Counter Balance
Challenging the European Investment Bank

Campagna per la riforma della banca mondiale

Is EIB money going to the poorest?



Concerns about the European Investment Bank's approach to microfinance in developing countries

Is EIB money going to the poorest?

Written by Valerio Carboni

Edited by Antonio Tricarico

Graphic design: Carlo Dojmi di Delupis

Acknowledgments
With a big thanks to Andrea Baranes of CRBM for his inputs into the editing and advice Valerio Carboni during his research

CRBM - Campagna per la Riforma della Banca Mondiale
Via Tommaso da Celano 15
Roma (Italy)
tel. +39.06.7826855
Fax. +39.06.7858100
web: www.crbm.org
email: info@crbm.org

Counter Balance's mission is to make the EIB an open and progressive institution delivering on EU development goals and promoting sustainable development to empower people affected by its work.

Counter Balance includes members from:

* Central and Eastern Europe: CEE Bankwatch Network
* France: les Amis de la Terre
* Germany: urgewald
* Italy: Campagna per la Riforma della Banca Mondiale
* Netherlands: BothEnds
* United Kingdom: Bretton Woods Project

Counter Balance
26 Rue d'Edimbourg
1050 Brussels, Belgium
tel. + 32(0)2 893 08 61
info@counterbalance-eib.org
www.counterbalance-eib.org

Text closed at the end of December, 2011 based on data researched until the end of September 2011

Content

1. Introductory remarks

The supply of funding for micro finance has been increasing steadily in the last ten years. As of December 2009 cross borders funders reported commitments to microfinance of US$ 21.3 billion, an increase of 17 percent over 2008.

The financial crash in 2008, the Andhra Pradesh scandal in late 2010[1] and the recent repayment crisis in Morocco, Bosnia, Pakistan and Ecuador[2] don't seem to have dented much of the enthusiasm of international funders for microfinance. Despite a slowdown in 2010, the flow of international funds to microfinance institutions is expected to resume in 2011.

Today, the international community of microfinance supporters is an increasingly variegate landscape, it counts far more funders than ever before and new entrants are contributing to reshape the boundaries of this industry. Development financial institutions are still the principal drivers behind the growth of cross border funding but new players are quickly stepping in to join the party. Financial intermediaries, consultancy firms, investment managers, technical advisors, private equity firms and so forth are rapidly mushrooming as western governments continue to pour funds in this industry.

Notwithstanding EIB's growing faith in microfinance, it is less evident to which extent this strategy has been successful

Despite a constant growth in the last twenty years, private capital still plays a marginal role. With the exception of major foundations, like the Bill & Melinda Gates foundation and a few investment banks, that have smelt the opportunity to make money out of the poor in emerging markets, this industry is still overwhelmingly subsidized with public funds.

Ultimately, the goal of international funding should be to create sustainable and independent microfinance providers that can provide credit and channel investments to specific target groups on permanent basis, rather than relying on temporary state aid.

The European Investment Bank has been one of the latest entrants in the microfinance business. Although its portfolio still represents a very small fraction of the total budget, it has been growingly steadily through the years. Since the first operations in Morocco, back in 2003, the average deal size has been increasing constantly and is now expected to top 10 to 50 million dollars.

The range of the instruments used has been expanding as well. From traditional credit lines and loan guaranties, EIB's microfinance strategy has become increasingly sophisticated and is now relying on financial intermediaries to allocate funds.

Notwithstanding EIB's growing faith in microfinance, it is less evident to which extent this strategy has been successful and some questions arise spontaneously. For example, Is the bank operating accordingly with its mandate? Who are the ultimate beneficiaries of these investments? Are the funds going in the hands of the poorest? Is the bank accountable for its investments?

In order to shed some light on these issues, this paper will bring a closer look at EIB's microfinance operations. The work is organised in five sections. Section one makes introductory remarks, section 2 provides a general overview of EIB's microfinance operations, section three discusses the social consequences of the bank's investments, that is, the social performance issue, section four is dedicated to policy recommendations and section five concludes.

1 Tens of Indian farmers in the Andrha Pradesh state of India committed suicide in 2010 to escape payments or end the agonies their debt, accumulated through microcredit loans, had triggered. Several microcredit lenders, some after being taken over by conventional companies, have been criticised for becoming more and more profit oriented by imposing interest rates higher than 20 or even 30 per cent and implementing a tougher loan collection practice regardless of survival problems faced by borrowers.

2 Since 2008 Nicaragua, Morocco, Bosnia and Herzegovina, and Pakistan have all experienced a microfinance repayment crisis after a period of high growth and are important microfinance markets in their respective regions. Case studies carried out by the Consultative Group to Assist the Poor do not indicate that the global economic recession is a primary cause of the repayment crises, though it was among the various contextual factors affecting borrowers' repayment capacity. Instead, the case studies reveal that three vulnerabilities within the microfinance industry lie at the core of the problems: Concentrated market competition and multiple borrowing; Overstretched MFI systems and controls; and, erosion of MFI lending discipline. http://www.microfinancegateway.org/p/site/m/template.rc/1.9.42432/

2. EIB Microfinance Activities: general overview

2.1. Principles and mission

The EIB group is one of the latest entrants in the microfinance bonanza among the major international development agencies. The first microfinance operations in Africa were set up in Morocco in 2003 as part of the EIB strategy to combat poverty on the African continent under the European development aid and cooperation policy.

Although the microcredit tool was relatively new to most EIB bankers, and this approach marked a quiet significant departure from the bank's traditional lending activities, it was viewed as a preferable strategy for a continent where most people are excluded from the banking system and live with less than one dollar a day. In other words, financing and supporting local microfinance institutions was considered to be the best strategy to channel credit to the most remote areas of the globe, particularly in under served markets such as semi urban and rural areas. Also, this strategy was deemed to be consistent with the bank's liberal market oriented vision and, more importantly, it fitted well under the bank's mandate which didn't allow the EIB to grant subsidies but only to make profitable loans.

The EIB shaped since the start, and honed over time, a "capacity building" strategy. Rather than providing credit directly to the end beneficiaries, this strategy focuses on the distribution level. Basically it aims at turning local MFIs, usually un-licensed non governmental organisations, into professional, independent and financially sustainable financial institutions that can provide microloans to local communities on a permanent basis.

The CGAP Initiative and the SmartAid for Microfinance Index

In order to match high quality standards and continuously improve its expertise, the EIB participates to the CGAP (Consultative Group to Assist the Poor) initiative and the SmartAid for Microfinance Index, and endorses the Client Protection Principles.

The CGAP[3] is an independent policy and research centre dedicated to advancing financial access for the world's poor. It is supported by over 30 development agencies and private foundations who share a common mission to alleviate poverty, and is housed at the World Bank.
The SmartAid index measures whether funding agencies are set up to support microfinance effectively. Its premise

Photo Caterina Amicucci/CRBM

is that organizations that are transparent and accountable, with a clear strategy, experienced staff, and use appropriate funding instruments are better equipped to support microfinance.
The latest Smart Aid review in 2011 assigned a score of 71 out of 100 points to the EIB, meaning that the bank has in place overall "good" systems to support microfinance, although some weaknesses were highlighted which we will discuss later in this work.

However, it is important to mention that this index does not take into account any social performance objective nor it evaluates the quality of programs on the ground. The Client Protection Principles set a code of conduct and good ethical standards for institutions involved in microcredit. More specifically, CPPs are designed to protect MFI clients from potentially harmful financial products and ensure that they are treated fairly. They promote the adherence of MFIs to seven pro-consumer principles:Appropriate product design and delivery

- Prevention of over-indebtedness
- Transparency
- Responsible pricing
- Fair and respectful treatment of clients
- Privacy of client data
- Mechanisms for complaint resolution

It should be noted that these principles are focused on the institutional level rather than the client level. In other words, they look at institutions' internal organisation and processes rather than clients' overall satisfaction. This aspect will be further clarified in section 3.

