Aspen Network for Development Entrepreneurs (ANDE)

Learnings from analogous markets

July 11th, 2008
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• Introduction

• Microfinance

• Emerging market private equity and venture capital
Introduction

This document contains findings from analogous markets (microfinance and emerging markets private equity and venture capital) that have helped to shape the Aspen Network for Development Entrepreneurs (ANDE ) organization

• Accompanies and supports the ‘ANDE Call to Action’ document and the ‘ANDE Background Analysis’ document

This document was developed by Dalberg Global Development Advisors to support ANDE. Much of the information in these slides is drawn from analysis conducted by the Monitor Institute for Rockefeller Foundation and many of the key ideas and insights developed through discussions with the Monitor Institute team. We recognize and thank the Monitor Institute for their collaboration and input in this work.

This document is a work in progress and we would appreciate any feedback. Please send your comments to Andrew Stern or Veronica Chau at Dalberg (andrew.stern@dalberg.com or veronica.chau@dalberg.com)
Key learnings from analogous markets (I)

- Successful players can have a strong demonstrator effect to help grow a new sector
  - Banco Sol’s success as first commercial bank dedicated to microfinance had positive effect on the industry
    - Improved view of microfinance within the sector
    - Encouraged new entrants into the sector
- Early players’ experiences, even when negative, help new players identify and address challenges to better ensure success
  - Later PE/VC players adapted strategies in order to mitigate challenges experienced by early practitioners

- Top MFIs have utilized innovative deal structures and equity transactions to access capital markets and attract new investors
  - International CDOs, investment in Mezzanine funds, securitization of MFI portfolios, IPOs
- Increased capital markets participation in microfinance led to innovations to address new challenges faced by MFIs
  - S&P announced plan for global MFI ratings as many institutional investors require ratings from recognized agency
  - Antares Fund created to develop secondary market and address illiquidity

Source: Monitor Institute Microfinance Analogue; Accion InSight; Deutsche Bank Research; Antares Fund; Julie Sunderland and Roger Leeds, “Private Equity Investing in Emerging Markets”, Journal of Applied Corporate Finance, 2003; Alyssa A. Grikscheit, “Private Equity in Latin America: Strategies for Success” ; industry organizations’ websites and publications (CGAP, SEEP, MSC, The MIX, LAVCA, EMPEA); sector interviews; Dalberg analysis
Key learnings from analogous markets (II)

- There is a need for both member services and strategy setting from sector organizations in developing markets
  - Range of organizations played these roles in microfinance sector
    - SEEP Network: focused on practitioner tools and best practice sharing
    - CGAP: focused on best practice sharing and standard setting for practitioners and funders
    - Microcredit Summit Campaign: focused on goal-setting and convening sector
  - In emerging markets PE/VC, EMPEA and LAVCA are examples of organizations that serve both members and the broader sector
- Organization’s roles should reflect its target stakeholders, structure and competitive advantages

- Sector-wide organizations vary in structure and resource requirements, for example
  - CGAP: membership organization that serves both members and broader microfinance community; larger budget (CG member annual contributions to core budget averaged $12M recently)
  - Microcredit Summit Campaign: grassroots organization that serves broad microfinance community; small budget (~$1M per year)

Source: Monitor Institute Microfinance Analogue; Accion InSight; Deutsche Bank Research; Antares Fund; Julie Sunderland and Roger Leeds, “Private Equity Investing in Emerging Markets”, Journal of Applied Corporate Finance, 2003; Alyssa A. Grikscheit, “Private Equity in Latin America: Strategies for Success”; industry organizations’ websites and publications (CGAP, SEEP, MSC, The MIX, LAVCA, EMPEA); sector interviews; Dalberg analysis
Key learnings from analogous markets (III)

- EMPEA code of conduct requires members to adopt standards for measuring and reporting that conform with widely accepted industry guidelines
- Specialized rating agencies and The MIX developed to increase transparency among MFIs
- The microfinance Donor Peer Review increased transparency and best practice sharing among donors
  - Donors committed to action steps after review
  - Donor aid effectiveness believed to have improved after review

- Microfinance ratings products and agencies developed out of sector needs
  - However CGAP/IDB rating subsidies contributed to uptake of ratings and increased sector transparency
- MFIs have several incentives to report data to The MIX and increase sector transparency
  - Increased visibility to potential funders
  - Ability to apply for CGAP’s Financial Transparency Award
  - Customized benchmarking reports from MBB

Source: Monitor Institute Microfinance Analogue; Accion InSight; Deutsche Bank Research; Antares Fund; Julie Sunderland and Roger Leeds, “Private Equity Investing in Emerging Markets”, Journal of Applied Corporate Finance, 2003; Alyssa A. Grikscheit, “Private Equity in Latin America: Strategies for Success”; industry organizations’ websites and publications (CGAP, SEEP, MSC, The MIX, LAVCA, EMPEA); sector interviews; Dalberg analysis
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• Microfinance

• Emerging market private equity and venture capital
Total volume of microfinance loans has increased significantly in recent years.

