



BNP PARIBAS

*Microfinance funds
A challenge for Europe*

*Emmanuel de Lutzet,
Head of Microfinance BNP Paribas*

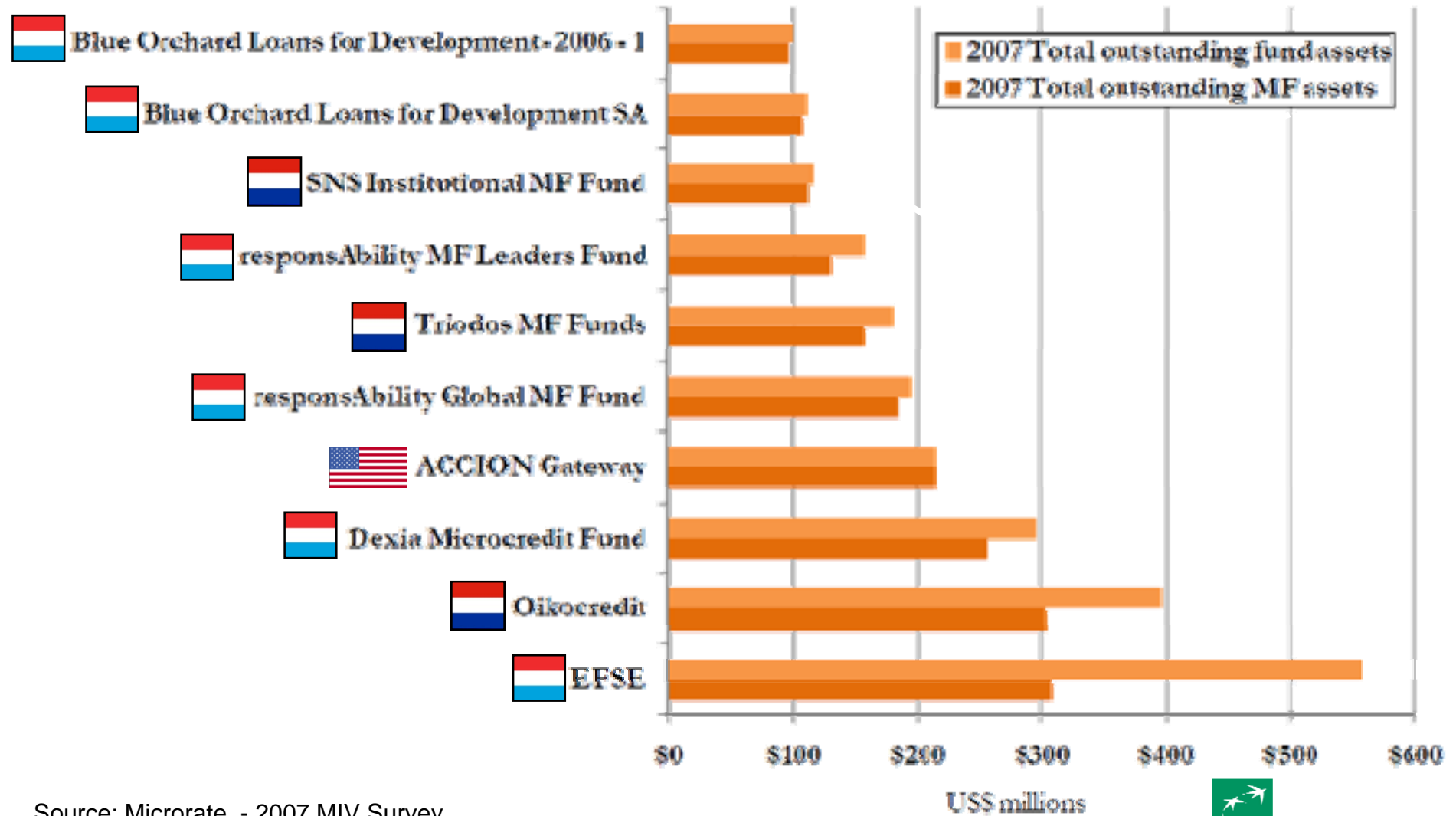
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EUROPLACE Microfinance Working Group

Members of the committee

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

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



Source: Microrate - 2007 MIV Survey

France vs Luxembourg and the rest of the World

	WORLD	LUXEMBOURG	FRANCE
Volume of MFI refinanced by Microfinance Funds*	Circa \$ 4 Bn	30 %	Less than 1%
Number of vehicles <small>*based on the amount of microfinance share in global assets under management</small>	<p>Circa 100 vehicles</p> <ul style="list-style-type: none"> - Constant growth - Increasing profitability 	<p><u>7 funds available to retail investors</u></p> <ul style="list-style-type: none"> ➤ 6 pure funds <ul style="list-style-type: none"> - Saint Honoré Microfinance Fund - Dual return Fund Vision MF - Blue Orchard Dexia Microcredit Fund - ResponsAbility Fund (Global MF; MF Leaders; Mikrofinanz) - 1 Diluted fund <ul style="list-style-type: none"> - AXA World Fund Development Debt 	<p><u>No pure funds</u></p> <ul style="list-style-type: none"> ➤ 2 diluted funds <ul style="list-style-type: none"> - Nord Sud Development - Faim et Development ➤ 4 closed vehicles <ul style="list-style-type: none"> - FinanCités - MicroCred - PlanetMicrofund - SIDI



The sector' volatility is less than 1%

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

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

MFI funds experienced NO repayment defaults from MFIs

Issues and perspectives in France

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



REMARKS

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

Explain Microfinance to the supervisory authorities

Microfinance is not what you believe

What is microfinance?