3 For further information visit the website http://www.cgap.org/p/site/c/.

2.2. Geographic focus: The ACP, the Mediterranean countries and the EU

EIB microfinance operations fall under three global regions: the African Caribbean Pacific region, the Mediterranean Countries and the EU. The EU region includes Eastern European countries and the Candidate countries but will not be discussed in this work.

As of July 2011, the EIB group has committed EUR 881 million to around 35 microfinance projects or intermediaries. Some 75% of the amounts committed to microfinance is for operations in Europe while 75% of the number of microfinance operations relates to counterparties outside the European Union. More specifically, between 2003 and 2011, €176.71 mln. have been committed to the ACP region, €32.70 mln. in the Mediterranean region and €692.2 to Europe[4].

The EIB group has committed EUR 881 million to around 35 microfinance projects or intermediaries. Some 75% of the amounts committed to microfinance is for operations in Europe while 75% of the number of microfinance operations relates to counterparties outside the European Union.

The Facility for Euro-Mediterranean Investment and Partnership

Since October 2002, the European Investment Bank's operations in the Mediterranean partner countries have been brought together under the Facility for Euro-Mediterranean Investment and Partnership (FEMIP). The Mediterranean partners countries include Algeria, Egypt, Gaza/West Bank, Israel, Jordan, Lebanon, Morocco, Syria and Tunisia.
FEMIP is committed to helping the Mediterranean partner countries increase their economic growth and social development. FEMIP has two investment priorities in the region:

- to support the private sector, in the form of local initiatives or foreign direct investment for infrastructure projects, investment in human capital or environmental protection

- to create an investment-friendly environment promoting dialogue between the two shores of the Mediterranean.

Moroccan MFIs have been the first beneficiaries of EIB's financial assistance in 2003/04. Since then EIB's interest in the region has expanded to Tunisia (2007), Syria (2008), Egypt (2009) and Lebabon (2010). The EIB has provided financial assistance in the form of credit lines, loans in US dollars and local currencies and equity investments, and over the period from 2003 to 2010 has disbursed close to 30 million euros[5].

The Cotonou Agreement

EIB's microfinance operations in the African, Carribean and Pacific Countries fall under the "Partnership Agreement between the members of the African, Caribbean and Pacific Group of States and the European Community and its Member States" signed on 23 June 2000 in Cotonou, commonly know as "Cotonou Agreement".

The partnership pursues the goal of reducing and eventually eradicating poverty consistent with the objectives of sustainable development and the gradual integration of the ACP countries into the world economy (Art. 1 of Cotonou Agreement).

The EIB's work in the ACP countries places special emphasis on the development of the private sector and the Cotonou agreement calls for "… support in improving the quality, the availability and accessibility of financial and non financial services to private enterprises, both formal and informal, by developing a modern financial sector, including a capital market, financial institutions and sustainable microfinance operations".

Since 2005, the geographical focus of ACP microfinance operations has shifted from the Caribbean to Africa, where EIB's portfolio stands at about EUR 102 million in twelve microfinance operations.

EIB's increased presence in the sub-saharian region has been accompanied by a change in financial strategy. From traditional loan facilities used in the Dominican Republic, the EIB has progressively increased the range of financial instruments. An important role is now played by financial intermediaries who allocate funds on behalf of the bank.

Overall the EIB has committed 176.1 millions for microfinance operations to the ACP region between 2003 and 2011.

4 http://www.eib.org/products/microfinance/index.htm

5 See appendix 1

2.3. Financial Instruments

The EIB Group provides funding to microfinance institutions (MFIs) in the form of loans, guarantees and equity participations. The EIB can either be a direct investor in or lender to Microfinance Institutions or indirectly finance MFIs through specialised intermediaries, such as Microfinance Investment Vehicles (MIVs) or Microfinance holding groups. The EIB Group's financial instruments consist of:

Direct loans and intermediated loans: direct loans are credit facilities provided to MFIs at commercial rates. Intermediated Loans take the form of credit lines or indirect loans to banks and other financial institutions that in turn on-lend to MFIs. In a number of eligible countries, loans are also available in local currency.

Private equity and debt participations in intermediaries: this includes equity or quasi-equity instruments, as well as senior and subordinated debt. A significant share of the EIB Group's investments in microfinance is allocated through specialised intermediaries or MIVs. In turn MIVs provide debt, equity and guarantees to microfinance institutions which offer a wide range of financial services to micro, small and medium-sized enterprises, such as savings, loans, transfers and insurance.

The major change in EIB's strategy is a progressive move away from direct funding and equity investments, and an increased reliance on specialised intermediaries, so called Microfinance Investment Vehicles (MIVs)

Direct and counter-guarantees: direct guarantees to microfinance institutions and other financial institutions facilitate access to local currency financing solutions for the local banking sector. Counter-guarantees are provided to guarantee schemes underwriting micro-credits extended by microfinance institutions and other financial institutions.

Non-Financial Instruments:
The EIB Group provides technical assistance via grants to enhance the development impact of its projects and strengthen the capacity of its financial counterparties and final beneficiaries. Funds are intended mainly to address weaknesses in human resources management and operations, Management Information Systems (MIS) and technology, governance, internal audit and risk management procedures.

Over three quarters of technical assistance grants to microfinance institutions are channelled into the African, Caribbean and Pacific countries.

2.4. Project financed

The institutions financed by the EIB over the period 2002-2011 are shown in appendix 1 to 5.
The major change in EIB's strategy is a progressive move away from direct funding and equity investments, and an increased reliance on specialised intermediaries, so called Microfinance Investment Vehicles (MIVs), such as Microfinance holding groups, Private equity funds and Structured Vehicles[6] that allocate funds on behalf of the bank.

However, it is worth mentioning that, rather than being EIB specific, this trend is observable at an industry level and is presumably related to the improved funding conditions for MFIs in recent years. Global commitments to microfinance have constantly increased over the last four years and haven't been too much affected by the current financial crisis. Based on CGAP estimates, cross border funders, which include funding from public funders (DFIs, multilaterals, bilaterals) and private funders (foundations, institutional and individual investors), increased their global commitments to microfinance by around 13% in 2010 up to at least US$24 billion[7].

The growth of financial intermediaries is even more impressive. As the annual Microrate MIV Survey shows, total MIV assets grew by an impressive 97% in 2007 to reach 3.9 billion USD. In 2008, they increased by 28% to reach 4.9 billion USD, and in 2009, they further increased by another 22% to reach over 6 billion USD[8].

The growth of Microfinance Investment vehicles

The EIB is not an exception to this trend and currently, outside Europe, 75% of EIB financing is sourced through microfinance investment vehicles and microfinance holding companies. Direct funding, in the form of loans, credit facilities and guaranties, which has characterized EIB's first microfinance operations in Morocco and in the Dominian Republic is now rather exceptional. In the ACP region, with the sole exception of the Dominican Republic and an equity stake in a microfinance bank in Liberia, close to 100% of EIB's funding is currently outsourced. On the other side, direct funding is still EIB's privileged

6 See appendix 1

7 http://www.cgap.org/p/site/c/

8 http://microrate.com/

strategy in the Mediterranean region, with a €1.95 million loan granted in 2007 to Enda Inter Arab, a Tunisian MFI, a €2 mln. equity participation in 2008 in First Microfinance Institution, a Syrian MFI, a €2 milion local currency loan provided to an egyptian financial intermediary in 2009 and a €1.5 mln. loan provided in US doallars to a Lebanese MFI.

