



Advancing financial access for the world's poor

Ethics, social performance, responsibility

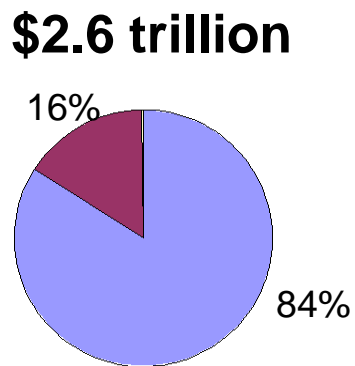
What does it mean for investors and practitioners?

Xavier Reille, CGAP

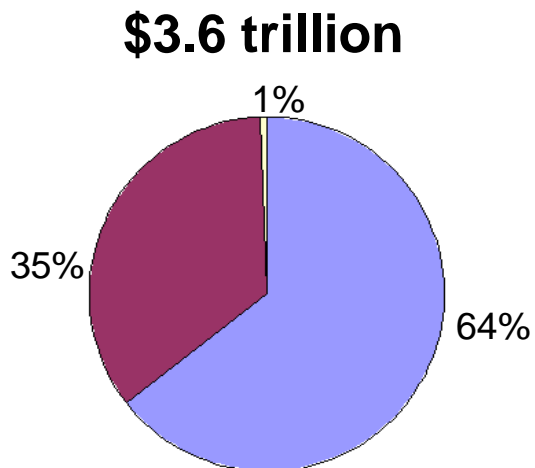
Luxembourg, 25.11.2009

Global SRI Market is Growing and Regional Influence is Shifting

Global SRI Market Evolution