Source: Deutsche Bank Research, “Microfinance: An Emerging Investment Opportunity”
Microfinance was originally funded primarily through grants however foreign investments playing an increasingly important role

Foreign capital investment in microfinance ($B)

Increase in foreign capital investment due to:

- Increased demand from MFIs
  - Largest 100 MFIs are increasing client base by 26% per year
  - Many MFIs operate in countries with weak domestic capital markets

- Increased interest from socially responsible investors
  - Attractive risk-return profile
    - Potential returns close to money market levels
    - Low historical risk
    - Low correlation to mainstream financial assets and domestic economy

Several events and initiatives have helped catalyze the growth of microfinance

| Demonstration | Encouraged new entrants into the market  
|               | Demonstrated best practices to be replicated |
| Sector-wide organizations | Set sector-wide goals and objectives  
|               | Provided thought leadership, best practice dissemination and useful tools for practitioners |
| Increased transparency | Created transparency, accountability and benchmarking  
|               | Increased MFI’s capital market access |
| Donor review | Increased best practice sharing among donors  
|               | Strengthened donor’s internal practices |
| Increased exposure | Increased awareness and buy-in among public and private sector  
|               | Formally recognized microfinance benefits |
| Capital markets involvement | Helped MFI’s access new financing sources  
|               | Spurred innovation to address new challenges faced by MFI’s seeking access to capital markets |

Source: Monitor Institute Microfinance Analogue; Accion InSight; Deutsche Bank Research; Antares Fund; industry organizations’ websites and publications (CGAP, SEEP, MSC, The MIX, LAVCA, EMPEA); sector interviews; Dalberg analysis
Banco Sol experienced success in Bolivia and inspired new players– example of the strong demonstrator role successful models can play in a growing sector

Banco Sol was the first commercial bank dedicated to microfinance

- Founded by PRODEM, a microfinance NGO, in 1992
- Started with $4 million in initial financing
  - Socially-oriented capital: Inter-American Investment Corporation, Rockefeller Foundation, ACCION and PRODEM
  - Private capital: influential Bolivians
- Began with PRODEM’s $6.5M portfolio
  - 22,000 borrowers
- Portfolio grew over 10x by 1999
  - Over 80,000 clients

This success was noticed internationally and inspired players

- Success helped to change the view that microentrepreneurs are high-risk
  - Bank reported arrears of 3.5% on average
- Experience led new microfinance players to enter the sector
  - New regulated MFIs, e.g., FASSIL (Bolivia), Bangente (Venezuela), K-Rep (Kenya)
  - Traditional banks who were interested in moving into microfinance, e.g., Banco de Desarrollo and Banco del Estado (Chile), Banco do Nordeste (Brazil)

Source: Monitor Institute Microfinance Analogue
A range of organizations helped catalyze the microfinance sector - organizations’ focus varied from member services to strategy setting.

<table>
<thead>
<tr>
<th>Sector role:</th>
<th>Member services</th>
<th>Organization’s focus</th>
<th>Strategy and advocacy</th>
</tr>
</thead>
<tbody>
<tr>
<td>SEEP Network</td>
<td>Best practice sharing</td>
<td>Best practice sharing</td>
<td>Convenings</td>
</tr>
<tr>
<td></td>
<td>Peer learning</td>
<td>Standard setting</td>
<td>Goal setting and monitoring</td>
</tr>
<tr>
<td></td>
<td>Practitioner-oriented tools and products</td>
<td>Technical and advisory services and training</td>
<td>Books and papers</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Audience:</th>
<th>Practitioners</th>
<th>Practitioners and Funders and Policymakers</th>
<th>Public</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Membership:</th>
<th>Practitioners</th>
<th>Funders</th>
<th>Open to public</th>
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</thead>
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<table>
<thead>
<tr>
<th>Funding:</th>
<th>Membership dues and staff time</th>
<th>Membership funding</th>
<th>Foundation grants</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>Products and services</td>
<td></td>
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<tr>
<td></td>
<td>Grants</td>
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</tbody>
</table>

Source: Organizations’ websites and publications
**The Small Enterprise Education and Promotion (SEEP) Network was established in 1985 to connect microfinance practitioners**

<table>
<thead>
<tr>
<th>History and Origins</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Began in 1985 as the Small Enterprise Evaluation Project (SEEP)</td>
</tr>
<tr>
<td>• Established to bring a practitioner-focused approach to evaluating small business projects</td>
</tr>
<tr>
<td>• Original membership comprised of 25 North American-based international NGOs</td>
</tr>
<tr>
<td>• In 1987, became the SEEP Network</td>
</tr>
<tr>
<td>• Membership recently extended to international organizations</td>
</tr>
</tbody>
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<table>
<thead>
<tr>
<th>Structure and sustainability</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Incorporated as a non-profit organization in 1995</td>
</tr>
<tr>
<td>• Currently comprised of 74 institutional members in over 140 countries</td>
</tr>
<tr>
<td>• Members include non-profit microfinance practitioners, individuals previously employed by SEEP members and MFI networks</td>
</tr>
<tr>
<td>• Activities undertaken through working groups</td>
</tr>
<tr>
<td>• Members pay annual dues and contribute staff time and travel costs to events</td>
</tr>
<tr>
<td>• FY 2006 revenue was $2.5M</td>
</tr>
<tr>
<td>• Generated from government and foundation grants, products and services and investments</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Working groups</td>
</tr>
<tr>
<td>• Comprised of volunteers from member organizations and facilitated by a professional</td>
</tr>
<tr>
<td>• 9 working groups in 2007</td>
</tr>
<tr>
<td>• Practitioner Learning Program (PLP)</td>
</tr>
<tr>
<td>• Research on well-defined topics</td>
</tr>
<tr>
<td>• Small grants given to 5-7 organizations to research / pilot programs, technologies and/or standards</td>
</tr>
<tr>
<td>• Lessons captured in technical and progress notes</td>
</tr>
<tr>
<td>• Capacity Building Program</td>
</tr>
<tr>
<td>• Network Capacity Assessment Tool (NCAT) used to assess organizational capacity of MFI networks</td>
</tr>
<tr>
<td>• Develops and delivers TA to MFI networks</td>
</tr>
<tr>
<td>• Publications and tools</td>
</tr>
<tr>
<td>• Publications used by practitioners and university microfinance courses</td>
</tr>
<tr>
<td>• FRAME tool helps MFIs develop performance management systems and report to stakeholders</td>
</tr>
</tbody>
</table>

Source: [www.seepnetwork.org](http://www.seepnetwork.org); SEEP Network 2007 Annual Report; sector interviews
The SEEP Network has evolved significantly since its inception