Another distinctive trait of EIB's microfinance strategy is a growing presence in the Sub Saharan region, where most of MIVs' investments are concentrated

The Sub Saharan region

Another distinctive trait of EIB's microfinance strategy is a growing presence in the Sub Saharan region, where most of MIVs' investments are concentrated and which again seems to track a general tendency at the industry level.

While South America, Eastern and Central Asia, and Latin American-Caribbean regions remain the areas of the world receiving the highest amounts of cross-border funding, combining more than 60% of total commitments, the funding to Sub-Saharan Africa has been increasing over the last four years and currently represents 11% of global commitments[9].

The role of "Greenfield" institutions

"Greenfield" institutions play an important role in EIB's microfinance strategy. Greenfield MFIs are completely new microfinance institutions built from scratch. In most of the cases, an international network or holding company works out the business plan, seeks for legal authorisations, provides technical assistance and funding. Most of these companies have been set up between 2007 and 2009 by holding companies such as Procredit, Advans, Access and Microcredit[10] . These institutions represent a distinctive trait of the Sub Saharan microfinance landscape even though they can be found in other continents. The holding company usually holds a controlling stake and gathers a pool of international investors, usually among international development agencies and foundations.

These institutions receive significant technical assistance from the founders and are usually run by Western staff that are in turn responsible for training local human resources.

Dependent on the characteristics of the market where they are located, these institutions are expected to become profitable in a relatively short period of time, between 18 and 36 months.

Between 2005 and 2009 the EIB committed over €17 mln to this strategy which led to the creation of 16 brand new MFIs, mostly in the sub saharian region[11].

Increased budgets

The EIB has shown an increasing commitment to its microfinance strategy over time. Since the first operations in 2003, the EIB has constantly expanded the yearly budgets as well as the average deal size. In 2009, which set a record year in this perspective, the EIB disbursed over €70 mln and the average deal size amounted to €11.66 mln a 300% increase compared to the first operations in 2003/04. In 2009, the EIB participated to the launch of the microfinance enhancement facility with a € 35 mln commitment, which is by far its biggest contribution to microfinance.

9 http://microrate.com/

10 See appendix 2

11 See appendix 2

3. Is EIB money going to the poorest?

3.1 Cross-border funding overview

As of December 2009, cross borders funders reported commitments to microfinance of US$21.3 billion, reflecting a 17 percent increase over 2008. Despite the global financial meltdown and the Andhra Pradesh crisis[12], which has deeply shaken the microfinance community, cross border funding to microfinance institutions is expected to continue growing.

Private capital still plays a marginal role and the bulk of cross border funding comes from public donors and investors. Public funders include bilateral, multilateral agencies and Development Financial Institutions. Public funders' commitments totalled US$14.6 billion as of December 2009, representing almost 70% of total cross border funding to microfinance.

With commitments of more than US$8.8 billion as of December 2009, DFIs accounted for 42% of total commitments to microfinance[13]. Along with the European Investment Bank, the most active players in microfinance field are the International Finance Corporation and the German Kreditanstalt fuer Wiederaufbau (KfW).
While most of public funders decreased their commitments in 2009 (bilateral agencies by 9 percent and multilateral and UN agencies by 7 percent), DFIs increased their commitments by 28%[14].

The launch in 2009 of the Microfinance Enhancement Facility represents an unprecedented effort by international development agencies to support MFIs in the face of the global credit crunch. With initial contributions of $150 million from IFC and $130 million form KfW, this facility, which is expected to top $500 million, is the largest ever financial vehicle promoted by international agencies in support of the microfinance industry. The EIB participated with a €35.03 million commitment which is by far its biggest contribution made to microfinance.

Notwithstanding this unprecedented effort by international public agencies to pour funds in the microfinance industry, there are growing concerns that only a small fraction of this money is actually reaching the hands of the poorest[15]. According to Mr Yunus Muhammad, a long time advocate of microfinance, even though recently criticised by some civil society organisations for his approach, only between 10% and 25% of the money spent by international organisations actually reaches the poorest . Several studies point in the same direction. A research from ADA (Appui au développement autonome), for example, shows the relationship between the number of families living in absolute poverty in each region (i.e. those living on less than US$1.25 a day adjusted for PPP) and the number of poorest that were reached with a microloan in each region at the end of 2009. With the exception of the Asian continent, where the coverage stands at 64.2%, coverage in other areas of the world is modest, notably in Africa and Eastern-Central Asia, where it is respectively at 9.8% and 7.7%[16].

Photo Carlo Dojmi/CRBM

12 See footnote 1

13 CGAP Cross border funding survey (2010)

14 CGAP Cross border funding survey (2010)

15 Muhammad Yunus, How donor funds could better reach and support grassroots microcredit programs working towards the Microcredit Summit's Goal and Core Themes. Discussion paper for the Microcredit Summit Meeting of Council in Abidjan, 24-26 june 1999.

16 Appui au Développment Autonome (ADA) (November, 2007), The International Funding of Microfinance Institutions: An Overview

3.2. What is microfinance?

A major obstacle is represented by the fact that most international agencies, EIB included, embrace a wide definition of microfinance and lack a clear vision. Increasingly microfinance is seen as a mean to expand and deepen the financial sector, rather than simply to provide credit to specific target groups.
To a certain extent, this confusion, on what is microfinance and what it should do, is implicit in most capacity building strategies, which aim at developing retail level financial intermediaries rather than funding directly low income people.
Furthemore, microfinance is a rapidly changing field. If in the past it was principally associated with micro enterprise credit provided by NGOs, today, it encompasses a wide range of financial services (savings, credit, but also insurance, payment services and mobile banking) provided to a wide variety of clients (poor landless women, retirees, urban families, rural entrepreneurs) through many types of institutions. Not surprisingly most international agencies lack a clear vision on what is microfinance and who should ultimately benefit from it.

A major obstacle is represented by the fact that most international agencies, EIB included, embrace a wide definition of microfinance and lack a clear vision

The Leapfrog case

EIB's investment in Leapfrog is indicative of this confusion surrounding microfinance[17]. Leapfrog was launched in 2007 as the world's first equity fund focused in microinsurance. The fund aimed at investing in insurance companies servicing under served people in Africa and India. Backed by President Bill Clinton and hailed by major media the fund raised $135 million from private investors, international agencies and private foundations.

Investors in LeapFrog included global banks such as JP Morgan and Triodos, major development financial institutions such as IFC, KfW, and EIB; leading funds such as Soros EDF, TIAA-CREF, Omidyar Network, FMO, and Calvert; global reinsurers SCOR, Haverford, and Flagstone Re; and development financiers including Proparco and Accion. The fund appealed to both commercial and public investors as it was described and marketed as an emerging new alternative-asset class called "impact investments", that is, a fund designed to yield both a financial return and a broader benefit to society. By providing cheap insurance products to low income people, who previously were not served by typical financial service providers, the fund was presented by the founders as a major catalyst of social progress. In other words, micro insurance was seen as an important extension of microfinance: insurance products shaped for the needs of the low income people, helping them to overcome unexpected events and better plan for the future (examples of such products are weather related insurance products for farmers, life insurance for people living with HIV, etc.).

The fund sounded also as a major business opportunity for investors as it was meant to serve the vast and untapped demand for microinsurance services in emerging markets. According to Swiss Re estimates: a market of 3 billions customers potentially worth $40 billion. To further appeal investors, this conclusion was reinforced by a study published by JP Morgan and well advertised on Leapfrog's website titled Impact Investments, An Emerging Asset Class.