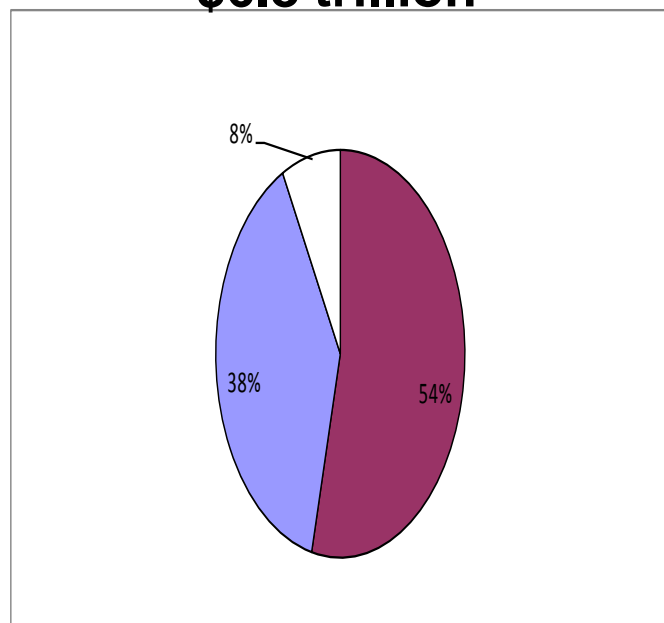


2002

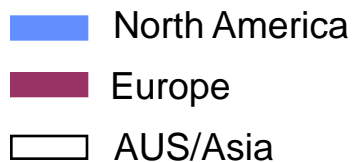


2005

\$6.8 trillion



2007

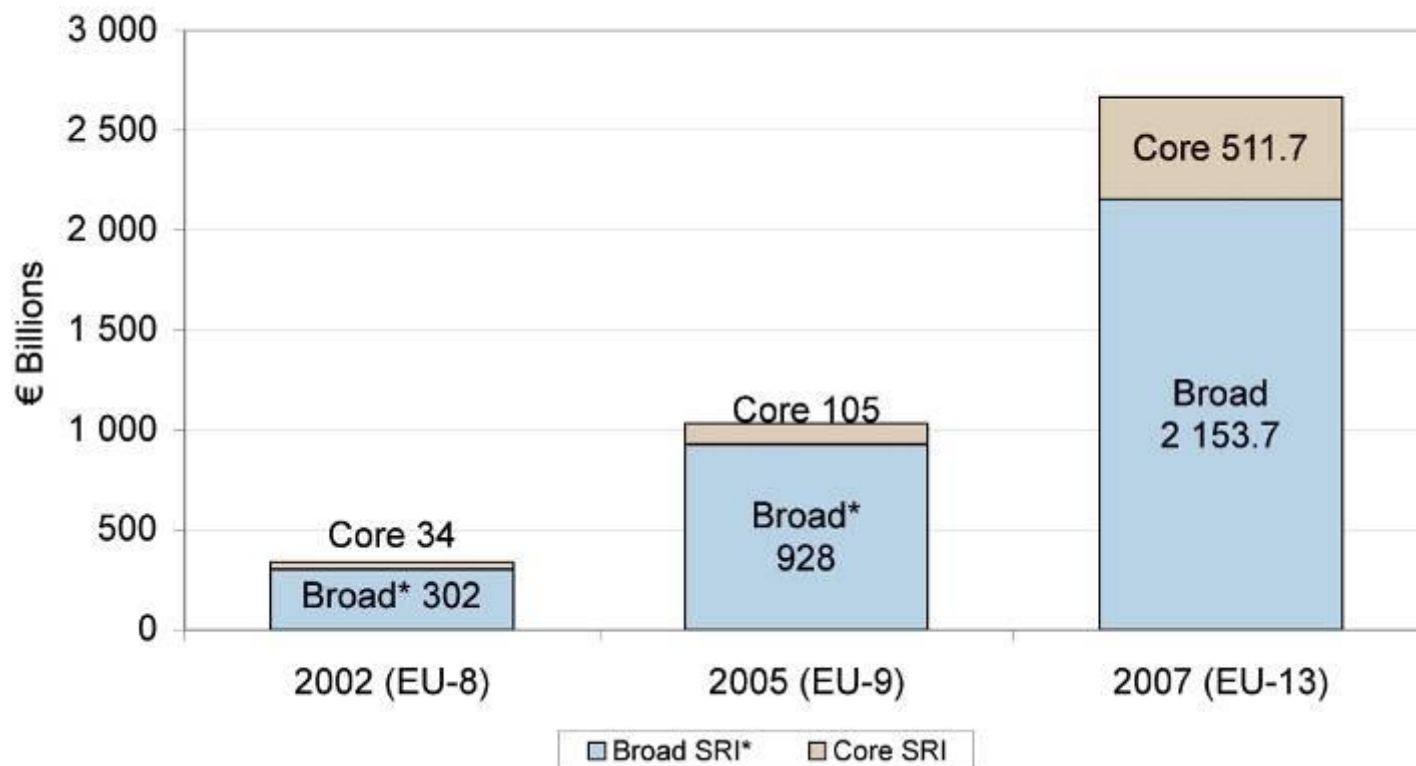


Source: Eurosif research

EU Market Size

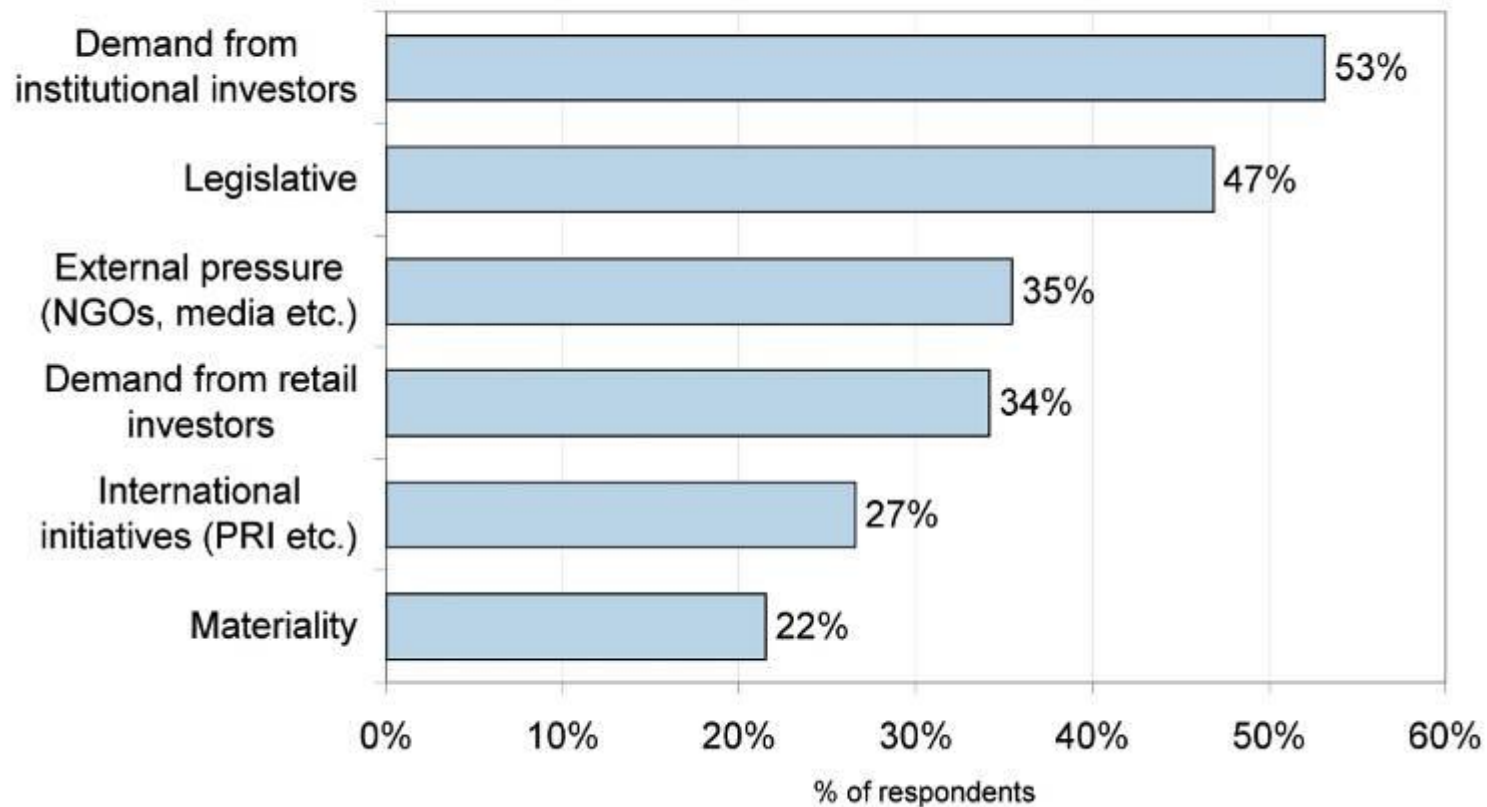
Total EU SRI assets under management have reached €2.665 trillion as of 31/12/07, or 17.5% of the EU market