**Focus**
- Began as the SEEP Project
  - Specifically created to develop a practitioner-focused approach to evaluating programs
  - Project’s output was a monitoring and evaluation guide published in 1987
- In 1987, the SEEP Project became the ongoing SEEP Network
  - Created to promote a broader learning agenda

**Structure**
- From 1987 to 1995, operated through host organizations such as CARE and PACT
- In 1995 incorporated as a non-profit organization

**Membership**
- Launched as an membership organization for North American-based international NGOs
  - Between 1997 and 2000, SEEP expanded its work to include services for country and regional level MFI networks
- SEEP membership expanded to include international organizations

Source: [www.seepnetwork.org](http://www.seepnetwork.org); SEEP Network 2005 and 2007 Annual Reports
SEEP offers a range of benefits to its three member types – Private Volunteer Organizations, individual Friends of SEEP and MFI networks

<table>
<thead>
<tr>
<th></th>
<th>Private Volunteer Organization (PVO) member&lt;sup&gt;1&lt;/sup&gt;</th>
<th>Friends of SEEP members</th>
<th>Networks of SEEP members</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opportunity to participate in lateral learning</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Opportunities to communicate with colleagues from around the world</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>One free copy of each new SEEP publication published in hardcopy</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Discounted fees for the SEEP meetings and conferences</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Inclusion in SEEP online directory</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Opportunities to participate in Capacity Building Programs</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Full voting rights and opportunity to participate on Board of Directors</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Annual membership dues</td>
<td>$1,000</td>
<td>$200</td>
<td>Not available</td>
</tr>
</tbody>
</table>

1. Non-profit microfinance practitioners

Source: [www.seepnetwork.org](http://www.seepnetwork.org)
Many of SEEP’s key ‘lessons learned’ are relevant as ANDE is designed and launched

<table>
<thead>
<tr>
<th>Key areas</th>
<th>SEEP Lessons Learned- as cited in 2005 Annual Report</th>
</tr>
</thead>
</table>
| **Vision** | 1. Define the membership.  
|            | 2. Set and adhere to guiding principles that acknowledge equality and community.  
|            | 3. Foster members’ engagement in governance and policy formation.  |
| **Capacity** | 4. Focus on the practitioner.  
|            | 5. Start with one activity and do it well.  
|            | 6. Create mechanisms for learning that favor collective analysis, and include opportunities.  
|            | 7. Focus on products and their dissemination.  
|            | 8. Grow organically. Start small and expand as needed.  
|            | 9. Establish the network as a formal institution only when needed.  |
| **Resources** | 10. Keep core operations compact and expenses low. Depend on substantial contributions from members.  
|            | 11. Do not engage in competition with members for program funds.  |
| **Linkages** | 12. Distinguish political activity from the research/learning agenda.  |

Source: SEEP Network 2005 Annual Report
**BACKUP: SEEP working groups create publications, tools and guidelines to promote best practice sharing among MFIs and networks**

### Example 2007 SEEP Working Groups

<table>
<thead>
<tr>
<th>Focus</th>
<th>Examples of activities</th>
<th>Number of active member orgs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Services Working Group</td>
<td>Promoting financial performance standards and benchmarks; documenting financial service innovations; preparing MFIs for commercial investments</td>
<td>Currently developing an Internal Audit Toolkit</td>
</tr>
<tr>
<td>Market Development Working Group</td>
<td>Helping micro and small enterprises gain access to difficult markets (e.g., post crisis)</td>
<td>Planning practitioner guidelines for economic recovery in post-conflict settings</td>
</tr>
<tr>
<td>Poverty Outreach Working Group</td>
<td>Exploring and expanding how to provide financial services to very poor people on a sustainable basis</td>
<td>Planning a case study series on “Promising Practices” in serving hard to reach clients</td>
</tr>
<tr>
<td>Savings-Led FS Working Group</td>
<td>Developing industry standard performance ratios for community based microfinance programs</td>
<td>Completed a financial ratios document to evaluate savings led methodologies</td>
</tr>
</tbody>
</table>

Source: SEEP Network 2007 Annual Report
Practitioner Learning Programs (PLP) process and approach

Five to seven organizations selected to participate
- Selected through a competitive, open process

Organizations receive funding for one year to engage in peer learning activities
- Kick-off workshop
- Exchange visits
- Professional facilitator
- Online discussions

Closing workshop held at the end of the year
- Lessons learned discussed
- Select topics to be captured in future SEEP publications

Example Practitioner Learning Program

“Using Consumer Lending and Microfinance to Expand Access to Energy Services”
- Focus: identifying and documenting best practices in energy lending programs through field research and pilot testing

PLP outputs
- Published working papers on established energy lenders
- Presented key learnings from the working papers at the 15th session of the UN Committee on Sustainable Development
- Sponsored a workshop at the 2006 SEEP Annual Conference
- Held a workshop in India, hosted by SEWA Bank, to discuss the working papers

PLPs funded by USAID and other grants

Source: SEEP Network 2007 Annual Report
The Consultative Group to Assist the Poor (CGAP) was established in 1995 to support the development of a sustainable microfinance sector

