

# »» Success factors in microfinance fund design

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Bank aus Verantwortung

**KFW**

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# »» KfW Development Bank at a glance

## »» KfW Development Bank – facts and figures

- › Part of KfW Group, Germany's 3<sup>rd</sup> largest bank, Triple AAA Rating, over 500 bn balance sheet
- › Germany's leading development bank since the 1960s
- › 700 personnel, of which about 190 specialists in local offices
- › **Mission:** implement development cooperation programmes and projects on behalf of the German government and the European Commission and other's
- › **Objectives:** improve people's prospects of a better life, protect the environment and combat climate change
- › Leading **values:** humanity, responsibility, market economy, sustainability and tolerance
- › **Activities:** KfW operates not only as a financier, but also as a competent advisor.
- › Currently active in 1,900 programmes and projects in more than 100 countries, outstanding portfolio 30 bn

## »» KfW : local presence for global outreach

KfW has offices in nearly 70 countries worldwide



## »» International development spans many sectors

KfW is active in 12 sectors including:

### Education



### Financial systems



### Health



### Energy



### Natural resources



### Water

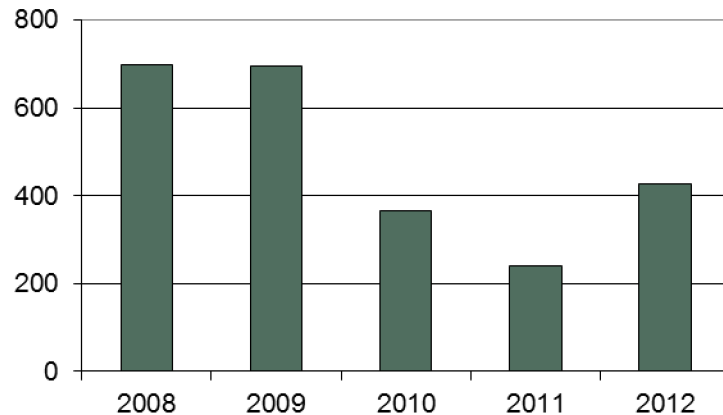




## »» Microfinance: a core competence at KfW

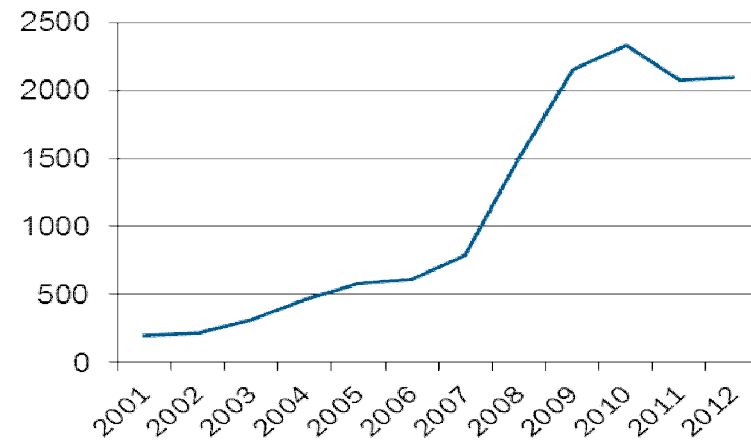
KfW contributes to providing a growing number of people with access to financial services.

### Annual microfinance commitments



Annual commitments (EUR m)

### Microfinance portfolio growth



Outstanding portfolio (EUR m)

With a portfolio of 2.1 billion euros (as of end of 2012), around three-fourths of which is made up of its own funds, KfW is one of the world's leading microfinance financiers. KfW's activities in microfinance are recognised internationally, not least by 2007 and 2011 CGAP assessments that named KfW as a leader in this field.



