

11:30 – 12:45 - STREAM 7 - Marly

“Microfinance: an Emerging Investment Opportunity”





BNP PARIBAS

EUROPLACE Financial Forum

2 & 3 July 2008

*Socially Responsible Investment
Microfinance
An emerging investment opportunity*

EUROPLACE Forum/Microfinance
3 July 2008

Speakers

- **Emmanuel de Lutzel**: Head of the Microfinance Group- BNP Paribas
- **Bertrand Gacon**: Head of Responsible Investments - BNP Paribas Private Banking
- **Jacky Prudhomme**: Deputy Head- Sustainable and Responsible Investment -BNP Paribas
- **Xavier Reille**: Microfinance Specialist – World Bank, CGAP



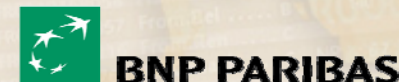
EUROPLACE Microfinance Working Group

Members of the committee – 4 meetings (March- June 2008)

Banks and Asset management companies	Microfinance Organisations and Miscellaneous
<ul style="list-style-type: none">-BNP Paribas Asset Management-BNP Paribas Microfinance Group-CAAM / IDEAM-Calyon CIB-Crédit Agricole-Crédit Coopératif-HSBC France-Natixis Asset Management	<ul style="list-style-type: none">-ADIE-AFG (French Asset Management Association)-Epargne Sans Frontières-Finansol-France Active-Paris Microfinance Club-Phitrust-PlaNetFinance-SIDI-World Bank; CGAP

Structure of the presentation

- Introduction: « Microfinance; The iceberg' hidden part » *E. de Lutzel*
- An investment solution for each and every investor. *B. Gacon*
- Classification and particularities of Socially Responsible Investments; *J. Prudhomme*
- Focus on the funds' landscape. *X. Reille*
- Issues and Perspectives in France and in the World. *E. de Lutzel*
- Questions?



Introduction: Microfinance, the top of the Iceberg

Microfinance is not what you believe

What is microfinance?

*A working economic model:
Social business or "Finanthropy"*

*A powerful tool of financial inclusion
and economic development*

A new market, with new clients

*One of the fastest growing economic sector
in the world*

What's not microfinance?

*Not charity nor philanthropy
Not giving but lending*

Not a magical tool to eradicate poverty

*Not an exclusive financial investment
for rich people*

*Not as risky as it may appear
(average repayment rate of 98%)*

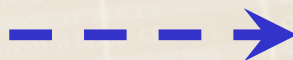


BNP PARIBAS

A powerful financial tool with a huge social impact

A small loan in developing countries is about 20 to 2000 euros

SMALL LOAN



HIGH IMPACT

Example: With euros 83 million approved on BNP Paribas own account, ca 450.000 micro borrowers are impacted ie 2-3 millions of persons including families.