<table>
<thead>
<tr>
<th>History and Origins</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Established in 1995 as a three year program</td>
</tr>
<tr>
<td>• Renewed for 2nd and 3rd five year phases in 1998 &amp; 2003</td>
</tr>
<tr>
<td>• Established by nine leading development agencies and microfinance practitioners to support the development of a sustainable microfinance sector</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Structure and sustainability</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Housed at the World Bank but operates as independent entity</td>
</tr>
<tr>
<td>• Currently a consortium of 33 public and private funding organizations</td>
</tr>
<tr>
<td>• Member contributions to core budget average $12M per year</td>
</tr>
<tr>
<td>• Excluding WB, average $280K per year per paying member¹</td>
</tr>
<tr>
<td>• WB share of CGAP total funding has decreased over time</td>
</tr>
<tr>
<td>• Governance structure consists of several groups</td>
</tr>
<tr>
<td>• Council of Governors (CG): membership and governance body, representatives of all CGAP members</td>
</tr>
<tr>
<td>• Executive Committee (Excom): executive governing body</td>
</tr>
<tr>
<td>• Investment Committee: senior WB officers</td>
</tr>
<tr>
<td>• Operational Team: implements CGAP’s work</td>
</tr>
<tr>
<td>• Working Groups: specific areas of interest</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Undertakes several activities</td>
</tr>
<tr>
<td>• Facilitates consensus on standards</td>
</tr>
<tr>
<td>• Offers technical and advisory services</td>
</tr>
<tr>
<td>• Funds innovation</td>
</tr>
<tr>
<td>• Develops technical tools</td>
</tr>
<tr>
<td>• Provides training</td>
</tr>
<tr>
<td>• Disseminates best practices</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Five core concentrations</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Institution building: developing and strengthening a wide range of institutions and means that deliver financial services to the poor</td>
</tr>
<tr>
<td>• Financial transparency: improving the quality and availability of information about institutional financial performance</td>
</tr>
<tr>
<td>• Enabling policy frameworks: establishing supportive legal and regulatory frameworks</td>
</tr>
<tr>
<td>• Improving aid effectiveness (Donor effectiveness)</td>
</tr>
<tr>
<td>• Poverty outreach: reaching poor and unserved clients and ensuring impact on their lives</td>
</tr>
</tbody>
</table>

¹ 7 members have not paid in recent years; some donors face difficulties to fund staff and administrative costs of a global trust fund; effective July 2008, current CGAP members that do not fund CGAP’s core budget will become non-voting members

Source: [www.cgap.org](http://www.cgap.org); Sarah Forster, Klaus Maurer and Michael Mithika, “CGAP Phase III Mid-Term Evaluation; CGAP, “Strategic Directions 2008-2013”
CGAP began with several competitive advantages due to its structure however many others developed with time

“First generation” advantages are those that CGAP has had since inception

• Convening power
• Credibility to its member donors: provided the basis on which to develop consensus guidelines and standards
• Global perspective
• Link to the World Bank

“Second generation” advantages are those that CGAP has developed with time due to its quality of work and include

• Leading source of information for the industry
• Technical competence and ability to attract high quality staff
• Ability to broker relationships between industry stakeholders
• Credibility to the entire industry
• Neutrality (to the majority of players)
• Communications capability
• Recognized and trusted brand name

Suggests that high quality of work early in organization’s operations helps to build credibility and new advantages

Source: Sarah Forster, Klaus Maurer and Michael Mithika, “CGAP Phase III Mid-Term Evaluation
Although CGAP is considered a key contributor to the sector, reasons for CGAP’s relevance varies by stakeholder

Considered a key contributor to microfinance industry, especially as information provider

- 85% of CGAP clients surveyed agree that CGAP’s contributions to microfinance are very important to the success of microfinance globally
  - For most stakeholders, CGAP is the “official voice” of microfinance
  - 75% of clients surveyed agree that CGAP’s strategic objectives are in-line with the key challenges facing sector

Clients most frequently describe CGAP’s sector identity as a “knowledge resource center”
- Considered leading organization for knowledge management and best practice dissemination
- Identifies and provides advice on emerging trends
- Identifies new and innovative practices to promote replication

Primary reasons for CGAP’s relevance vary by stakeholder type

**MFIs**
- Capacity building tools and resources
- Donor effectiveness work

**Networks**
- Thought leadership
- Communication and messages
- Macro-level market intelligence

**Investment funds**
- MFI tools
- Transparency work

CGAP’s work found least relevant by academics and technical experts who cited
- Nature of CGAP as a donor consortium; and/or
- CGAP not regarded as being at the forefront of research

Differences emphasize need to define organization’s stakeholders before activities and offerings

Source: Sarah Forster, Klaus Maurer and Michael Mithika, “CGAP Phase III Mid-Term Evaluation"
The Microcredit Summit Campaign (MSC) was launched in 1997 with the goal to reach 100 million of the world’s poorest families by 2005

<table>
<thead>
<tr>
<th>History and Origins</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Launched in 1997 at the first Microcredit Summit</td>
</tr>
<tr>
<td>• Project of the RESULTS Educational Fund, a U.S. based grassroots advocacy organization committed to ending hunger and poverty</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Structure and sustainability</th>
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<tbody>
<tr>
<td>• Had an average annual budget of ~$1 million and average staff of 10 from 1997-2004</td>
</tr>
<tr>
<td>• Largest source of income are private and corporate foundations</td>
</tr>
<tr>
<td>• Major costs of regional summits borne by local organizers</td>
</tr>
<tr>
<td>• Has organized 15 Microcredit Summit Councils</td>
</tr>
<tr>
<td>• Forums for similar organizations to support each other in contributing to Summit goals</td>
</tr>
<tr>
<td>• Councils promote best practice sharing</td>
</tr>
<tr>
<td>• Members agree to prepare Institutional Action Plans to outline contributions to the Summit’s goals</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Set the goal to reach 100 million of the world’s poorest families with credit and other financial services by 2005</td>
</tr>
<tr>
<td>• In 2006, MSC was re-launched with the goal of reaching 175 million of the world’s poorest families by 2015</td>
</tr>
<tr>
<td>• MSC tracks and reports progress towards these goals through data reported by MFIs</td>
</tr>
<tr>
<td>• Has undertaken many additional activities</td>
</tr>
<tr>
<td>• Commissions papers and books on key themes in microfinance</td>
</tr>
<tr>
<td>• Publishes annual monitoring reports</td>
</tr>
<tr>
<td>• Create enthusiasm among practitioners and generate international press coverage for the sector</td>
</tr>
<tr>
<td>• Organizes global and regional summits</td>
</tr>
<tr>
<td>• Communicates via email</td>
</tr>
<tr>
<td>• MCS e-new bulletin delivered in 4 languages to 14,000 leaders</td>
</tr>
<tr>
<td>• Conducts workshops to introduce and popularize poverty monitoring tools</td>
</tr>
</tbody>
</table>