## Microfinance investments: a mature asset class still growing further

**Investors in the microfinance asset class** include **international financial institutions** (development banks, e.g. KfW, IFC), **public donors** (e.g. Swiss Development Corporation, EU, BMZ), **microfinance investment funds or vehicles** (MIVs) as well as **commercial investors**:

- **“Impact first”** investors who aim to **maximize social impact** instead of financial returns
- **“Finance first”** investors who seek investment vehicles that offer **risk-adjusted market returns** while also generating social & environmental impact



Source: Microrate, The State of Microfinance Investments 2012





»» Private-public partnerships in  
microfinance: successful examples

## »» EFSE (European Fund for Southeast Europe)

Providing sustainable funding to micro and small enterprises since 2005

- › EFSE provides sustainable funding to micro and small enterprises helping them to grow, generate additional income and to create employment, as well as to low-income families assisting them in the improvement of their housing conditions. It does so with a strong commitment to responsible finance.
- › Public capital EUR 310 million (35%), private capital EUR 573 million (65%) as of 30 June 2013
- › Has facilitated 410,827 micro and small enterprise and housing loans totaling EUR 2.8 billion facilitated since inception.
- › Operates as market enabler, facilitator and risk taker, being an innovator and incubator for new financial products benefiting the target group.



# »» PPP-Structure EFSE

## Donor Agencies

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## International Financial Institutions

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## Private Institutional Investors