Core and Broad SRI in Europe, 2002 - 2007



Drivers Going Forward

Key drivers for SRI demand in the next 3 years



Source: Eurosif

Why are SRI Investors Interested in Microfinance?

- Diversifier of investment risks
 - Returns potentially have little correlation with returns on equity & fixed income
 - Microfinance is less susceptible to macro-economics developments such as interest, inflation
- Interesting return / risk profile
 - Combination of strong growth and attractive returns in high growth economies with low risk, but this crisis will show whether that remains true
- Social advantages
 - Promoting economic development by providing families and small businesses in developing countries access to affordable

The Obstacles / Issues for Responsible Investors

- Emerging Market issues
 - Transparency & disclosure
 - Tariff, regulatory and market risk
 - ESG portfolio construction - research and stock selection skill
 - And...CURRENCY RISK...
 - Microfinance issues
 - MIVs need to ensure a proper system of calibrating the social benefits and ensuring clients are not using loans for consumption
 - Clarification of roles & responsibilities between public and private players
 - Is microfinance really responsible? If so, how?
 - Is microfinance too small to invest?
 - Isn't microfinance an illiquid asset class?
- Are asset managers (MIVs) professional enough to work with institutional investors?

Market Trends

- 103 MIVs with a combined estimated Assets Under Management (AUM) of USD 6.6 billion in operation as of December 2008. Eleven new MIVs were created in 2008.
- Assets growth has slowed down from 72% in 2007 to 31% in 2008. Asset managers forecast steady growth of 29% for 2009.
- Fixed income investments continue to dominate representing 75% of microfinance investments, of which 76% is in hard currency. But, equity is growing fast at more than 47%.
- The market is still highly concentrated. 76% of investments are concentrated in Eastern Europe and Latin America, but Asia is catching up with more than 55% growth in 2008. The top 5 MIVs account for 53% of AUM.

