to receive loans from IFIs often at subsidized rates -> high entry barriers for private investors for deals which could bring overall risk exposure and transaction costs in a portfolio down
- Lack of ratings from market-recognized raters (e.g. S&P, Fitch), lack of MFIs with investment grade rating necessary for institutional investors
- Lack of easily accessible market data and performance indicators
- No systematic use of ratings from specialized microfinance rating institutions for investment pricing
- Legal and formal hurdles



Net financial returns perceived as not rewarding investment risks