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SAL. OPPENHEIM

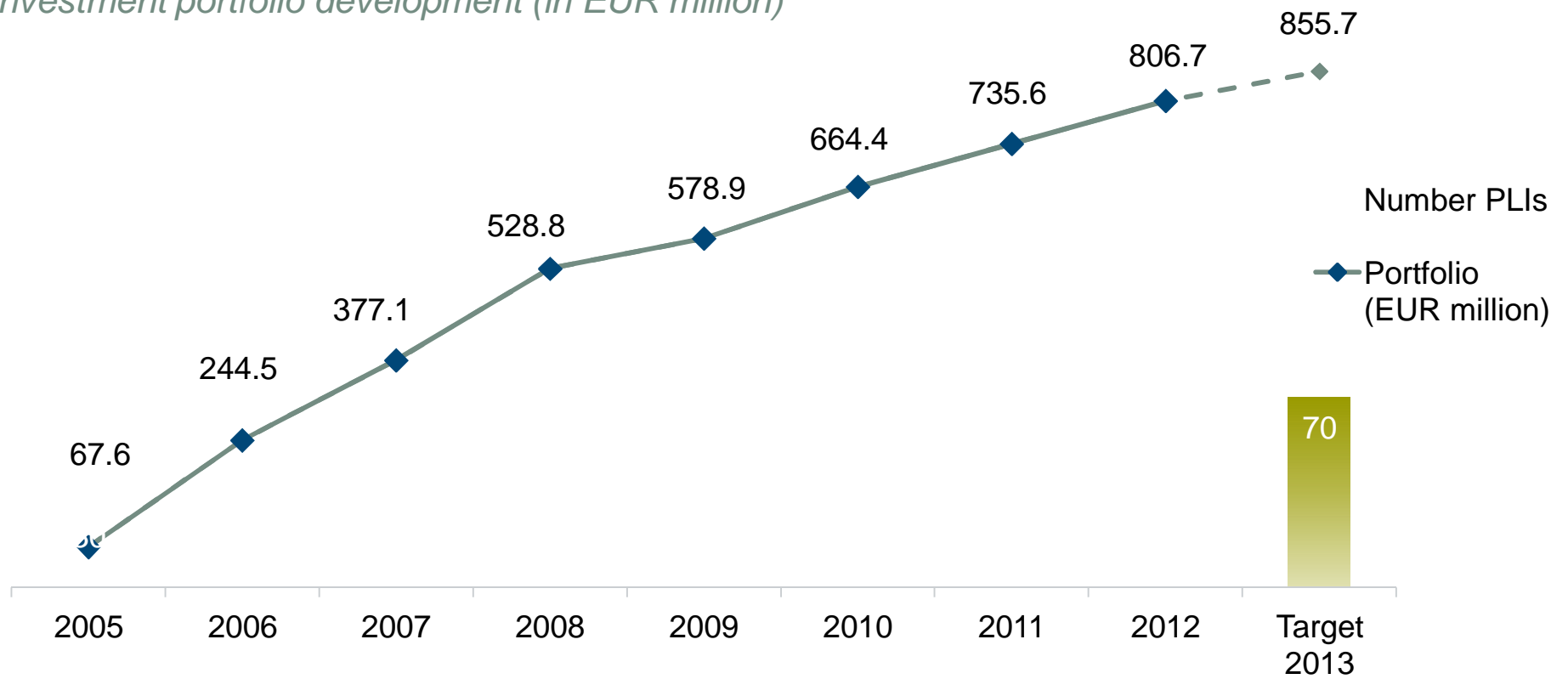


KfW



## Performance Overview

*Investment portfolio development (in EUR million)*





## Development Performance

*Q2|2013 figures in a nutshell*

	Total	SEE	ENR
Number of active borrowers	128,474	110,075	18,399
Subloan portfolio	EUR 770.0 million	EUR 605.0 million	EUR 165.0 million
Average loan amount outstanding	EUR 5,994	EUR 5,496	EUR 8,968
Subloans disbursed since inception Dec 2005	410,827	366,199	44,628
Amount disbursed to end-borrowers since inception Dec 2005	EUR 2.8 billion	EUR 2.3 billion	EUR 0.5 billion

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## Achievements of the EFSE Development Facility in 2013 YTD

*The EFSE DF at a glance*

	DF projects since inception (2006 - Jun 2013)	DF projects in 2013 (Jan - Jun 2013)
<b>Total project volume</b>	EUR 9.2 million	EUR 1.1 million
<b>Number of projects approved</b>	211, incl. 38 Studies	20, incl. 3 studies
<b>Number of partner institutions supported</b>	23 MFIs, 24 commercial banks,	1 new MFI, 1 new commercial bank
<b>Beneficiaries</b>	5,333	approx. 695
<b>Average project size</b>	EUR 43,500	EUR 55,400
<b>Partner institutions cost share in total costs</b>	30%	29%



## »» MEF (Microfinance Enhancement Facility)

Providing liquidity to microfinance institutions globally since 2009

- › The MEF is a USD 500 million facility that supports microfinance institutions by providing financing and ensures that low-income borrowers in developing countries continue to have access to finance.
- › The Fund is flexible to meet the evolving financing needs of systematically important MFIs and their clients.
- › If fully deployed, could support lending to as many as 60 million low-income borrowers in many of the world's poorest countries and ensure that microfinance continues to stimulate growth, create jobs, and assist entrepreneurs in overcoming poverty.
- › Has made cumulative investments of USD 580 m to 108 microfinance institutions in 32 countries / outstanding portfolio USD 412 m (as per 30 June 2013)







»» Success factors in microfinance fund design

## »» Why public-private partnerships (PPPs)?

KfW Development Bank is a pioneer in innovative fund design

- › Crowding-in of private management and capital investment generates a broader impact and ensures long-term sustainability.
  - › KfW acts as a catalyst to attract private capital investment.
  - › Structured correctly, PPPs may mobilize previously untapped resources from local, regional or international investors in search of investment opportunities.
- › PPPs increase efficiency and use available resources more effectively.
  - › Private sector operators have a proven track record of effective use of limited resources.
- › PPP contribute to reforming sectors through a reallocation of roles, incentives and accountability.
  - › Private sector operators enter into PPP agreements with measurable objectives and clear financial incentives. Thereby increase transparency.

## »» Microfinance fund design

### Critical success factors

- › Clear definition of fund mission, scope and objectives
- › Clear business case
- › Appropriate choice of legal form/domicile
- › Adequate capital structure
- › Effective organizational structure
- › Independent control mechanisms
- › Appropriate definition of reporting indicators to track target attainment
- › Incentive scheme which focus on financial and development objectives

... and ....

- › Choice of investment manager and other service providers

## »» Criteria when selecting an external asset manager 1/2

Decision-making factors at KfW Development Bank ...

- › Understanding of KfW needs and goals
- › Clarity of financial investment process
- › Risk control
- › Strength of social performance management
- › Financial performance track record (length and quality)
- › Investment team: size, know-how and experience, stability
- › Local presence and network in target regions
- › Reputation of asset manager
- › Existing partnerships of asset manager with financial service providers (custodian banks, fund administrators, hedging counterparties)
- › Client servicing and reporting