The research estimates that the market for products dedicated to the portion of the global population earning less than $3000 a year (in the sectors of housing, rural water delivery, maternal health, primary education and financial services) is worth between $400bn - $1 trillion for profits of $183 - $ 667bn!
The Leapfrog case is anecdotal but clearly shows the risks of adopting a too broad definition of microfinance. Microcredit, in its original meaning and as it was practiced at Grameen back in the 70s, was meant to help the poor to escape the poverty cycle. It was designed to short circuit the poverty trap that condemned poor people excluded from the banking system to rely on usury loans or accept slavish working conditions. Hence, it addressed primarily the needs of micro entrepreneurs and vulnerable people. Nowadays microcredit has turned into a multibillion business and encompasses a wide range of financial services. This evolution has progressively carried away the industry from its original vocation and transformed it into a profit making business. The JP Morgan study makes the point: rather than helping the poorest the question is now how to make money out of them!

And if it is still legitimate for investment banks to profit from the potential demand for financial services coming from low income people in emerging countries, it is less obvious to which extent these investments contribute to eliminate poverty or why they should benefit from public funding. The EIB joined the Leapfrog business with a $20 million dollar commitment, which is the second biggest disbursement ever made by the bank to microfinance, and this raises serious issues on how public funds are managed by the bank.

17 See appendix 3

3.3. The role of MIV: is too much funding chasing too few MFIs?

The proliferation of MIVs

Investment vehicles have proliferated in the past five years. Since the first MIV was launched back in 1995, this industry has been growing steadily and today accounts hundreds of intermediaries with over $6 billion under management[18].

Boosted by significant public funding these new players are now a dominant force in the industry, and while their investments are critical to shape its destiny, it is less evident to which extent their investments concur to improve the living conditions of the poor.

The MIV landscape is characterized by different players. Besides the principal categories which we discussed in section one, such as holding groups, private equity and investment funds, new players are quickly stepping with the hats of technical advisors, consultancy firms, investment managers and so on. Most of these companies have been set up in recent years and, although they benefit from significant public support, they do not always have the transparency one would expect. Most of these companies operate as private companies incorporated in the Mauritius, well known tax haven, and provide very limited information on their activities.

Development financial institutions and international agencies are the dominant force behind those intermediaries, representing 35% of total MIV shareholders, an increase from 27% in 2009[19].

While it is undisputable that these players have mushroomed to seize the opportunities arising from public funding, the allocation of funds they operate is questionable. The scenario where a MIV receive money from a DFI or a foundation and invests in a MFI, which in turn invests in another MFI, rather than being an exception seems to be the rule. Even worst, we can see a MIV that invest in other MIV which invest in a MFI that invest in another MFI and so on, in an infinite process where the industry manifestly is feeding itself and absorbing much of the resources available by retaining parts of the loans as commission or adminbistrative fees.

A consequence of the concentration at the intermediary level is an increasing concentration of the funding activity in a limited number of MFI

MIV industry concentration

Another worrying element is the increasing concentration of this industry. In each of the last five years, large MIVs (with assets exceeding $200 million) have steadily increased their share of all MIV assets to where they hold now more microfinance assets than all other MIVs combined. The dominance of the larger MIVs became more pronounced since 2008. Whereas at the end of 2006 large MIVs held 26% of microfinance assets, by year end 2010 they held 52%[20]. Big names in this sector are Oikocredit, Dexia Microcredit Fund, DWM, Responsibility, Blue Orchard, Triodos and Accion. They all can be found behind EIB's investments, either as investment managers, this is the case of Blue Orchard and Responsibility managing the Microfinance Enhancement Facility, as shareholders of holding groups or as investors. The Africap Microfinance Fund, for example, sees among its main founders high profile names such as Accion, Blue Orchard, Triodos among others.

A consequence of this concentration at the intermediary level is an increasing concentration of the funding activity in a limited number of MFI. A research note from ADA shows that over 85% of the funding activities by the largest MIVs benefits MFIs with assets over $30 millions. Large MIVs tend also to concentrate their efforts on specific regions of the world. As the authors of this research show, every year from 2007 to 2009, the part of the outstanding amounts to MFIs in Eastern Europe and Central Asia, Latin America and the Caribbean, as well as East Asia and the Pacific (that is, the most developed markets for microfinance) amounted to about 78% of total funding[21]. In other words, large MIVs tend to privilege the most mature and commercially advanced MFIs at the expenses of the younger and less developed institutions that operate in less mature microfinance regions.

While there are valid reasons for MIVs to privilege the most advanced MFIs, particularly because these institutions are regulated and monitored by the supervision authorities and have performed financial and social ratings, which makes the funding process easier, critics have stressed the negative consequences of such concentration of funding in few institutions. There is in fact a growing evidence that the microcredit crises in Nicaragua, Mo-

18 Microrate, The state of microfinance investment 2011

19 Microrate, The state of microfinance investment 2011

20 Microrate, The state of microfinance investment 2011

21 Appui au Développment Autonome (ADA) (November, 2007), The International Funding of Microfinance Institutions: An Overview

rocco, Bosnia Herzegovina, Pakistan and India have been the product of a microfinance bubble, where the intense competition of funders in certain markets ultimately ended in poor investment decisions[22].

The financial crisis further exacerbated this trend. The economic slowdown in 2009/10 caused a decline in demand for funding which translated in a build up of excess liquidity on the balance sheets of many MIVs. This is the case, for example, of the Rural Impulse fund II which was launched in June 2010 with an important contribution from the EIB and other development banks. Twelve months after the launch the fund had invested only 37.7 mln USD over a portfolio of 173 mln USD[23]. This increase in uninvested capital has the predictable effect of putting pressure on the financial returns of those funds, which in turn further increases the competition among funders. This concentration of investments in few targets figures out from EIB's investments. It is not uncommon to see different investment vehicles ending up making the same investments. These are the cases, just to mention a few examples, of I&P and Advans both investing in Amret, a leading and well established Cambodian MFI, or I&P and AfriCap microfinance fund both investing in AE & I, a MFI located in Ivory Coast, or the EIB investing directly in Access Bank Liberia and indirectly through its holding group[24].

3.4. Raising transparency standards

MIVs' principal function is to raise capital among industry specialists and channel these funds into local MFIs. These vehicles get usually started when an agreement is reached among industry participants to commit a certain amount of capital to a specific project.

As mentioned, Development Financial Institutions are the major sponsors behind these investments. Private investors play a minimal role. Based on 2010 figures, Private Institutional Investors represent 43% of all investors, followed by public entities which stand at 35%. Private ownership is only at 12%[25].
The ownership of the investment vehicles sponsored by the EIB is more geared towards public ownership. Private institutions play a lesser role and private clients are totally absent.

22 See footnote 2

23 http://www.incofin.com/

24 See appendix 2-5

25 Microrate, The state of microfinance investment 2011

With the exception of French insurer AXA and the Omidyar-Tufts Microfinance Fund, which is a private fund sponsored by Mr Omidyar, the founder of EBay, in partnership with the University of Tufts, Microcredit Holdings Group are funded exclusively by DFIs and government agencies. Private consultancies firms can figure among shareholders, but usually with very small and almost negligible commitments[26].

Private equity funds see a greater involvement of private capital from investment banks - this is the case, for example, of the participation of ABN AMRO in Shorecap or JPMorgan in Leapfrog - and private foundations, like the ill & Melinda Gates Foundation, but it is not always easy to establish the ultimate beneficiaries of these funds since Mauritius regulations provide very relaxed rules in terms of disclosure of beneficial ownership.

