



Solving The Microfinance Currency Mismatch



Table Of Contents

Overview: Promoters / Sponsors / Fund Manager	3
1. Microfinance Currency Risk	6
2. Currency Hedging Instruments	7
3. Access To Hedging Instruments	8
4. MICROFIX Offer	9
5. Credit Analysis & Trading Capacities	10
6. Proactive Management Policy	11
7. Safe Risk Policy	12
8. Profitability	13
9. Why Invest In MICROFIX ?	14

Promoters



- o The unit of PlaNet Finance Group dedicated to financial services in microfinance;
- o PlaNIS currently manages or advises 6 funds for a total portfolio over 100 M Euros invested in 60 microfinance institutions in 25 countries;
- o PlaNIS covers 3 products: Debt, Equity and FX Hedging

corporate connect

independent finance + strategy + common sense consultancy



- o A financial advisory firm with strong focus on emerging markets and investment funds.
- o Investment advisor to FMO for the set up of TCX.

Sponsors



The Netherlands Development Finance Company (FMO) is the international development bank of the Netherlands. FMO invests risk capital in companies and financial institutions in developing countries.



BNP Paribas is a European leader in global banking and financial services and one of the 4 strongest banks in the world according to Standard & Poor's.



The local currency capital market development fund



PlaNNet Finance Group is an international organization whose mission is to fight against poverty through the development of microfinance. As the microfinance expert, PlaNNet Finance Group provides a diversified set of services to help increase access to financial services for the poor.



Clifford Chance is a leading international law firm



Fund Manager



- o Concept: A link designed to connect private and institutional financial market players to Microfinance Institutions all around the world.
- o Mission: To meet the growing needs of the developing Microfinance Institutions, providing them with tools usually used by and reserved to other markets.
- o Organization: A financial services company in Microfinance specialized in three products - Debt, Equity and FX Hedge.

1. Microfinance Currency Risk

- o Microfinance spectacular growth could not be financed on the local capital markets.
- o Microfinance institutions (MFIs) had consequently to come to the international markets for enormous (USD Billions) and constantly growing amounts.
- o The international loan market is predominantly denominated in hard currencies, mainly US\$ and to a lesser extent Euro.
- o MFIs receivables are denominated exclusively in local currency.
- o As a result MFIs are faced with a currency mismatch between their funding in USD and their lending in local currency.
- o This mismatch can result in huge financial losses, as the risk of a sudden and large devaluation hangs over nearly all the emerging countries.
- o Currency mismatch is to-day one of the main risks MFIS are facing.

2. Currency Hedging *Instruments*

- o The main, easiest and cheapest instrument for hedging currency risk on loans is the currency swap.
- o Currency swaps in hard currencies (USD, Euro, Yen,...) is a well developed market (USD trillions). International commercial banks have begun to trade also some emerging currencies.
- o In addition TCX, which was created in 2007 with the support of FMO, has enlarged the market scope to emerging currencies until now untraded or for extended tenors.
- o But these hedging opportunities are restricted to big institutions, banks and funds only.
- o All swaps trading institutions, including TCX, are organised to manage the market risk. They are unequipped and unwilling to take in addition any counterparty risk.

3. Access To Hedging Instruments

MICROFIX was created to solve this lack of access to emerging currency hedging instruments:

- o It will have a rating strong enough to transact with all the swap institutions.
- o It will transact in turn with all the MFIs, depending only on credit risk.
- o Thus it will allow them the possibility until now unavailable to get rid of their currency mismatches on their whole portfolio; and also naturally on their new loans if needed.
- o MICROFIX will also offer to transact emerging currency swaps with MFIs providers of funding (funds, MIVs...) that do not have access presently to all or parts of the currency swap market.

4. MICROFIX Offer

- o Transaction capacity : 10 times the investment
- o Allocation to MFIs possible for the full amount
- o Allocation within MIVs also possible
- o Selection of market best quotes
- o Dealing on a first come, first served basis
- o Technical assistance for documentation

5. Credit Analysis & Trading Capacities

MICROFIX Fund will operate thanks to its unique double capacity to deal with MFIs credit risk on one hand, and to trade with major swaps institutions on the other hand.

o Credit Analysis

- MFIs
- Funds and MIVs

o Trading Capacities

- Transacting with Commercial banks
- Investing in TCX
- Back stop guarantee and/or liquidity facility

6. Proactive Management Policy

- o Carry trade temptation
- o Analyzing Asset and liabilities structure
- o Dedicated investment banking team
- o Fee structure linked to transaction volume

7. Safe Risk Policy

- o Fully hedged market risk
- o Sufficient credit margins
- o Maximum notional amount
- o Netting
- o Cash buffer for worst case scenario

8. Profitability

- o MICROFIX Fund is not set up to maximize its rate of return
- o It provides a very useful service under very safe guidelines for MIVs and MFIs
- o Nonetheless a healthy profitability expected

9. Why Invest In MICROFIX ?

- o DFIs and Microfinance supporting institutions:
 - Giving MFIs direct access to hedging instruments;
 - Removing capital hurdles that prevent MFIs to transact;
 - Giving MFIs independent and convincing analyses of currency mismatches of their Assets and Liabilities structure.

- o Small and medium size funds, MIVs and banks:
 - Access to swaps trading institutions such as TCX;
 - Increase of transacting capacities with all swap trading banks;
 - Allocation of swap transaction to MFIs clients.



Thank You

Visit us at www.microfixfund.com