## »» Criteria when selecting an external asset manager 2/2

... and responses from 126 institutional investors 2008 - 2010

	2010	2009	2008
<b>Clarity of investment process</b>	1	1	1
<b>Risk control</b>	2	3	2
<b>Performance</b>	3	2	3
<b>Investment management fees - transparency of fees</b>	4	5	4
<b>Stability of investment team</b>	5	4	5
<b>Client service</b>	6	6	6
<b>Quality of reporting</b>	7	10	8
<b>Investment management fees - level of fees</b>	8	7	9
<b>Financial strength of external manager</b>	9	8	10
<b>Corporate governance</b>	10	9	11
<b>Understanding of your organisation's goals and needs</b>	11	11	7
<b>Reputation of asset manager (brand)</b>	12	12	12
<b>SRI/ESG credentials</b>	13	n/a	23
<b>Other criteria</b>	14	13	28



## »» Beyond Classical Microfinance





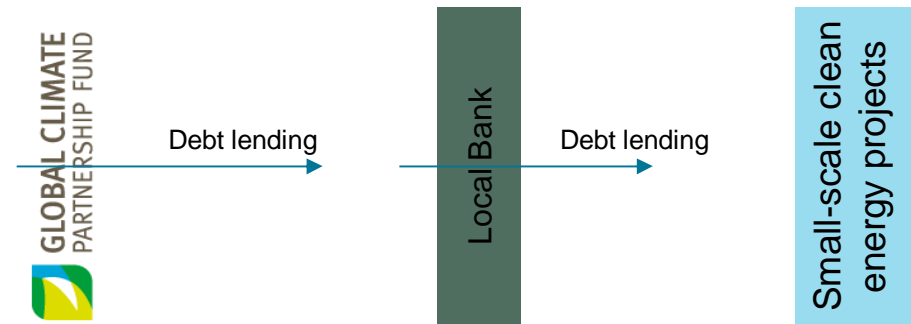
# Global Climate Partnership Fund (GCPF)

## Mission

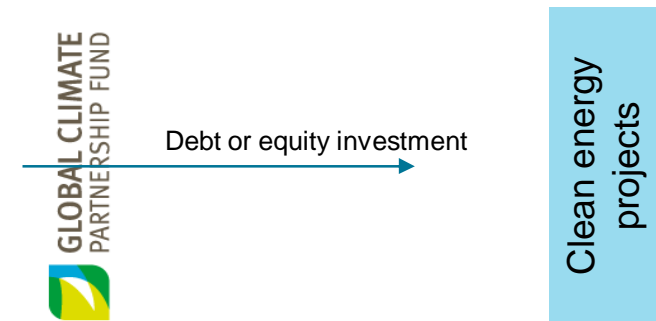
- Contributes to mitigation of climate change by promoting energy savings and reduction of greenhouse gas emissions
- Invests in energy related projects of private households and small and medium enterprises, primarily via qualified financial institutions
- Increases awareness of energy efficiency and renewable energy
- Mobilizes private capital