1. “Poorest” defined as the people in the bottom fifty percent of families living under the poverty line
Source: Susan Davis and Vinod Khosla, “Taking Stock of the Microcredit Summit Campaign”; www.microcreditsummit.org
MSC has played important roles in growing the microfinance sector

**Created a network**
- 2,900 delegates attended first Microcredit Summit
- Annual meetings bring together microfinance players (MFIs, investors, donors, policy makers) that are otherwise unlikely to meet
- 15 Microcredit Summit Councils created for organizations with common interests

**Increased international exposure**
- First Summit included speeches by several heads of state and head of UNDP, UNIFEM, IFAD and ILO
- Mailing list includes over 10,000 people
- Commissions books and papers and publishes annual monitoring reports

**Set sector goals**
- Set goals of reaching 100M of the poorest families by 2005 and 175M by 2015
  - Includes quantitative and qualitative goals to better ensure impact
  - Goal-setting helped mobilize cost-effective efforts to train practitioners in best practices¹

**Tracked sector impact**
- Tracked progress towards MSC goals through data reported by MFIs
  - Number of MFIs reporting to MSC increased from 618 (1997) to over 3,000
  - Data collection work increased accountability in the sector¹

¹ Based on opinions of microfinance thought leaders

Source: Susan Davis and Vinod Khosla, “Taking Stock of the Microcredit Summit Campaign”
BACKUP: Number of microfinance institutions reporting to MSC and number of clients reached by these MFIs has increased significantly since 1997.
MFI rating products developed from sector need however subsidies played role in increasing uptake

Need for MFI ratings increased as the sector grew
- Growing MFIs needed capital from formal financial markets
- Donors required recognized performance measures for grants
- MFI networks needed ratings information to provide quality control to members and to focus TA efforts

Several ratings products developed from this need
- ACCION established the CAMEL tool in 1992
  - 5 categories: Capital adequacy, Asset Quality, Management, Earnings, and Liquidity Management
- Specialized rating agencies established
  - Microrate in 1996
  - Planet Rating in 1999

IDB and CGAP launched the Rating Fund in 2001 (EU joined in 2005)
- Fund offered partial financing (up to 80%) for MFIs seeking ratings from pre-qualified agencies
- Participating MFIs required to publicly disclose ratings on the Fund’s website
- Subsidies phased out in 2007 after co-financing over 400 ratings

“Credit ratings and institutional assessment allows an MFI to gain more prestige in the eyes of financial investors” – Carmen Velasco, manager, Pro Mujer-Bolivia

Source: Monitor Institute Microfinance Analogue; Sarah Forster, Klaus Maurer and Michael Mithika, “CGAP Phase III Mid-Term Evaluation”; www.ratingfund.org
The Microfinance Information eXchange (The MIX) was established in 2002 to promote information exchange and transparency in the microfinance industry.

<table>
<thead>
<tr>
<th>History and Origins</th>
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<tbody>
<tr>
<td>• Incorporated in 2002 in order to assume management of MIX Market and the Microbanking Bulletin</td>
</tr>
<tr>
<td>• Not for profit private organization</td>
</tr>
<tr>
<td>• Managed by CGAP for the first three years of operations</td>
</tr>
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<table>
<thead>
<tr>
<th>Structure and sustainability</th>
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</thead>
<tbody>
<tr>
<td>• Partnership between CGAP, the Citigroup Foundation, the Deutsche Bank Americas Foundation, the Open Society Institute, the Rockdale Foundation and other private foundations</td>
</tr>
<tr>
<td>• Employs 13 equivalent full time staff</td>
</tr>
<tr>
<td>• Mix Market membership is open to the public</td>
</tr>
</tbody>
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<table>
<thead>
<tr>
<th>Activities</th>
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<tbody>
<tr>
<td>• Mission is to help build the microfinance market infrastructure by offering data sourcing, benchmarking and monitoring tools, as well as specialized information services</td>
</tr>
<tr>
<td>• Three primary activities</td>
</tr>
<tr>
<td>• Standardize financial reporting</td>
</tr>
<tr>
<td>• Provide a leading benchmarking service</td>
</tr>
<tr>
<td>• Offer a reliable open information marketplace to facilitate the exchange of quality data</td>
</tr>
<tr>
<td>• Two main products</td>
</tr>
<tr>
<td>• The MIX Market</td>
</tr>
<tr>
<td>• The MicroBanking Bulletin</td>
</tr>
<tr>
<td>• Also provides training and consulting services for a fee</td>
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Source: [www.mixmbb.org](http://www.mixmbb.org); [www.mixmarket.org](http://www.mixmarket.org); [www.themix.org](http://www.themix.org)
**MIX Market and MicroBanking Bulletin utilize several techniques to increase data reporting and transparency**

<table>
<thead>
<tr>
<th>Description</th>
<th>MIX Market</th>
<th>MicroBanking Bulletin (MBB)</th>
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</table>
| **Data collection and validation** | - Public, web-based microfinance information platform  
- Data on MFIs (1,165 reporting), investors (99) and partners (165) | - Benchmarking source for microfinance industry  
- Publishes financial and portfolio data organized by peer group on semi-annual basis |
| **Data collection and validation** | - Members post their own profiles  
- Level of disclosure and data quality indicated through diamond system  
- Data accuracy not guaranteed however two step verification process used  
- Ensure data coherence  
- Verify posting and editing rights of members representing funds/investors | - MFIs participating in MBB provide data and substantiating documentation  
- Data quality indicated through star system |
| **Incentives for data sharing** | - MFIs who post increase visibility to potential funders  
- MFIs that want to enter CGAP’s Financial Transparency Award must have up to data MIX Market profiles | - Participating MFIs receive customized financial performance reports |