Structured Vehicles are investment funds registered in Luxembourg (SICAV-SIF). They are at majority owned by public investors and private ownership is limited to qualified or professional investors. In other words, these funds are not open for subscription from private retail investors since their specific risk profile is not considered suitable for non-professional or non-qualified investors, which means that the regulatory regime is more relaxed and offers less protection to investors. SICAV-SIFs for example are free from the obligation to consolidate the companies that are held in the portfolio for investment purposes, they do not have to compile interim reports nor need they to publish their net asset value. Private institutions participating in such schemes are financial institutions and a few not for profit organisations or social investors. High profile investors in the funds launched by the EIB have been Dutch-Belgian banks KBC and Fortis[27].

This lack of transparency makes very difficult for investors or public regulators to monitor MIVs financial and social performance. While financial performance can always be gauged from income statements (at least limitedly to the poor information available since these funds benefit from very relaxed financial reporting regimes) it is almost impossible to measure their social performance, which does not figure from financial statements and usually shows up only as mere declarations of intents on the annual reports.

26 See appendix 5

27 http://www.incofin.com/

4. Policy recommendations

4.1. Monitoring social performance

Rather than being EIB specific, the lack of performance tracking is a general weak spot for Development Financial Institutions involved in microfinance.

CGAP reviews on aid effectiveness point to the fact that nearly all agencies do not track the performance of their microfinance investments, with many agencies being completely uniformed about the scope and size of their microfinance portfolios[28].

Strategies to improve quality and results should be based on knowledge of the existing portfolio, including all credit components, funds and credit lines. Agencies should modify their current reporting systems to flag and track all projects, even when they are a minority component of a larger project.

Without these changes, ineffective projects or projects that distort local markets and waste development money can persist and are sometimes renewed, while highly performing programs do not receive the recognition they deserve.

The EIB is not an exception in this perspective. Among the different components of the the Smart-Aid Index, the European Investment Bank received the lowest score for the portfolio review criteria[29]. The EIB's Microfinance Center for Expertise (MCE) produces an annual portfolio update, surprisingly it does not include any information on the performance of EIB's investments. Furthermore, the limited reporting information available tends to be only activity-based (amount disbursed, number of training events, etc) rather than performance-based.

This state of affairs can be attributed to EIB's limited microfinance experience. Although the bank's portfolio has been growing steadily in the last few years it still represents a very small fraction of the total budget and only recently it has reached a certain scale requiring a major and systematic review.

The lack of performance-based agreements makes the monitoring task even more difficult. The effectiveness of microfinance investments needs to be established against specific objectives, which are to be predetermined and measurable. EIB's contracting includes very few performance based elements, such as funding in tranches or cost sharing agreements. More recently some performance milestones have been introduced and compliance officers are assigned for each agreement. But this practice has been introduced only in recent years and older projects do not incorporate any performance targets and measures for non compliance[30].

EIB's contracting includes very few performance based elements, such as funding in tranches or cost sharing agreements

Monitoring social performance

The performance of microfinance activites is a delicate combination of financial and social performance. While there has been much emphasis on the former criteria - financial sustainability being considered the condition sine qua non for the industry to prosper and expand - very slow progress has been made on the definition of the social performance criteria.

Donors, foundations and governments pour money in microfinance with the belief that microfinance helps poor people but to be accountable to these funders, MFIs should be able to report on how the stated goals they have promised are being realized, which is not always the case.

The need to introduce social performance based criteria is generally well accepted among practitioners, although it is not uncommon to find opponents to such initiative. Critics to social performance metrics fear that introducing stringent social reporting standards might end up being an unnecessary administrative burden for MFIs.

Admittedly the definition social performance indicators is not an easy task.
The work on social performance has been gaining momentum in recent years to reach a few important milestones. An initiative in 2005 from the CGAP and the Ford Foundation led to the formation of the Social Performance Task Force, which includes over 150 leading microfinance networks, financial services providers and rating agencies[31].

As a starting point, this task force has reached a consensus around the following definition: Social performance is the effective translation of an institution's social goals into practice in line with accepted social values; these include sustainably serving increasing number of poor and ex-

28 CGAP (2004), Aid Effectiveness Initiative, Global Results: Analysis and Lessons

29 CGAP, Smart Aid for Microfinance Index 2011 EIB

30 CGAP, Smart Aid for Microfinance Index 2011 EIB

31 Visit http://sptf.info/

cluded people, improving the quality and appropriateness of financial services, improving the economic and social conditions of clients, and ensuring social responsibility to clients, employees and the community they serve. Beyond this generic definition industry leaders have developed different approaches to measure social performance.

This is a critical step to spread the adoption of social performance indicators across the industry. The emphasis is on indicators that are conceptually clear, simple, practical, cost-effective, statistically rigorous, and comparable across countries, but that can still allow for flexibility, in what institutions choose as their social goals or the tools they use to assess progress on them.

Although the EIB participates to the Social Performance Task Force, very few progresses have been made in this direction. Recently several key performance based elements have been introduced into its agreements, and the bank is now requiring its intermediaries to use performance based indicators with the MFIs in which they invest, but it still does not have clear performance targets or thresholds, nor it has in place any social performance indicators.

Social Performance

The principal dimensions of Social Performance can be classified in the following categories:

- INTENT AND DESIGN
  What is the mission of the institution?
  Does it have clear social objectives?

- INTERNAL SYSTEMS & ACTIVITIES
  What activities will the institution undertake to achieve its social mission? Are systems designed and in place to achieve those objectives?

- OUTPUT
  Does the institution serve poor and very poor people?
  Are the products designed to meet their needs?

- OUTCOME
  Have clients experienced social and economic improvements.

  They can be further summarized in two main categories:

- INSTITUTIONAL PROCESS AND INTERNAL SYSTEMS
  Which focuses on institutions' intentions and actions.

- CLIENT LEVEL INFORMATION
  Which focuses on output and outcome indicators, such as the percentage of very poor people reached and their life improvement.

In order to bridge the gap between institutional and client level information, the Social Performance task force is now developing a common reporting format that includes both sets of indicators.

4.2. International funding vs. local deposits

Cross border funding has been a key driver of growth in the microfinance sector in recent years and governments and international agencies are increasingly committed to this industry and will presumably continue pouring funds into MFIs in emerging markets.

However, practitioners are stressing the risk that the growth of international funding might end up "crowding out" private and local funding. As mentioned in section 2, cross border funding is still overwhelmingly dominated by public funders and profit maximising commercial investors have placed relatively little money into microfinance to date. While DFIs generally take a near commercial approach to investment analysis, none of these investments are fully commercial, in the sense they take greater risks and accept lower returns than most traditional investors.
Not surprisingly, the growth of cross border funding is related to an increasing demand of foreign debt from local MFIs. A survey on MFIs funding needs from CGAP-MIX shows that local institutions prefer foreign debt to local funding for a variety of reasons. Particularly, because of lower interest rates, lower collateral requirements and faster speed of disbursement.

As a result of the financial crisis, MFIs worldwide have been experiencing a general liquidity tightening and an increase in the cost of borrowing

But if international funding presents some advantages it also comes with a cost. The recent global liquidity crisis has highlighted the existence of mismatches between funding sources and MFIs needs: as previously discussed, it is not uncommon, for example, to see MFIs seeking for funding while funders are overly liquid but unable to find institutions matching their criteria.

Additionally, the global credit crunch is progressively affecting the cost and availability of funding to nondeposit taking MFIs. As a result of the financial crisis, MFIs worldwide have been experiencing a general liquidity tightening and an increase in the cost of borrow-

Photo Elena Cavassa

ing. Steep rate increases have being reported, from 250 bp in Eastern Europe to 450 bps for top tier institutions in South Asia[32].

