

INVESTING IN INCLUSIVE FINANCE

Microfinance investors and investees need knowledgeable guides to navigate this new industry.



Microfinance institutions are rapidly attracting large volumes of private capital, yet they sometimes struggle with the absorption and deployment of these funds. A commercially sustainable, mainstreamed microfinance industry must be ready for investment. At the same time, investors must fully understand the microfinance landscape.

Through its Investing in Inclusive Finance program, the Center for Financial Inclusion explores the challenges and opportunities at the intersection of microfinance and investment. These areas include strengthening microfinance fund management, building relationships that foster healthy local capital markets, assisting MFIs with transformation strategies, and building MFI capacity to qualify for investment and work effectively with investors.

PROGRAM AREAS

The Council on Microfinance Equity Funds (CMEF)

The Council of Microfinance Equity Funds (CMEF) is the membership organization that brings together leading private entities that are active equity investors in microfinance institutions (MFIs) in the developing world.

The Council's members seek both social and financial returns from their investments in these institutions, which provide a range of enabling financial services to the self-employed poor. By helping Council members deepen their relationships with their investee MFIs, enhance the performance of their investments and develop best practices and standards, CMEF ultimately aims to strengthen the microfinance industry and advance the expansion of commercial microfinance.

As the Secretariat for CMEF, the Center for Financial Inclusion organizes the working groups, research efforts, and semi-annual meetings that allow Council members to share insights and ideas.

Aligning Interests

Microfinance NGOs often choose to transform into regulated financial institutions in order to offer a wider range of services, access commercial sources of capital and improve operational efficiency – ultimately providing better services to greater numbers of low-income clients. This process often poses challenges, such as how best to gain management buy-in, shift to a for-profit mindset while maintaining a social bottom line, diversify products, market in a more competitive environment, understand licensing requirements and scale-up staff skills.

The Center's project, "Aligning Interests: Addressing Management and Stakeholder Incentives During MFI Transformations," in partnership with Calmeadow, examines the difficulties encountered during MFI transformations related to corporate governance and the alignment – or misalignment – of interests, with emphasis on the personal interests of key decision makers, such as CEOs and Board members. In 2009,

the Center published the study and hosted round-table discussions examining this topic the effectiveness of appropriate incentives, and the role of industry guidelines; in 2010, it is building upon these efforts and collaborating with industry players to continue awareness-raising and develop recommended practices and standards.

Investment Readiness

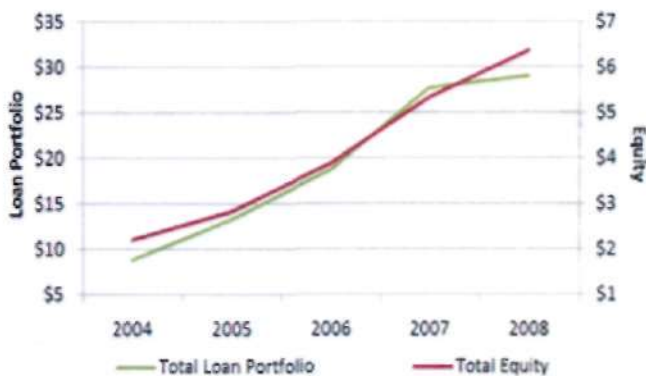
As microfinance institutions seek to extend outreach, many require access to capital markets but struggle with transitioning from donor to commercial capital. Often, the language, practices and requirements of investors are unfamiliar to MFIs with non-profit origins. The Center's Investment Readiness initiative advises MFIs on how best to secure and manage commercial funding, so that the microfinance industry may be better mainstreamed into the regulated financial sectors and primed for steady, efficient growth.

Through the Center's investment readiness workshops, MFIs gain perspective on how best to attract outside capital, connect with prospective funders, manage investor relations and build internal capacity to manage liabilities and growth. Educated MFIs are more able to effectively evaluate structure and close financings that are appropriate to their funding needs and business goals. To date, the Center has led investment readiness workshops in Eastern Europe, West Africa and South Asia, training more than 115 MFIs in these skills. To learn more about arranging a workshop, please contact training@accion.org.

Risk in the Microfinance Industry

Microfinance is a risk business. The global financial crisis has made this particularly clear, demonstrating that microfinance is not immune to difficulties facing the mainstream capital markets. Illiquidity in the broader financial sector affected the availability and cost of funding to MFIs, and the global recession affected clients, slowing MFIs' growth rates and affecting profitability and performance indicators. It has become clear that risks within – and outside of – the microfinance sector can significantly affect the viability of individual institutions and the broader industry. In order for a healthy and inclusive microfinance sector to flourish, the many risks facing the industry and its participants must be understood and properly managed.

Annual Growth of Commercial (shareholder-owned) MFIs (in billions)



The Center is leading initiatives that examine and address risk from the investor and MFI perspectives. The Center collaborates with a range of prominent industry players with expertise in risk and engages investors and practitioners to foster discussion about the multiple facets of risk.

ABOUT THE CENTER FOR FINANCIAL INCLUSION

The Center for Financial Inclusion at ACCION International is an action, research center that works on behalf of the microfinance industry as a whole to leverage private sector interest in microfinance. The Center seeks to connect the microfinance community with the major drivers of the global economy and harness their capabilities to address the financial needs of low income people. By bringing these elements together, the Center for Financial Inclusion serves as a bridge between today's microfinance and a future of economic opportunity for all.



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