Many techniques are applicable to and can be replicated in the SGB sector

1. Higher number of diamonds indicates higher level of disclosure and data quality  
2. Higher number of stars indicates higher quality data

Source: [www.mixmbb.org](http://www.mixmbb.org); [www.mixmarket.org](http://www.mixmarket.org); [www.themix.org](http://www.themix.org)
Donor Peer Reviews conducted by CGAP and DFID provided donors with a framework to assess their effectiveness and identify donor best practices

**Background**
- Increase in MFI ratings and benchmarking facilitated best practice sharing among MFIs
- However donors lacked a framework to assess effectiveness and define best practices

**Process**
- CGAP and DFID launched the Microfinance Donor Peer Reviews
  - Conducted 17 reviews between 2002 and 2003
  - Review focused on internal practices and effectiveness across 5 areas
    - Strategy clarity and coherence
    - Appropriate instruments
    - Relevant knowledge management
    - Accountability
    - Strong staff capacity
  - Reviews conducted by CGAP staff and two senior technical staff from donor agencies
  - Upon completion Letters to Management were provided to each agency to assess strengths and challenges and offer recommendations

**Results**
- After the reviews, participating donor agencies committed to four action steps
  - Codify of good practices – transparency identified as key to sector’s success
  - Share and leverage staff capacity and knowledge
  - Implement recommendations in the field – include donor staff, governments and private organizations
  - Conduct a two year follow-up
  - At the two year follow-up, most agencies had increased their performance

Source: Monitor Institute Microfinance Analogue; CGAP website
The UN designated 2005 the International Year of Microcredit – raised microfinance awareness in both the public and private sectors

In 1998, the UN General Assembly designated 2005 as the International Year of Microcredit

- Resolution was introduced by Ambassador A. Choudhury who represented Bangladesh and attended the MSC
  - Consulted with M. Yunus and S. Daley-Harris (director of MSC) on the resolution
- Resolution stated that the Year will “provide a significant opportunity to raise awareness of the importance of microcredit and microfinance in the eradication of poverty, to share good practices and to further enhance financial sector developments that support sustainable pro-poor financial services in all countries”
- Resolution encouraged “Member States, relevant organizations of the UN system, non-governmental organizations, the private sector and civil society to collaborate in preparation for the observance of the Year and to raise public awareness and knowledge about microcredit and microfinance”

In 2004, five objectives for the Year were developed

1. Assess and promote the contribution of microfinance and microcredit to the MDGs;
2. Increase public awareness and understanding of microfinance and microcredit as vital parts of the development equation;
3. Promote inclusive financial sectors;
4. Support sustainable access to finance services; and,
5. Encourage innovation and new partnerships by promoting and supporting strategic partnerships to build and expand the outreach and success of microcredit and microfinance

The UN Year raised greater awareness in the public and private sectors about the need for inclusive financial services

- Made it easier for microfinance-related events to get accreditation from the Secretariat, increasing buy-in and awareness
- Formally recognized that microfinance can contribute to goals and targets of major UN conferences and summits

Source: Susan Davis and Vinod Khosla, “Taking Stock of the Microcredit Summit Campaign”; www.yearofmicrocredit.org
Top MFIs have gained greater access to local and international capital markets through innovative deal structures and equity transactions

<table>
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<tr>
<th>Capital market involvement</th>
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<tr>
<td><strong>International Collateralized Debt Obligation (CDO)</strong></td>
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</table>
| • First formal CDO was Blue Orchard Microfinance Securities I (BOMS)  
  • Structured in 2004-2005  
  • Since BOMS, seven CDOs have been structured and over $525 million in securities issued  
  • BOLD I (Blue Orchard Loans for Development) in April 2006  
    • At $99.1M BOLD I was the largest commercial microfinance transaction to date  
    • Included mainstream investors such as insurance companies and pension funds |
| **Investment in Mezzanine Funds** |
| • The Global Commercial Microfinance Consortium was the first commercial fund to finance MFIs in local currency (2005)  
  • $80.6M fund – of $63M of senior debt and $17M of sub-debt, equity and grant capital  
  • Managed by Deutshe Bank with 18 partners including Merrill Lynch, the Church Pension Fund, individual investors and USAID |
| **MFI Portfolio Securitization** |
| • In 2006, BRAC securitized $180 million in microfinance receivables  
  • Transaction structured by RSA Capital, Citigroup, FMO and KfW bank  
  • BRAC received AAA rating from domestic markets and receivables collateralized at 150%  
  • FMO and Citibank each purchased one-third (Citibank purchased backed by FMO and KfW guarantees) and Citibank Bangladesh and two local banks purchased one-third |
| **Initial Public Offerings (IPO)** |
| • In 2006 Equity Bank in Kenya was listed on the Nairobi Stock Exchange  
  • First microfinance IPO in Africa  
  • In 2007, Banco Compartamos in Mexico completed a $437 million IPO for 30% of company  
    • 13 times oversubscribed and most shares bought by mainstream international fund managers and other commercial investors |

Source: Monitor Institute Microfinance Analogue; Accion InSight, “Microfinance Cracking the Capital Markets II”; CGap Focus Note, “Foreign Capital Investment in Microfinance: Balancing Social and Financial Returns”
S&P and IADB announced plan for global MFI ratings in 2008 – intended to address institutional investors’ needs for ratings from recognized agencies

Although the development of specialized MFI rating agencies increased sector transparency, many institutional investors require ratings from mainstream agencies

  • “In the past, the lack of … globally accepted metrics for analyzing MFIs has hindered investment …” – Jane Eddy, Managing Director for Latin American Corporate and Government Ratings, Standard & Poor’s