## Investment profiles

### I. Lending to banks



### II. Lending to sustainable energy projects





## »» Key features of GCPF Investment objectives

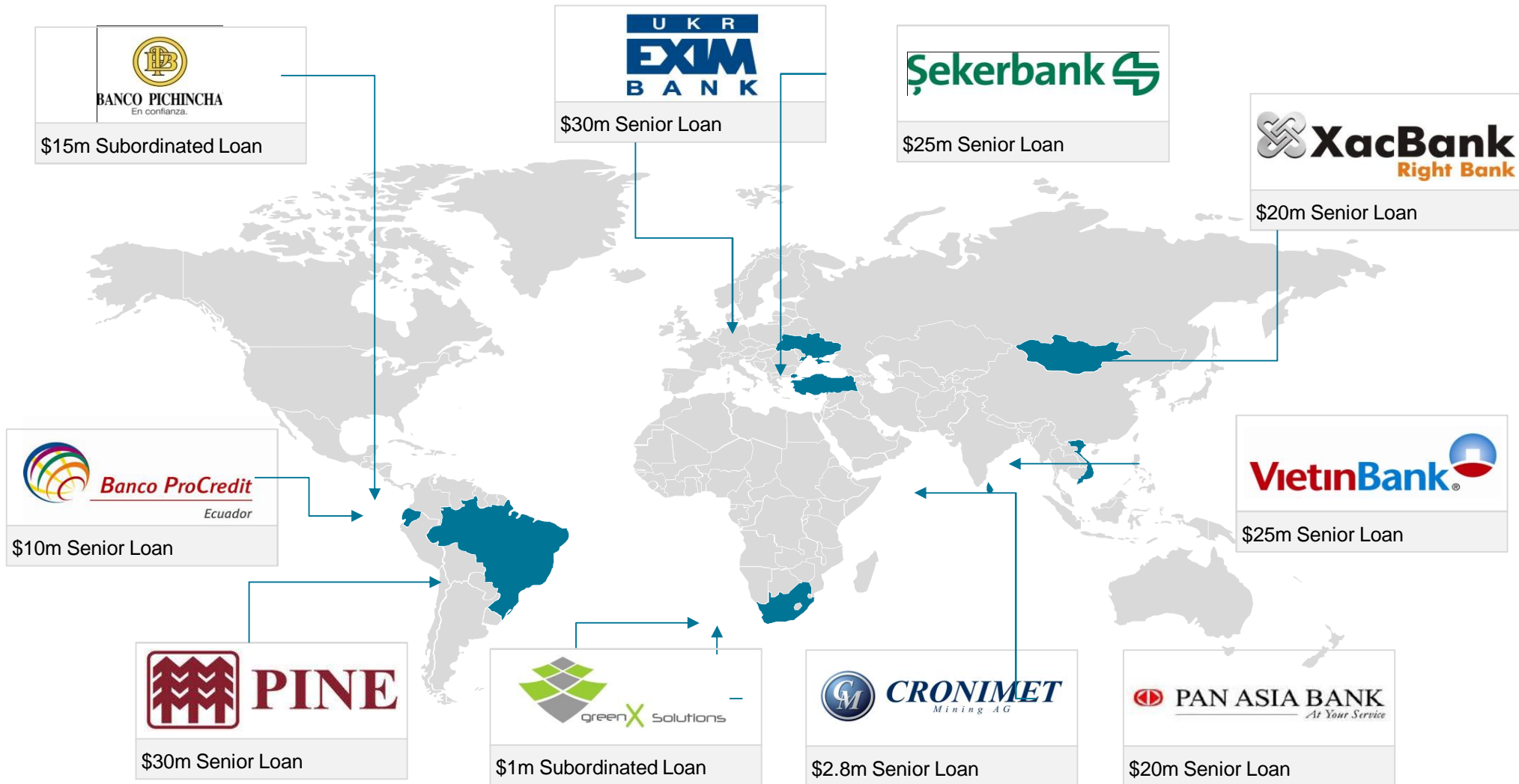
### Key Facts

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- Initiated by the German Ministry for Environment (BMU), implemented by KfW in 2010
- First investment: April 2011
- Disbursed Investment volume today: USD 162m (commitments: USD 178m)
- Planned investment volume 2016: USD 500 m
- GCPF...
  - ...acts globally in emerging markets
  - ...targets to achieve an attractive risk-return profile through a diversified portfolio in banks and direct projects
  - ...targets to achieve a minimum of 20% energy savings and/or CO2 savings and to promote renewable energy



## Current portfolio overview



# »» The Regional Education Finance Fund for Africa (REFFA)

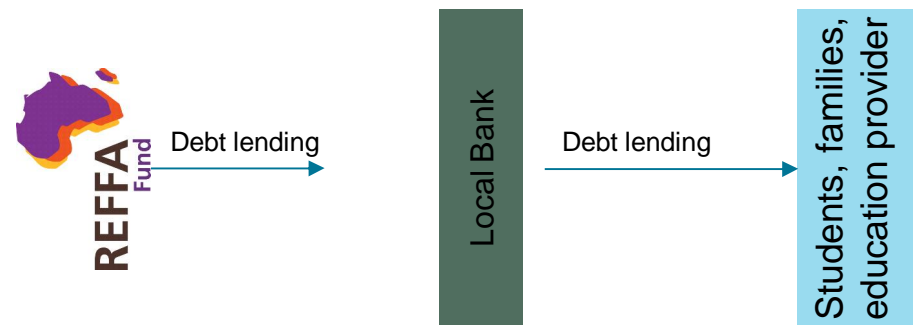


## Mission

- Providing possible clients with an improved, responsive access to education finance products (loans, savings)...
- ... while focussing on the needs of the local labor market and the socio economic situation of the eligible students
- Promoting financial sector development in the target countries
- Demonstration effect: REFFA is a pilot project which should foster competition among FIs and education institutions, and hence improve the quality of services