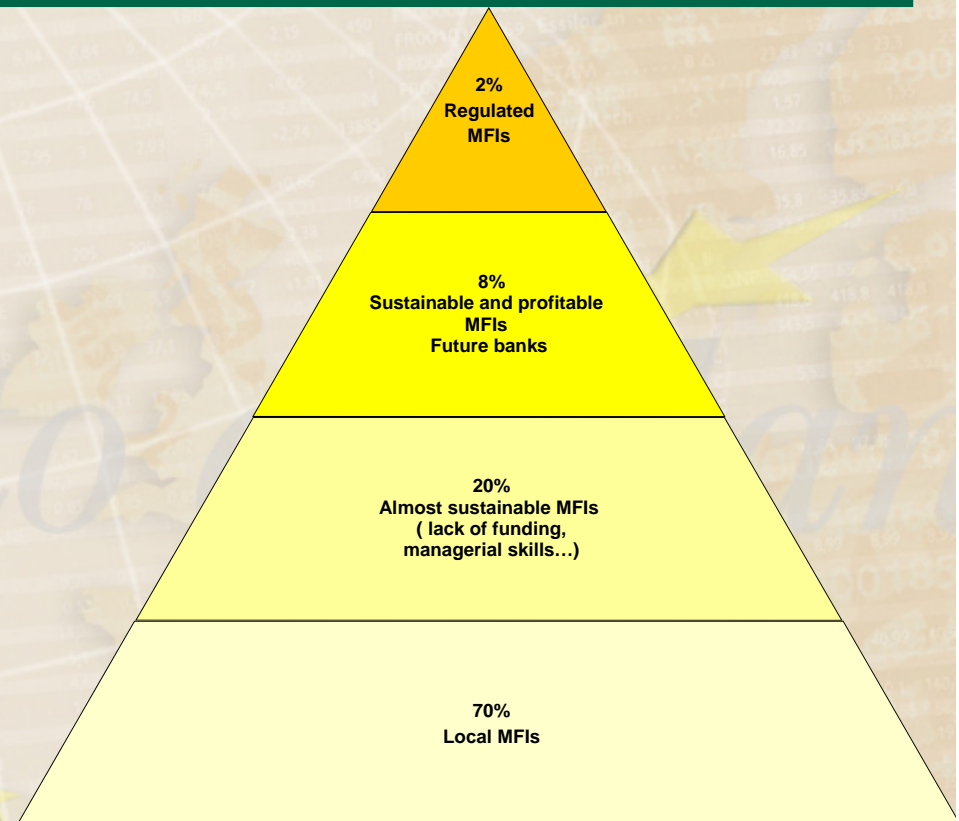
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Microfinance; the market condition

- According to the Deutsche Bank survey " Microfinance: An emerging Investment Opportunity" (December 2007)

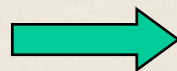
Unit (Bn USD)	2006	2015
Market Volume	25	250
Microfinance funds	2	20
International Financial Institutions	2.4	5

- Market growth: from 40% to 50% a year.