In 2007, Standard and Poor’s Ratings Services established a working group to produce recommendations for metrics for MFI credit analysis

  • Included ACCION, CGAP, IDB, MIX and other market participants
  • Discussed methods to combine traditional credit analysis with core microfinance indicators

In February 2008, S&P and the Inter-American Development Bank’s (IADB) Multilateral Investment Fund (MIF) announced plan to sponsor program to develop globally accepted ratings for MFIs

  • “Standard and Poor’s involvement in microfinance represents a milestone for this industry ... They speak the same language as private investors, whose information needs are different from donors who traditionally supported the microfinance movement.” – Donald F. Terry, Managing Director, Multilateral Investment Fund (IADB)

Source: Monitor Institute Microfinance Analogue; Accion InSight, “Microfinance Cracking the Capital Markets II”
Another challenge facing MFIs seeking to access capital markets funding is illiquidity – the Antares Fund was created to help address this constraint.

**Illiquidity in the microfinance equity market discourages investments**

Secondary markets in microfinance shares are very weak
- Illiquidity discourages investment, especially among private banking clients

‘Illiquidity premiums’ drive down market prices
- Many early equity sales included put options which investors “paid” for with lower valuations, fewer voting rights, and “call” rights
- Some investors believe the illiquidity discount for microfinance investments could be as high as 20%

**The Antares Fund was created to help expand the secondary market for micofinance**

$5M fund established in 2006
- Founded by Grey Ghost Fund
- Primary interest is in minority stakes (3-15%) as a mid-term investor (3-5 years)

Three fund objectives
- Serve as a “market-maker” for MFI equity holdings, mainly through secondary market
- Increase market transparency by producing more “arms-length” price data
- Create shareholder value through purchase and sale of equity holdings

Fund aims to
- Provide opportunities for more investors to get involved
- Demonstrate feasibility

Source: Accion InSight, “Microfinance Cracking the Capital Markets II”; Antares Fund, “Opportunities in the Secondary Market for MFI Equity”
Analogues – table of contents

- Introduction
- Microfinance
  - Emerging market private equity and venture capital
Interest in emerging market private equity has increased significantly in recent years

Emerging markets private equity fundraising totals ($M)

Pan-EM: $59,160
  - Africa and Middle East: $4,077
  - LA and Caribbean: $7,367
  - CEE/ Russia: $4,419
  - Emerging Asia: $14,629

“2007 was a year of significant milestones for the asset class. What was once a primarily development finance backed experiment is now, in many emerging markets, a credible, commercial asset class attracting sizable investments from well-known institutional investors, including public pension funds” – Sarah Alexander, President of EMPEA

# Challenges faced by early private equity and venture capital practitioners provided important lessons for later players

| Local presence important | • Many early funds based in US or Europe and therefore faced additional challenges  
  • Local presence important for understanding market, generating deal flow, conducting due diligence and maintaining close involvement |
| Active management and control can mitigate risks | • Fund’s management role often more important in emerging markets  
  • Fund staff must be have skill-set to add value to portfolio company and position for exit  
  • Many early funds took minority positions and lacked necessary control  
  • Many later funds sought majority positions, voting mechanisms or other methods of de facto control |
| Exit options should be planned before investment | • Many early funds assumed exit would be through IPO however capital markets often did not support IPOs as viable exit opportunity  
  • Now, funds assess and plan exit options before making investment |
| Family-run businesses can generate unique challenges | • Family run businesses are more prevalent in developing countries and create additional challenges  
  • Less external transparency  
  • Little separation between interests of the owner and the firm |
| Good governance must be enforced | • Investees should be educated about benefits of good governance to increase management buy-in and compliance  
  • Benefits may include increased access to financing, lower cost of financing, higher company valuation, improved resource allocation and better relations with stakeholders  
  • Funds can maintain more control over investee’s governance by requiring board seats, supermajority voting or veto rights, special stockholder voting rights and preemptive rights |

Many lessons also applicable for SGB practitioners

The Emerging Markets Private Equity Association (EMPEA) was founded in 2004 as a global industry association.

### History and Origins
- Founded in 2004 to focus on the emerging markets of Africa, Asia, Europe, Latin America, the Middle East and Russia.
- Mission is to promote greater understanding of and more favorable climate for private equity investing in emerging markets.

### Structure and Sustainability
- Not for profit corporation.
- Membership composed primarily of private equity fund managers:
  - Also includes institutional investors, service providers and others with an interest in emerging markets PE.
  - 195 members that represent 74 countries and over $700B in assets under management.
- Members pay annual membership dues:
  - Three membership types: premier member, full member and associate member.
  - Membership dues for full members based on firm’s total assets under management.

### Activities
- Meetings and conferences:
  - Co-hosts two annual conferences:
    - The Emerging Markets Forum- held in London, produced jointly with “Private Equity International”
    - The Annual Global Private Equity Conference- held in Washington D.C., co-hosted with IFC.
  - Also holds smaller networking events and workshops.
- Research and standards:
  - Collects and publishes annual fundraising data.
  - Conducts annual survey of institutional investors’ interest in emerging markets.
  - Publishes The Emerging Markets Private Equity Quarterly Review:
    - Covers industry trends, benchmarks, best practices, and market developments.
  - Provides information and guidelines to increase transparency and promote consistent standards.
- Advocacy:
  - Collaborates with industry partners to advocate for policy and regulatory reform.

EMPEA offers three membership levels and many benefits – benefits primarily focused on networking, research, and information sharing.