While the launch of the Microfinance Enhancement Facility in 2009 represents a major effort from international agencies to stem the credit crunch affecting MFIs, it also highlights the risks for these institutions of being overly dependent from international financing.

Another problem with international funding is that money is not always going where it should

Another problem with international funding is that money is not always going where it should. Notwithstanding an expansion in the last decade of international sources for microfinance, young and small MFIs still struggle to access to these sources because of minimum requirements on size, age, profitability, portfolio quality, etc. Mainstream investors have en fact fixed costs that are too high to evaluate small actors and need too focus exclusively on the most advanced commercially oriented institutions. According to a research from MIX, 95% of MFIs do not have a balance sheet size which is compatible with international lending standards. The research shows that funders of small scale MFIs generally lie outside the financial mainstream. These funders of smaller non regulated entities represent usually social or public interests like cooperatives, governments or development programs[33].

Foreign exchange risk is another serious issue associated with cross border financing, as approximately 70% of cross-border borrowing is denominated in hard currencies[34]. MFIs are en fact exposed to significant exchange risk since most of their liabilities are in euros or dollars while their assets are usually denominated in local currencies and they seldom hedge their currency exposure. MFIs tend to rely on foreign debt in order to take advantage of interest rate differentials, which are generally favourable to local currencies, but surprisingly they do not seem to be fully aware of the risk they incur by doing so, despite the fact that historically currencies in emerging markets face significant devaluations risks against hard currencies. In many cases top tier institutions are even exposed to significant bankruptcy risks as their foreign exposure exceeds the equity base.

Thus, there are compelling arguments for MFIs to privilege local funding and deposits over cross border financing. MFIs with a broad base of deposits are less exposed to refinancing risks and are relatively well cushioned compared to MFIs that rely exclusively on international funding. The CGAP-MIX survey of funding needs shows en fact that regulated MFIs are generally keen to increase their local deposits as a percentage of their liabilities.

Additionally, deposit mobilization help MFIs to attract resources from mainstream institutions like Central Banks, Governments, DFIs, etc. MIX research shows that around 90% of all MFIs that received funding from these sources reported some deposit mobilization in their balance sheets[35]. Deposits mobiliza-

32 CGAP (2009), The Global Financial Crisis and its Impact on Microfinance

33 MIX (June 2010), Microfinance Funders Profiles: A short guide for young and small institutions still looking for a match

34 CGAP (2009), The Global Financial Crisis and its Impact on Microfinance

35 MIX (June 2010), Microfinance Funders Profiles: A short guide for young and small institutions still looking for a match

tion is generally considered a positive trait in the eyes of the funders, as it implies stricter regulation and closer supervision from local regulatory authorities, which makes the due diligence easier. Furthermore, MFIs with a deposit base are more likely to receive financial backing from public authorities in the event of liquidity or solvency problems, which constitutes an implicit guaranty for funders.

Unfortunately this strategy is not viable for most MFIs, who lack the legal status required for attracting savings from the public. Under most jurisdictions, a banking licence is required for financial intermediaries that want to provide banking services, such as accepting deposits from the general public, and this comes with stricter regulations, for example in terms of capital or administrative requirements, which are usually prohibitive for smaller MFIs.

Public microfinance policies should include some kind of deposit mobilization strategies to allow MFIs to diversify their funding structure and strengthen their links with the local communities

Therefore, public microfinance policies should include some kind of deposit mobilization strategies to allow MFIs to diversify their funding structure and strengthen their links with the local communities. This objective should be placed high in the agenda of policy makers as it constitutes a critical step towards building truly sustainable, independent and not subsidized micro finance institutions. In order to achieve this goal, international funders should aim at strengthening the equity base of the smaller institutions that cannot meet the capital requirements set by banking regulations rather than simply providing cheap financing.

Presently this is not the case since equity investments make only 30% of total cross border funding to MFIs against 58% for debt instruments, and this proportion goes to 21% versus 77% for DFIs, and 0.5% versus 88.5% for Multilateral and UN Agencies[36].

4.3. Are large budgets good for microfinance?

Early EIB investments have been small and were intended to test the bank's microfinance strategy as an effective tool to increase the supply of credit to local communities in emerging countries.

36 CGAP (2010) Cross border funding for microfinance; remaining part of cross border funding is grants.

Through the years the EIB has honed this strategy and the deal size is now expected to grow, with structured debt operations ranging from usd 10 to 50 millions.
But strategy is not the only explanation of this behaviour. The EIB is somehow pushed to increase its budget (as it happens with almost every donor agency), as it faces significant pressure to move money, often within a designated fiscal year or project approval cycle and approve budgets. This pressure to approve projects can override technical discipline or feasibility studies. It is not uncommon for large donor agencies to design larger programs with no regards to the absorptive capacity of target markets and clients.

This approval pressure can have negative consequences on private sector activities. Unlike other development sectors like education, health or infrastructure, microfinance requires small projects with intensive technical inputs but relatively modest budgets. Generally speaking, microcredit programs are highly labour intensive; they require a permanent presence on the ground and dialogue with the informal sector, all characteristics that are in sharp contrast with EIB's policy which is structurally biased towards the larger and commercially oriented institutions.

5. Conclusion

Microfinance has been for decades the darling of international donors, development financial institutions and multilateral agencies.

The roots of the success of the microfinance movement can be traced back until the '80s and coincides with the rise of liberal ideas in western economies. The idea that microcredit could defeat poverty while promoting a market based economy of small scale entrepreneurs had in fact a major appeal on the donor community.

Based on this belief, Western governments, through their financial arms, have been pouring funds into local MFIs in emerging markets for over three decades, turning a niche sector into a multibillion dollar business. New entrants have progressively reshaped the perimeter of this industry, which has expanded into new business such as microinsurance, mobile banking, electronic billing, etc. The European Investment Bank has been a late entrant in the microfinance bonanza but it quickly played catch up. From its early investments in 2003, the EIB has been flexing its muscles and now investments are expected to top the 50 million dollar benchmark.

Microcredit originally was meant to help the poor to escape the poverty cycle. It was designed to short circuit the poverty trap that condemned poor people excluded from the banking system to rely on usury loans or accept slavish working conditions. Hence, it addressed primarily the needs of micro entrepreneurs and vulnerable people. Nowadays this industry encompasses a wide range of financial services, from micro-insurance to mobile banking, and seems to have lost its original vocation: instead of helping the poorest the question has been turned upside down and it is now how to make money out of them! Thus, more than contributing to self-reliant development processes based on domestic resources mobilisation and local institutions building, microfinance is becoming in some cases a significant blockage for the development of the poorest by dragging them into speculative market dynamics and generating a renewed dependency from international financing and actors.

This report was not meant to develop recommendations for how to ensure that microfinance contribute to poverty eradication and community-driven sustainable development, even though this is much needed in several contexts given that many of these alternative finance experiences have become more and more aligned with conventional credit patterns thus replicating the same problems produced by the latter.

In the context of difficulties and evolution faced by the microfinance movements nowadays, the report deliberately just looked into how the EIB is approaching this sub-sector, also to respond to those criticising the Bank for not effectively reaching the poor in its lending to developing countries. What emerges is that in the overall, as in most of microfinance experiences happening in the world today, social performance has been generally subordinated to the goal of financial sustainability. And this can help to explain why EIB's microfinance strategy is in practice not always consistent with European development policies and their ultimate goal of poverty eradication. A critique which however could be extended to the overall EIB portfolio in developing countries, and which goes beyond just microfinance lending.