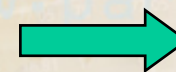


Based on a sample of 3 000 MFIs

100 million
of
customers
in 2006



1'000 million
of expected
customers
in 2015

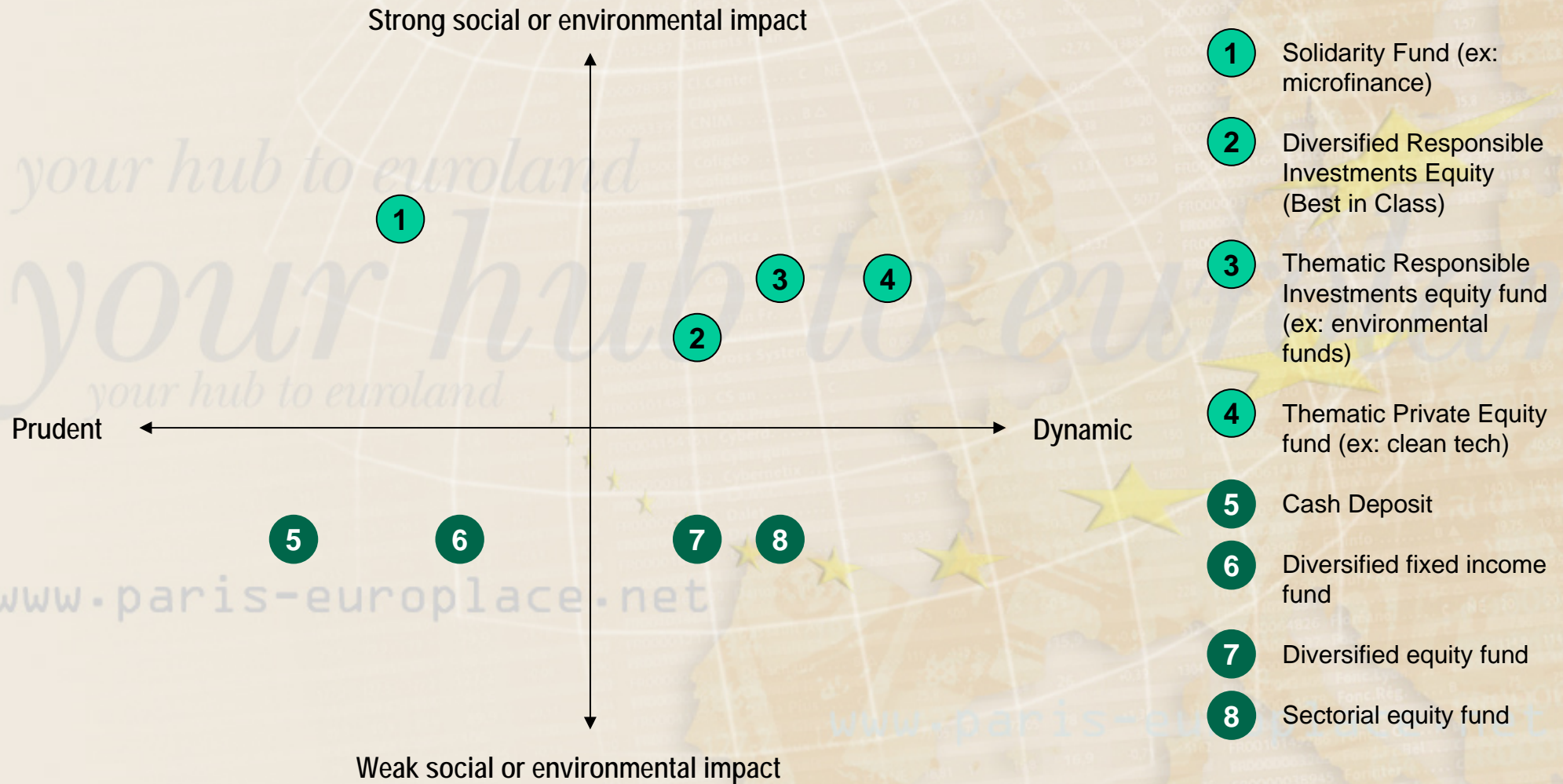


Current penetration rate
10%



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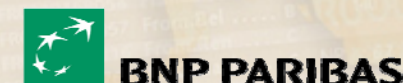
An investment solution for each and every investor



Different types of Socially Responsible Investment – S.R.I

Types of SRIs	Approach	Sectors of Activity	Objectives
Negative screening (exclusion)	Exclude specific sectors or companies for ethical reasons	All	Financial and ESG* returns
Positive screening <u>Best-in-class</u>	Selection of companies with the best social, environmental and corporate governance records	All	Financial and ESG returns
Positive screening <u>Thematic</u>	Selection of companies whose products or services benefit directly to the improvement of the environment or society	Environment, climate change, poverty, health, water, etc.	Financial and ESG returns
Solidarity Fund	Companies or NGOs involved in the financing of community, social development	Social entrepreneurship such as microfinance, etc.	ESG and financial returns
Charitable Fund	Funds invested in a wide array of sectors to distribute their financial return to NGOs and charities	All	Maximise profit in order to increase the return for both investor and charity

*ESG: Environmental, Social and Corporate Governance



Classification and particularities of Socially Responsible Investments

	Best In Class	Thematic (e.g. environmental)	Microfinance	<i>Bottom of the pyramid (BOP)</i>
Investment universe	Large caps Multi-sectors	Small & Mid caps Sector specific	NGOs or financial institutions	Small & Medium Enterprises (SME)
Nature of underlying assets	Listed	Listed	Almost entirely non listed	Non listed (Private Equity)
Categories of Investors	Institutional & retail	Mainly retail	High net worth individuals, institutional, potentially retail	Sophisticated High Net Worth Individuals
Profitability	Similar to the benchmark	Higher than the benchmark	Small profitability	High profitability
Volatility	Limited by construction	From limited to high	Low (<1%)	N/A
Social and environmental contributions	Medium	High	Very high	High
Risks	Low	Medium	Low by experience	Very high