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

*A powerful tool of financial inclusion
and economic development*

*New products, new clients,
also for the retail market*

A fast growing economic sector

What's not microfinance?

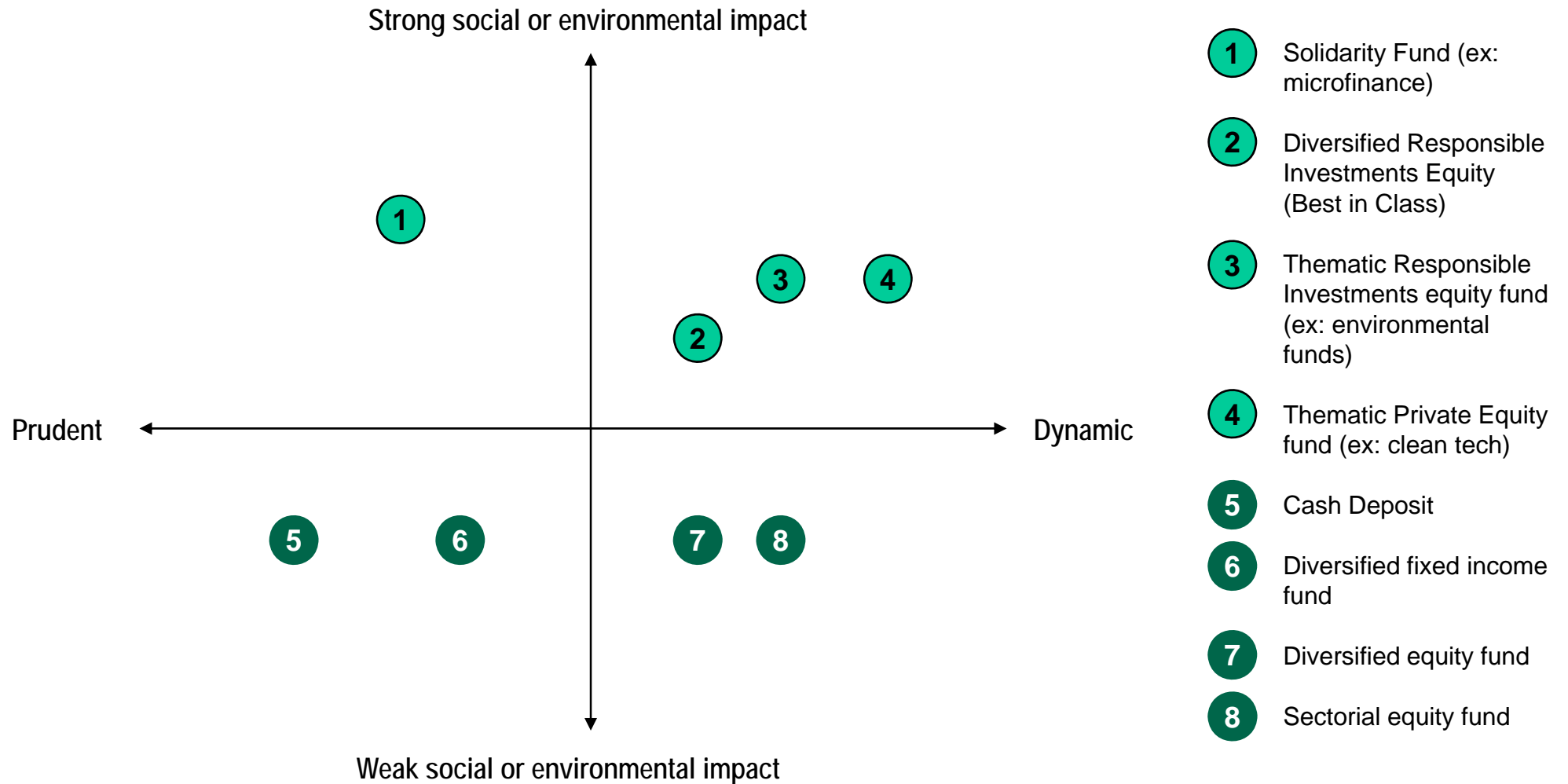
*Not charity nor philanthropy
Not giving but lending*

Not a magical tool to eradicate poverty

*Not an exclusive financial investment
for rich people*

Not as risky as it may appear

Segmentation : products adapted to each type of social investor



Microfinance versus other responsible investments

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

Conclusion

- The French situation characterises most European countries :
 - Microfinance perceived as a risky, unprofitable and volatile market
 - Microfinance vehicles reserved only to investment professionals
 - Legal instruments not appropriate
- Microfinance professionals need to explain to their supervisory authorities
 - Microfinance is a working economic model, decorelated from classical markets
 - Microfinance is a major financial innovation, also in Asset Management
 - A social innovation with a huge social and economic impact
 - Under some conditions, it can be a good retail investment product
- Key success factors to develop microfinance funds :
 - Research : understanding of microfinance by Asset Management companies
 - Mobilisation of distributors to explain the funds to socially oriented investors
 - Cooperation with NGO networks to educate the public