Always the same mistake: just following markets

Rather than having its own strategy, much of EIB's microfinance work has been driven by industry developments, and to this extent it shares the same limitations. The lack of a clear vision of what is microfinance and, more importantly, of what it should do, is probably the bank's strategy biggest handicap.

This strategy passively following markets leads to the abuse of financial intermediaries to reach out to microfinance institutions which then would lend on to small-scale businesses and to individuals. This is particularly evident when the Bank operates in countries whose capital markets are still infant and limited. In this context the EIB aims at promoting new investment vehicles in order to reach out to microfinance institutions as well as helping deepening capital markets themselves.

In this regard the EIB has been following exactly the same approach which is driving its "macrofinance" approach in the least developed countries of sub-Saharan Africa, where about 40 per cent of its lending takes place through financial intermediaries – as already documented by Counter Balance in the last years. In this way the accountability chain gets longer and more obscure which makes it more and more difficult to track how funds are ultimately used.

At the same time the primary objective of financial sustainability is inevitably to move resources towards entities and operations which are already bankable, thus reducing opportunities for the poor to access these precious credit resources at affordable commercial terms. It is difficult to detail the exact success produced by specific EIB microfinance institutions in terms of enlarging access to credit among the poor and those most in need given the lack of sufficient information available. However a detailed analysis of EIB microfinance portfolio has highlighted several problematic aspects which deserve further research.

Among those, the market-driven approach to microfinance by the Bank has moved this to support a wide range of operations falling under the broad definition of microfinance, often with controversial implications in terms of products offered to the poor – for instance as in the case of Leapfrog, as detailed in the report.

Furthermore, the impact of the current financial and economic crises has not been elaborated enough by the Bank's staff. Recent developments in India have warned the development community that concentration in the microfinance business poses actual risks as it might easily lead to new bubbles and crises in developing countries, with severe social impacts on the poor.

Beyond these broader concerns, insufficient portfolio monitoring is another element of concern of EIB's microfinance operations. While the Bank has directly or through its intermediaries invested in hundreds of institutions all across the globe, surprisingly it does not reveal much information on the performance of these investments, nor is there any concrete evidence that they are contributing to social progress in poor countries.

More recently the EIB has started to address this flaw by introducing key performance based elements into its agreements but clear social performance thresholds are still missing.

Admittedly introducing social performance based agreements is a delicate and controversial task. Whether this will mark a major turning point in the bank's microfinance strategy by changing the business model the Bank follows in this sub-sector, and detaching it from supporting pure market logics and thus ensuring that at the end of the day funds effectively reach the hands of the poorest, has still to be seen.

In the meantime European governments and institutions should question why the Bank's approach in this sector has not been effective so far as well as draw some broader lessons about the systemic use of dubious financial intermediaries for channelling development finance to developing countries, and in particular the private sector, and leveraging additional resources on speculative capital markets for financing the poor.

Appendix 1

EIB Group microfinance portfolio in the Mediterranean partner countries

Institution	Website	Amount (€)	Date signed	Country	Instrument
Al Amana	http://www.alamana.org.ma/	10.2	2003/04	Morocco	credit line
Zakoura	http://www.zakourafondation.org/	5.8	2003/04	Morocco	credit line
AMSSF	http://www.amssfmc.ma/	0.4	11/12/2004	Morocco	credit line
Fondep	http://www.fondep.com/	3.3	11/12/2004	Morocco	credit line
Enda Inter Arab	http://www.endarabe.org.tn/	1.95	19/12/2007	Tunisia	local currency loan
First Microfinance Institution Syria (FMFI)	http://www.akdn.org/akam_syria.asp	2	18/12/2008	Syria	equity
Dakahlya Businessmen's Association for Community Development	http://www.dbacd-eg.org/	2	04/08/2009	Egypt	local currency loan
Al Majmoua	http://www.almajmoua.org/	1.5	07/05/2010	Lebanon	USD loan

Appendix 2

EIB Group microfinance portfolio in ACP countries: Microfinance Holdings Group

Institution	Website	Beneficiaries of EIB investments	Company form	Country of incorporation	Date of incorporation	Leading Shareholders
Advans	http://www.advansgroup.com/	Advans SA	Investment Company	Luxembourg	2005	EIB, CDC, FMO, IFC, FISEA, KFW, HORUS
Horus	http://www.horus-df.com/	Horus Development Finance	Consulting firm	France		Private firm
Access Holding	http://www.accessholding.com/	LFS Financial Systems GmbH	Private holding company	Germany	2006	EIB, CDC, FMO, IFC, KFW, LFS Financial Systems GmbH (LFS), MicroAssets GbR (MA), The Omidyar-Tufts Microfinance Fund (OTMF)
Microcred Group	http://www.microcredgroup.com/	Microcred Group	Investment Company	France	2007	EIB, DWM, AFD, IFC, Planet finance, AXA Belgium, GénPfinance

Institution	Business model	EIB investment (€)	Signature date	Geographical focus	Investees	Date of incorporation	Leading shareholders
Advans	Equity investments and debt funding to MFIs	3.5 6	27/09/2005 18/12/2009	Cameroun	Advans Cameroun	2006	Advans sa, SocGenCameroun, IFC
				Ghana	Advans Ghana	2007	Advans sa, SocGenGhana, IFC, KFW
				Congo	Advans Banque of Congo	2008	Advans sa, IFC, KFW, ADB
				Tanzania	Advans Bank Tanzania	2010	Advans sa, FMO
				Cambodia	Amret	1991	Advans sa, Botta Cambodia, FMO, GRET french NGO, LFP French Invest Co., Oikocredit Netherlands, Proparco France
Access Holding	**Equity investments in early stage and start up MFIs**	**3.46**	**20/10/2006**	**Madagascar**	**Acces Bank Madagascar**	**2006**	**Access, AfriCap Microfinance Fund, Triodos-Doen Foundation, SG, IFC, KFW**
				Azerbaijan	**Acces Bank (ABA)**	**2002**	**Access, EBRD, IFC, Black Sea Trade and Development Bank, KFW**
				Tanzania	**Access Bank Tanzania (ABT)**	**2007**	**Access, ADB, Belgian Investment Company for Developing Countries, IFC, KFW**
				Nigeria	**AB Microfinance Bank Nigeria**	**2008**	**Access, Impulse Microfinance Investment Fund N.V.**
				Liberia	**Acces Bank Liberia**	**2008**	**Access, IFC, ADB, EIB**
				Tajikistan	**Access Bank Tajiskistan**	**2009**	**Access, EBRD, IFC, KfW**
Microcred Group	**Equity investments in MFIs**	**3** **2**	**02/03/2007** **11/12/2009**	**Sichuan**	**Microcred Sichuan**	**2010**	**Microcred Holding**
				Madagascar	**Microcred Madagascar**	**2006**	**MicorCred Holding, BoA Madagascar, IFC, Archinvest**
				Senegal	**Microcred Senegal**	**2007**	**MicorCRed Holding, BoA, IFC, Sonam**
				Nachong	**Microcred Nachong**	**2006**	**Microcred Holding, KfW, IFC, AIG**
				Nigeria	**Microcred Nigeria**	**2009**	**Microcred Holding**
				Ivory Coast	**Micrcred Cote d'Ivoire**	**2009**	**Microcred Holding**