Focus on the funds' landscape

Context

**Unprecedented investment boom in microfinance
between 2004 and 2006, the foreign capital investment
more than tripled to reach \$4bn.**

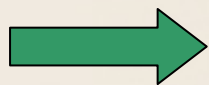
- **Most noticeable change: entry of private investors**
 - 40 specialized microfinance funds established in 3 years
 - Double bottom line: social orientation alongside financial motivations
- **3 main categories of investors:**
 - Public investors: DFIs (Development Finance Institutions)
 - Individual Investors
 - Institutional investors



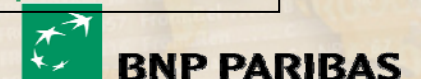
Focus on the funds' landscape

Different Main Investors in the sector

Public Investors	Individual Investors	Institutional Investors
<ul style="list-style-type: none"> ● 50% of the total foreign investment into microfinance today ● Commercial approach ● Doubled their investment in 2 years: from \$1bn to \$ 2.5bn ● Funders of today's leading MFIs 	<ul style="list-style-type: none"> ● Raise retail investment funds from individuals (ex: Oikocredit, \$ 652m) - 12/07 ● Most important: <ul style="list-style-type: none"> ■ Dexia microcredit (\$ 298.5 m) - 03/08 ■ responsAbility (\$ 234.2 m) – 03/08 ● Online lending initiatives (KIVA, MicroPlace, etc)) ● Venture Philanthropists (successful entrepreneurs) 	<p>A) International banks</p> <ol style="list-style-type: none"> 1. Initially philanthropy (80s) 2. Wholesale loans to MFIs reached \$ 2bn in 2008 <p>B) Investment Banking</p> <ol style="list-style-type: none"> 1. Fund structuring and distribution (e.g D.B, Credit Suisse) 2. Investment banking such as forex, securitization, bond issues, etc (e.g Citigroup) <p>C) Private equity investors</p> <ul style="list-style-type: none"> ● Invest in emerging market up to \$40m in highly profitable MFIs



The interest of global banking groups for microfinance such as BNP Paribas, Citigroup, Crédit Agricole, Deutsche Bank, HSBC, ING, Société Générale (...) and private equity investors signals the increasing credibility of microfinance as an attractive investment proposition



Focus on the funds' landscape

Overview on the Microfinance Investment Vehicle (MIVs)