### Three levels of EMPEA membership

**Premier member:** $15,000 annual fees
- Highest level of benefits
- Open to all types of organizations
- Help support EMPEA’s mission to promote the emerging markets private equity asset class

**Full member:** annual fees of $2,000-9,000, based on total assets under management
- Open to PE fund managers and corporate VC funds with a minimum of $5M assets under management (exceptions may be allowed)

**Associate member:** annual fees vary
- Limited partners and funds of funds: $3,000
- Academic, government and non-profit institutions: $3,000
- Professional service providers: $3,000-6,000, based on size of PE professional staff
- Local/ regional VC and PE Associations: $2,500

### EMPEA promotes several benefits to members

Membership benefits to all member types
- Networking with other members and industry stakeholders
- Endorsement of member firm from EMPEA
- Firm exposure through EMPEA website
- Information sharing among members
- Reports on EMPEA research, including LP surveys, benchmark figures and a “Mapping the Market” initiative
- Advance notification of events
- Free or reduced fee for EMPEA publications and reduced entry fee for EMPEA conferences
- Discounts on advertising opportunities and industry publications

Membership benefits for premier members
- Publicity in EMPEA marketing materials and publications and special recognition at EMPEA events
- Opportunities to provide input into EMPEA programs
- Preferential status for sponsorship, speaking and advisory opportunities

Source: www.empea.net
EMPEA Code of Conduct establishes a minimum set of principles for members

Integrity
- Maintain ethical standards of conduct and at all times when dealing with each other and companies seeking private equity
- Shall not engage in practices that may be damaging to the image of EMPEA or industry
- Shall not malign, defame or unfairly criticize any other Member
- Shall neither take improper advantage of their position in EMPEA nor abuse any confidential information addressed to EMPEA
- Abide by the EMPEA Code of Conduct

Regulatory
- Ensure compliance with all relevant regulatory requirements
- Deal with regulators in an open and co-operative manner

Investor relationships
- Be accountable to investors and keep their investors fully and regularly informed
- Shall not accept subscribed capital from unspecified source
- Operate on basis of full disclosure when sponsoring investment syndications with other parties
- Shall not use fund to promote own interests, except insofar as benefits from compensation and profit sharing contracts

Portfolio company relationships
- Acknowledge that primary business concern is developing strength of portfolio companies, which will result in long term capital gains
- Declare to any portfolio company any conflicts of interest that arise
- Respect confidential information supplied by companies seeking investment or portfolio companies

Performance measurement and reporting
- Adopt standards for measuring and reporting investment performance that conform with widely accepted industry guidelines

Source: www.empea.net
EMPEA and development finance institutions developed library of development indicators to help measure impact of emerging markets PE

Library of Development Indicators developed to help fund managers measure development impact of fund and investments

- Developed by European Investment Bank and DEG with cooperation from other DFIs

Four Core Development Indicators to be used for any private equity fund transaction on an annual reporting basis

- IRR
- Employment (indirect) at investee companies: number of jobs existing and sustained and net employment creation in year of reporting (if possible by gender and type)
- Compliance with IFI Environmental and Social Standards: yes or no statement that project complies with international standards and involved IFIs’ standards
- Compliance with Core Labour Standards: yes or no statement that project complies with ILO standards and relevant national standards

21 Optional Development Indicators to be used as needed and include

- Linkages employment impact
- Technology transfer
- Training
- Compliance with National Environmental Standards
- Development of Global Reporting System

Source: www.empea.net
The Latin American Venture Capital Association (LAVCA) was officially launched in 2003 to promote VC and PE investment in Latin America.

### History and Origins
- Original idea for LAVCA championed by IDB
- Officially launched in 2003 with the LAVCA/MIF Seminar on Building the VC Industry in Latin America
- Mission is to spur regional economic growth by advancing venture capital and private equity investment - is accomplished through programs of research, networking, education, the promotion of best investment practices, and the advocacy of sound public policy

### Activities
- Conferences and events
  - Annual Summit: includes fund managers, global investors and government officials
  - Training and networking events
  - LP/GP Roundtable: annual event to bring together investors in the region
- Advocacy programs
  - Promotes industry coverage through media network
  - Advocates for industry regulation and improved local regulatory frameworks
    - Publishes The Annual Scorecard on the Private Equity and Venture Capital Environment in Latin America
- Industry research
  - Publishes the LAVCA Reporter: electronic newsletter sent to over 2,000 subscribers
  - Resource center, including industry reports, news, links, etc provided on LAVCA website
  - Regional initiative underway in collaboration with Wharton School to provide industry data
    - Outputs include directory of PE and VC firms active in Latin America

### Structure and sustainability
- Not for profit membership organization
- Members include fund management companies, institutional investors, service providers, official institutions, academic institutions and trade associations
- Members pay annual membership dues
  - Two membership types:
    - Class A Voting Members
    - Class B Associate Non-Voting Members
  - Membership dues for fund management companies based on capital under management
- Anchor funding provided by MIF grant

Source: www.lavca.org
LAVCA offers two membership levels based on organization type

**Class A- Voting Members**
Open to organizations engaged in investing activities in Latin America or the Caribbean
- Fund management companies
  - Membership fee varies from $750-$10,000 based on capital under management
- Corporate investors engaged in direct strategic investing in LA or Caribbean
  - Membership fee: $5,000
- Institutional investors
  - Membership fee: $2,000

**Class B- Associate Non-Voting Members**
Open to other organizations involved in the private equity sector in Latin America or the Caribbean
- Service providers such as accounting firms, legal advisors and other service professionals
  - Membership fee: $2,000 + $500 per affiliate office
- Official institutions whose work affects the PE and VC industry
  - Membership fee: $500
- Corporate investors engaged in direct strategic investing in LA or Caribbean
  - Membership fee: $5,000
- Institutional investors
  - Membership fee: $2,000
- Academic institutions involved in education or advising related to PE and VC industry
  - Membership fee: $500
- Trade associations with whom LAVCA has a collaborate relationship
  - Membership: complimentary
  - Serve on special committee of LAVCA Advisory Board

All members must be approved by LAVCA’s Board of Directors, provide industry references and be actively engaged in private equity investing in Latin America or the Caribbean.

Source: www.lavca.org