## Investment profile

### I. Lending to FI (Banks, MFI)



## »» Key features of REFFA

### Key Facts

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- Initiated by the German Ministry for Federal Ministry for Economic Cooperation and Development (BMZ), founded by KfW in 2012 in Mauritius;
- Regional Fund for Africa, currently in DRC, Tanzania, Senegal, Cameroon and South Africa;
- REFFA can do long-term funding and local currency as well as subordinated loans;
- Substantial TA-package (EUR 3 mln) for FI for implementation;
- Fund size: EUR 12 mln, currently KfW is the only shareholder;
- Planned investment volume 2013-2014: USD 15 mln;
- KfW acts at the moment as the Fund Manager, but a Fund Manager will be hired in 2014;

## »» Drought Insurance for Africa

- Development countries ask for compensation for Loss and Damage caused by climate change, i.a. increased probability of extrem wheather events
- **Drought Insurance as part of a solution:**
  - PPP Insurance company in Bermuda with different risk tranches
  - Leverage by Re-Insurance
  - Key-Element: Contingency Plans



## »» Project Examples

### ARC Insurance Company Ltd. (Drought Insurance for Africa)

#### Objectives

- › Improve the access of African countries to protection against extreme weather risk given that droughts and floods will increase due to climate change
- › Via the insurance enable swift funding of programs that support households and companies seriously affected by drought (flood cover being also developed)

#### Approach

- › Founding of ARC Insurance Company Ltd. by end of 2013 as a Public Private Partnership in the form of a mutual insurance
- › original capitalization to be provided by DFID, KfW and SIDA, approximately USD 120 million
  - To be reinsured, offers indicated by Swiss Re, MunichRe
- › Management by an independent, professional insurance manager + investment manager
- › will provide drought insurance to all African countries who have received a certificate of good standing (good and implementable drought contingency plans, able to prove that insurance payments have been spent for activities laid out the these plans)
- › 4 principles: reinsurance of extreme droughts, financial sustainability, affordable premiums through risk pooling, high complementarities with other initiatives

#### Impact and Results

- › Improve food security and support adaption to climate change
- › Implementation of a demand by the Doha Conference on Climate Change 2012

#### Contribution of FC

EUR 46 mn (equity) + EUR 4 mn TA

# »» African Local Currency Bond Fund (ALBF)

## Facts I

Improve and diversify long term funding in local currency...

- › Improve the **access to bond markets** for issuers and attracting local and international investors
- › Facilitate the **currency- and maturity-matching** funding
- › Improve the **access to local currency loans and savings** products for bank and MFI clients

Benefits for Partners	Potential Partners	Status
<ul style="list-style-type: none"> <li>› Improvement and diversification of refinancing structure</li> <li>› Availability of local currency term funding for local currency loan books</li> <li>› Reduction of currency risks for the institution and its final borrowers</li> </ul>	<ul style="list-style-type: none"> <li>› Local African banks</li> <li>› Micro finance institutions</li> <li>› Selected agricultural corporations</li> <li>› Housing/ mortgage lenders</li> <li>› Leasing companies</li> </ul>	<ul style="list-style-type: none"> <li>› <b>Founded:</b> 12/ 2012, Mauritius</li> <li>› <b>Volume:</b> EUR 17 mn (expected to grow) + leverage through partnership</li> </ul>

Create investment opportunities for local African investors and support the development of African bond markets.

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# »» African Local Currency Bond Fund (ALBF)

## Facts II

### Conditions

- › Anchor investments in local currency bonds (EUR 0.1 mn to EUR 2.5 mn)
- › Partial Guarantees for issuances
- › Robust package of technical assistance

### Technical Assistance

- › Sustainable long-term bond issuance programs
- › Structuring of the bonds and feasibility of the bond issuance
- › “Road Shows”
- › Costs for bond ratings
- › Contract documentation and issue prospectus



### Eligible Financial Institutions

- › Have sound financial results on a sustainable basis
- › Follow the rules of Good Corporate Governance
- › Are professionally managed
- › Serve their clients according to Responsible Finance principles
- › Meet international transparency standards
- › Have a high commitment to client outreach
- › Have a need for medium or long term funding in local currency
- › Have a professional treasury and asset and liability management

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