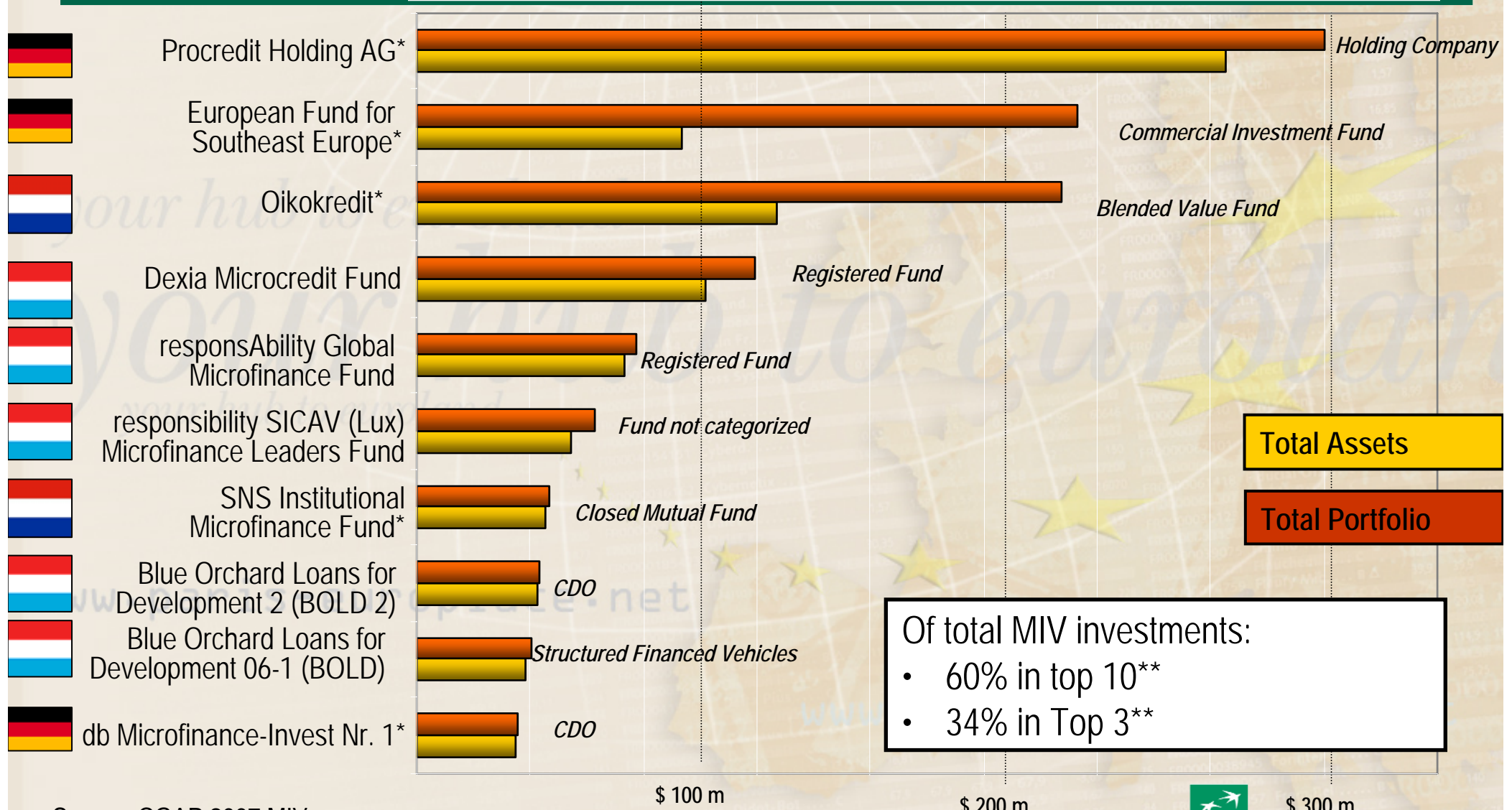
- 50% of microfinance investments channelled through specialized financial intermediaries: MIVs
- MIVs:
 - 93 in operation with \$5.5 bn under management,
 - MIV funding: institutional investors and high net worth individuals
 - Top 10 MIVs account for 67% of the total MIV investment
 - CGAP: 6 categories of MIVs according to their business model, commercial orientation and financial instrument



MIVs Typology

MIV	<i>Average age (years)</i>	<i>Average deal size (\$ m)</i>	<i>Average asset size (\$ m)</i>	<i>Main instrument</i>	<i>Geographic focus</i>	<i>Return</i>	<i>Main subscribers</i>
<i>Registered Mutual funds</i>	4	1	65	93% debt	77% LAC and ECA	5.8%	59% Individual, 32% institutional
<i>Commercial Fixed Income Investments Funds</i>	1.4	2.5	87	93% debt	96% LAC and ECA	4.8% (euro)	48% individual and foundation
<i>Structured Finance Vehicles</i>	0.8	4.1	70	100% debt	93% LAC and ECA	5.3% (AA)	61% institutional, 27% DFIs
<i>Blended Value Fund</i>	10.4	0.6	20.8	67% debt	39% LAC, 26% Africa, 17% Asia	1.5%	85% individual and foundation
<i>Holdings of MF Banks</i>	2.3	1.8	15.5	93% equity	48% ECA and 31% Africa	NA	63% DFIs, 30% institutional
<i>Private Equity Funds</i>	2.7	1.5	14	76% equity	39% LAC, 27% Africa	NA	47% DFIs, 32% Institutional

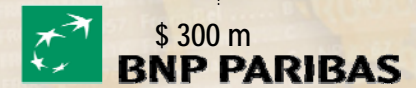
Top 10 MIVs in the world all registered in Europe, but none in France.