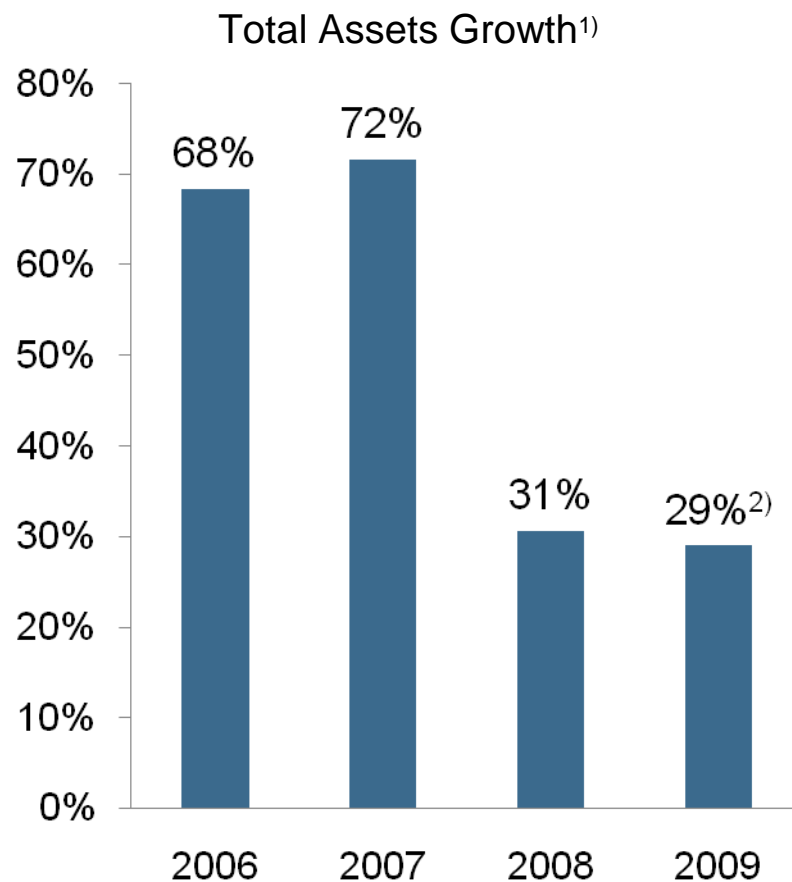
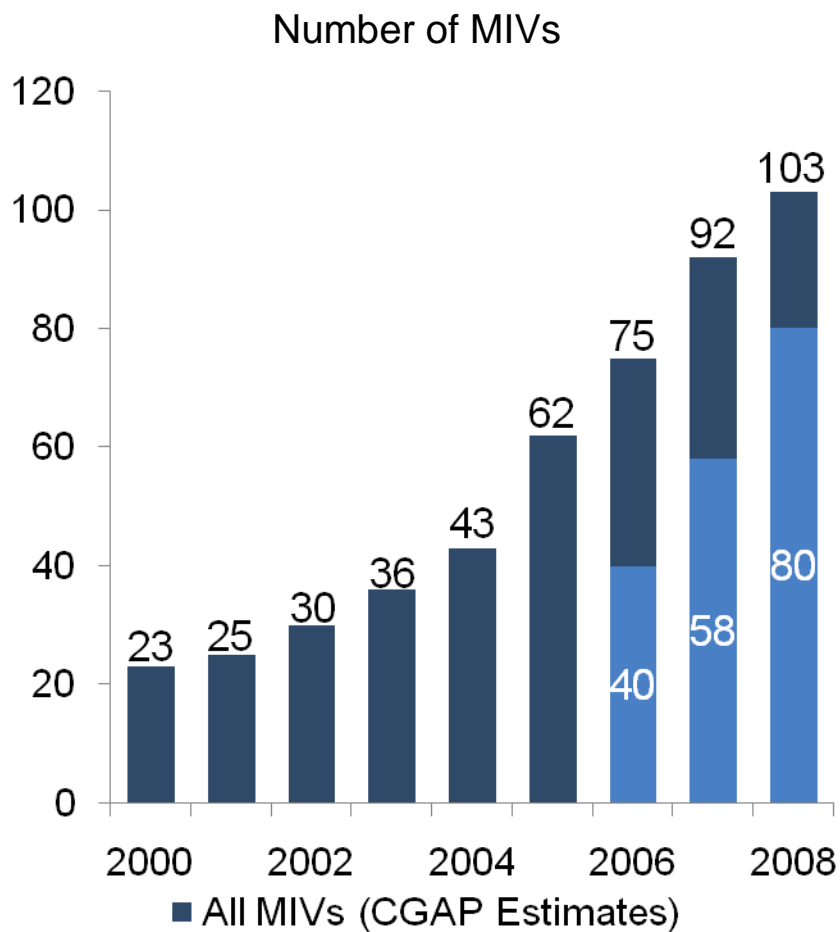
Performance Benchmarks

- Fixed Income Regulated Mutual Funds¹⁾ are the largest funds (average assets USD 161.2 million). Most of their portfolio is invested in fixed coupon instruments with an average maturity of 26 months and a gross yield of 9.3%. Euro denominated funds posted record returns (5.8%) in 2008.
- Private Equity Funds are still young (3.5 years), small (average assets USD 19.8 million), very concentrated (top 5 investments represent 76% of microfinance portfolio), and lacking performance benchmarks.