Appendix 3

EIB Group microfinance portfolio in ACP countries: Private Equity Funds

Institution	Website	Beneficiaries of EIB investments	Company form	Business objectives	Founded	Country of incorporation	Leading shareholders
I&P	http://www.ip-dev.com/	Investisseur & Partenaire pour le Développement	Investment Company	I&P makes long term investments in medium sized companies and MFIs	2002	Mauritius	Private Investors
ShoreCap	http://www.sbksbi.com	Shorecap Intl. Ltd Shorecap Intl. Ltd II	Private Equity Fund	The fund invests in equity and equity-related investments in regulated MFIS, small business banks and non-bank financial institutions	2003	Mauritius	ABN AMRO Bank, ADB, BIO, Calvert, CDC Group, EIB, Finnfund, FMO, Ford Foundation, Gatsby Charitable Foundation, IFC and Skoll Foundation CDC commits 10 milion to ShoreCap II
Leapfrog Invest	http://www.leapfroginvest.com/	Leapfrog investment ltd	Investment company	A limited-life microfinance fund with an objective to achieve long-term capital appreciation through equity and equity-investments in companies that deliver insurance products and services to low-income people in developing countries	2007	Mauritius	FMO, Omidyar Network, Triodos, Accion Intl., IFC, JPMorgan, Proparco, Soros Economic Development Fund, KfW, TIAACREF, Haverford, Felipe Medina, Flagstone,Calvert, Federal Ministry for Economic Cooperation and Development, SCOR, the waterloo foundation
AfricaCap Microfinance Fund	http://www.meceneinvestment.com	AfricaCap Investments II	Investment Fund	Equity investments in MFIs and Banks	2002	Mauritius	Accion Intl, AfriCap Sweden AB, BlueOrchard, Calmedow, Calvert Foundation, EIB, Finnfund, FMO, GrayGhostfund, IFC, Norfund, Swedfund, Hivos-Triodos Fonds

Institution	EIB invest-ment (€)	Date signed	Geografic focus	Investees	Founded	Website	Leading shareholders
I&P	3.25	22/12/2006	Cameroun	Acep	2000	http://www.acep-cameroun.org/About-Us.html	I&P, Banque Internationale di Cameroun pour l'Epargne et le Crédit, Chambre de Commerce des Mines, d'Industrie et d'Artisanat du Cameroun., Société Nationale d'Investissement du Cameroun,
			Ivory Coast	AE & I	2003	http://www.aei-investissements.com/	I&P, AfriCap, Access Bank
			Uganda	Uganda Finance Trust	1984	http://www.financetrust.co.ug/	I&P, OikoCRedit, Uganda Womens Trust, Private Founders
			Namibia	Fides Bank Namibia	2010	http://www.fidesgroup.org	Fidesgroup, I&P, KfW, Swiss Agency for Development and Cooperation (SDC)
			Cambodia	Thaneakea Phum		http://www.tpc.com.kh	Developing World Market (DWM), Employee Share Ownership Partici-pation (ESOP)
			Cambodia	Amret	1991	http://www.amret.com.kh/	Advans SA, Botta (staff company), FMO, GRET (Groupe de Recherche et d'Echanges Technologiques), Oikocredit, Proparco, LFP
			Azerbaijan	Finca	1998	http://www.finca.org	Credit Suisse, Visa and Ge Capital
			Kenya	Kenya Women Finance Trust	1981	http://www.kwft.org/	Kenya Women Holding Company Limited (KWHL)
			Nicaragua	Banex		www.banex.com.ni	
Shorecap	2.049 9.984	29/06/2004 21/12/2009	Sub-saharian africa				
Leapfrog	15.065	06/05/2009	South Africa	All Life			
			Kenya, Tanzania, Uganda	Apollo			
			India	Shriram			
AfricaCap Micro-fund	4.014 2	25/10/2007 2001	Ghana	Woman world bank	1988	http://www.wwbghana.com	AfricaCap
			Mozambique	Socremo Bank	1992		AfricaCap, Dignity Fund, Triodos Doen Foundation
			Nigeria	Susu Microfi-nance	2006	http://susumicrofinancebank.com	AfriCap
			Ivory Coast	AE & I	2003	http://www.aei-investissements.com/	I&P, AfriCap, Access Bank
			Niger	ASUSU	2005		
			South Africa	Wizzit	2004	http://www.wizzit.co.za/	AfriCap, IFC, Oiko Credit
			Senegal	Ferlo	2005	http://www.ferlo-sn.com	AfriCap
			Sierra Leone	Finance Salone	2001		AfriCap, UNCDF, Cordaid
			Sierra Leone	UTB	1995	http://www.utb.sl/board-members.aspx	
			Cameroon	La Regionale	1997		
			Malawi	Opportunity International Bank of Malawi	2002	http://www.oibm.mw/	AfriCap, Opportunity Micro Investments Limited, Opportunity Transformation Investments, Trust for Transformation
			Tanzania	Tuijenge	2006		AfriCap
			Burkina Faso	Sofipe	2010		AfriCap

Appendix 4

EIB Group microfinance portfolio in ACP countries: Intermediate Loans

Institution	website	Beneficiary	Description	Country	EIB investment (€)	Instrument	Date	Shareholders
Ademi V	http://www.bancoademi.com.do	Banco Ademi	Global loan facility to finance SMEs.	Dominican Republic	3.75	Credit line and services	19/12/2006	ADEMI, Inversion Mutualistas, Immobiliaria Mercantil Dominicana, R&C Investment TrDE, EIB, Triodos Microfinance Fund
Bimao	http://cicm.creditmutuel.com/fr/site/instances-transversales/bimao.html	Banque des institutions mutualistes de l'Afrique de l'Ouest	Loan guarantee to support integration of CCMAO's banking network into West African Economic and Monetary Union zone	West Africa	5	loan guaranty	10/12/2005	CCMAO, Credit Mutuel de France
Small enterprises global loans			Financing for small ventures	Dominican Republic	5	credit lines and services	19/12/2006	
Access Bank Liberia	http://www.accessbank.com.lr/	Access Bank Liberia	Equity participation	Liberia	2.46	Equity	20/12/2010	Access, IFC, ADB, EIB
DR financing facility	http://www.bancoademi.com.do/	Banco Ademi, Banco Adopem, Fondesa, other MFIs	The facility will provide lines of credit as well as equity and technical assistance to a range of microfinance institutions in the Dominican Republic.	Dominican Republic	18	Credit lines	12/08/2008	

Appendix 5

EIB Group microfinance portfolio in ACP countries: Structured Vehicles

Institution	Description	Investment objectives	Instruments	Geographical focus	EIB investment (€)	Signature date	Investment Managers	Website
Rural Impulse Microfinance Fund	Investment Fund	Equity investments and loans to rural MFIs	Debt and equity	worldwide	2.794	10/08/2007	Incofin	http://www.incofin.com
Rural Impulse Microfinance Fund II	Investment Fund	Equity investments and loans to rural MFIs	Debt and equity	worldwide	10	01/06/2010	Incofin	http://www.incofin.com
Microfinance Enhancement Facility	Investment Fund	Loan facility to commercially viable MFIs	short to medium term credit line	worldwide	35.033	11/09/2009	Responsibility Cyrano Management BlueOrchard Finance S.A	http://www.responsability.com http://www.cyrano-management.com/ http://www.blueorchard.com
Regmifa microfund for Africa	Investment Fund	Participation in regional investment fund for micro, small and medium-sized enterprises in Sub-Saharan Africa	Debt	Sub-saharian afric	11.265	05/05/2010	Symbiotics	http://www.symbiotics-group.com http://www.regmifa.com/
Fonds Européen de Financement Solidaire (FEFISOL)	Investment Fund	medium-term financing to rural Microfinance Institutions ("MFIs") and small producer businesses active in fair trade, organic products and food production	Loans, guarantees and equity	Africa	5	21/07/2011	SIDI ETIMOS ALTERFIN	http://www.sidi.fr/ http://www.etimos.it/ita/home.html http://www.alterfin.be