Of total MIV investments:

- 60% in top 10**
- 34% in Top 3**

Source: CGAP 2007 MIV survey



Issues and perspectives in France and in the World

	WORLD	LUXEMBOURG	FRANCE
Volume of MFI refinanced by Microfinance Funds*	CA: \$ 2.5 Md	14%	1%
Number of funds	<p>A hundred of funds</p> <ul style="list-style-type: none"> - Constant growth - Increasing profitability 	<p>8 funds distributed to the public</p> <ul style="list-style-type: none"> ➤ 7 pure funds <ul style="list-style-type: none"> - Saint Honoré Microfinance Fund - Dual return Fund Vision MF - Dexia Microcredit Fund - responsAbility Fund (Global MF; MF Leaders; Mikrofinanz) - Luxmint ➤ 1 Diluted fund <ul style="list-style-type: none"> - AXA World Fund Development Debt 	<p>No pure funds</p> <ul style="list-style-type: none"> ➤ 2 diluted funds <ul style="list-style-type: none"> - Nord Sud Development - Faim et Development ➤ 4 closed funds <ul style="list-style-type: none"> - FinanCités - MicroCred - PlanetMicrofund - SIDI

*based on the amount of microfinance share in global assets under management



The sector' volatility is less than 1%

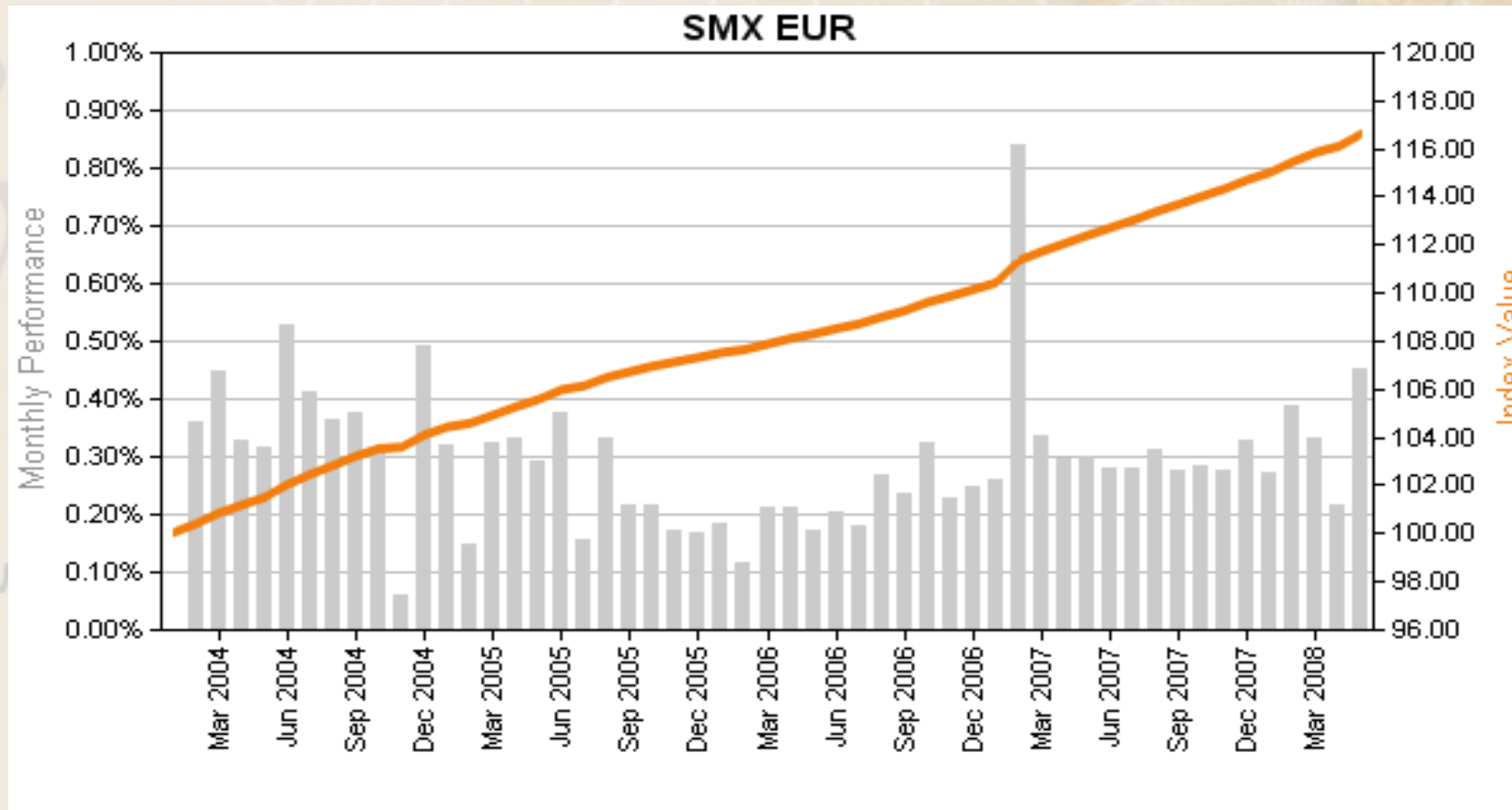
No correlation between the « classical » and the « microfinance » financial sectors