Environment, Social and Governance (ESG) Highlights

- 61% of the MIVs report ESG information to their investors. More than 60% have endorsed the Client Protection Principles²⁾ (CPPs).
- Environment still relatively less developed: 12% of the MIVs compensate for carbon emissions; 41% have environment exclusion lists.

Survey Coverage and Assets Growth

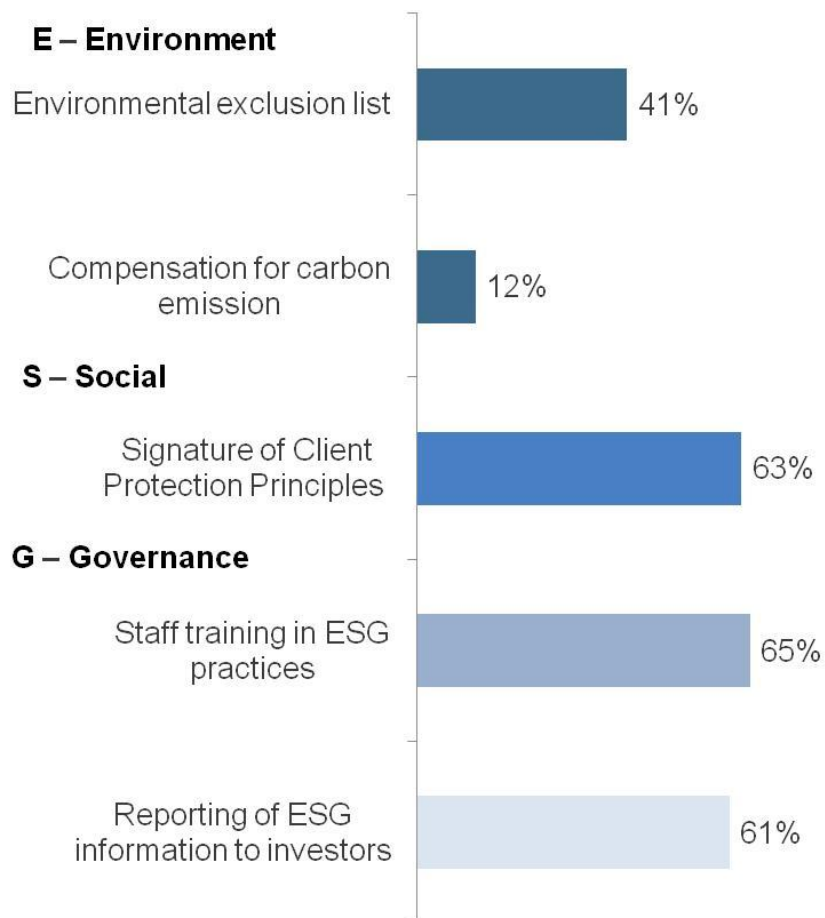


¹⁾ Total Assets growth rate based on data provided by participating MIVs

²⁾ Asset managers forecast for 2009

MIVs – ESG Information

ESG Practices, % Yes



Outreach Indicators

S – Social: Outreach Indicators

On average, an MIV reaches out to 46,269 borrowers

63% of MFI borrowers are women

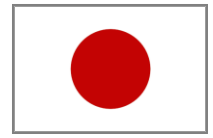
45% of MFI clients live in rural areas

54% of MFIs offer financial services other than loans

MFI average loan size is USD 1,460

Peer Groups – ESG Information

	Environmental Exclusion List, % Yes	Signed the Client Protection Principles, % Yes	Reporting of ESG Information, % Yes	% Rural Clients of Investee MFIs	% Women Borrowers of Investee MFIs	% of Investee MFIs with Financial Services other than Loans
All MIVs	41%	63%	61%	45%	63%	54%
Registered Fixed Income Mutual Funds	46%	73%	73%	44%	58%	50%
Unregistered Fixed Income Investment Funds	40%	80%	50%	47%	60%	40%
Structured Finance Vehicles/ Dynamic Asset Allocation	67%	67%	50%	45%	67%	41%
Structured Finance Vehicles/ Static Asset Allocation-CDOs	38%	100%	50%	32%	56%	58%
Socially Focused Funds	32%	40%	63%	51%	69%	56%
Private Equity Funds	54%	69%	62%	51%	74%	64%
Holdings of Microfinance Institutions	67%	67%	83%	38%	69%	43%



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www.cgap.org

www.microfinancegateway.org



MINISTRY FOR FOREIGN AFFAIRS OF FINLAND



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