An average of 98% of the MFIs borrowers repay their loan within the dedicated period

MFI funds experienced NO repayment defaults from MFIs

Issues and perspectives in France and in the World

Symbiotics study on microfinance risks and volatility: a safe sector to invest in



Issues and perspectives in France and in the World

	Issues	Perspectives
Legal and tax Framework	<p>No adapted legal status for this asset class</p> <ul style="list-style-type: none"> → Investments through promissory notes → Unlisted companies or NGOs → Max 10% microfinance for retail funds 	<p>Legal framework could be adapted</p> <ul style="list-style-type: none"> → Instruments such as OPCVM ARIA, Contractual funds or FCPR could be used → Withholding tax convention between France and emerging countries to consider → Minimum subscription amounts: to reduce
Distribution	<p>The pure microfinance funds cannot be distributed in France as they are in Switzerland and the USA.</p> <ul style="list-style-type: none"> → Strong investors protection 	<ul style="list-style-type: none"> -- Consider the possibility to distribute this type of fund to retail customers (with prerequisites concerning investment universe) -- Tax incentives for investors
Research	<p>Because of the restrictive development perspectives, there are not investments in microfinance research.</p>	<p>Benchmark of the best international microfinance practices to build a strong French expertise in Asset Management (e.g Academic conference)</p>



REMARKS

- The updated legal framework for Contractual funds (sept 2008) should offer opportunities but only for wealthy customers
- Strong interest at the European level to promote microfinance and microfinance funds

Conclusion

- Microfinance is a working economic model with limited risks with low volatility
- Microfinance is a fast growing market (40% growth)
- Microfinance vehicle follows the global progress of the microfinance market
- France which has a strong capacity of financial innovation could also become a world leader in the microfinance funds' development
- The development of Microfinance funds in France is an important issue
 - ➔ because it is an innovative product for the financial industry
 - ➔ because it has a very strong social impact



Questions?

your hub to euroland

your hub to euroland

your hub to euroland

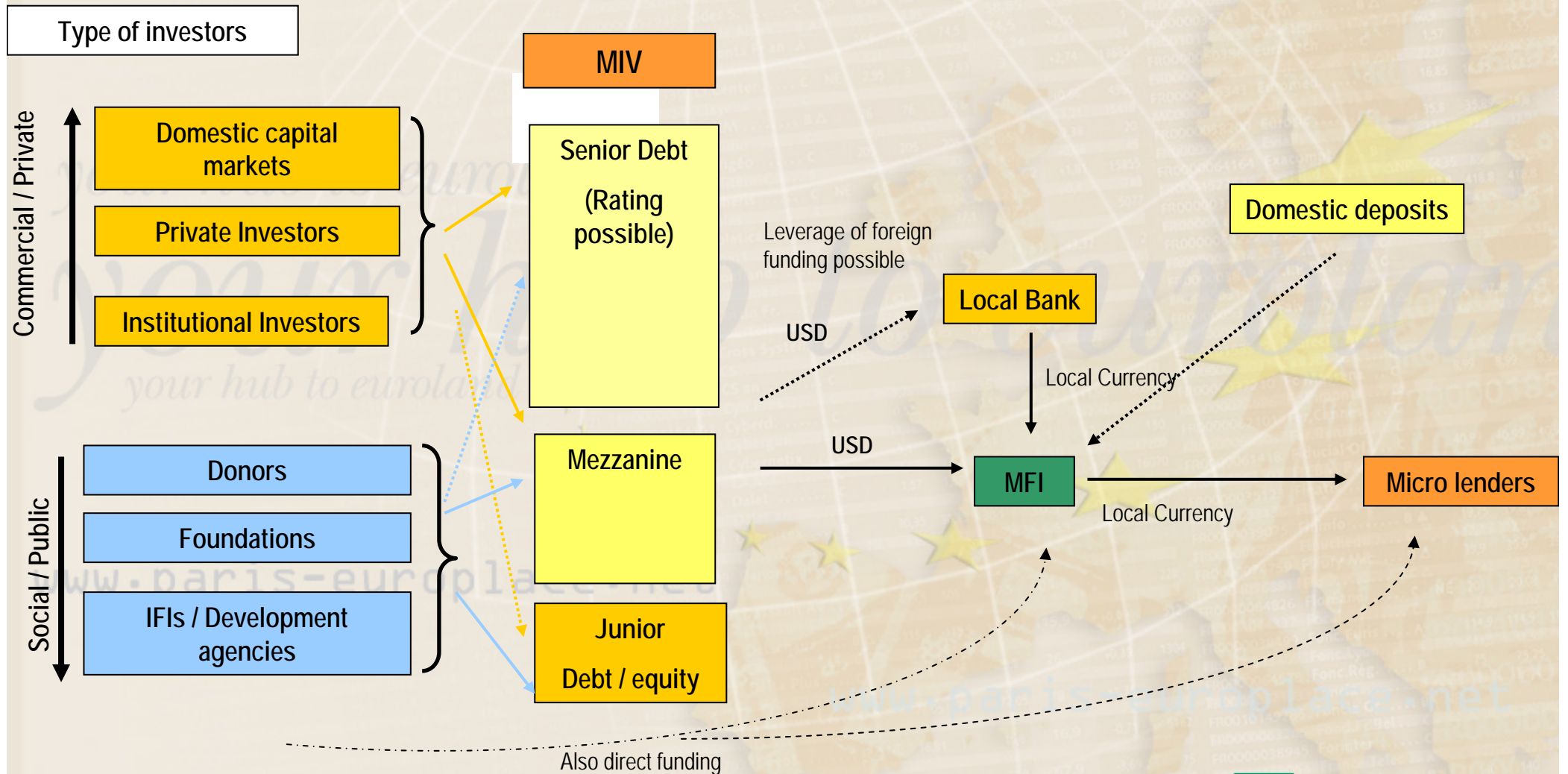
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MIV Notional Example



Deutsche Bank research: « Microfinance: an emerging investment opportunity » ; December 2007

