

The Agora Microfinance Fund (AMF)

- Investments to strengthen social capital

Cambodia Microfinance Summit, 19-20 August 2009



The MIV landscape (CGAP Brief Apr 2009)

- ✓ US\$6.5bn under management as on December 2008
 - Industry size of ~US\$30 bn
 - Industry support in governance, financial management and overall professionalisation of MFIs
- ✓ 10 largest funds manage close to US\$4bn, grew by 32% in 2008
- ✓ 11 new funds created in 2008, 7 post Sep-08
- ✓ Net return for Euro denominated fixed income funds was 5.5% for 2008

...The MIV landscape

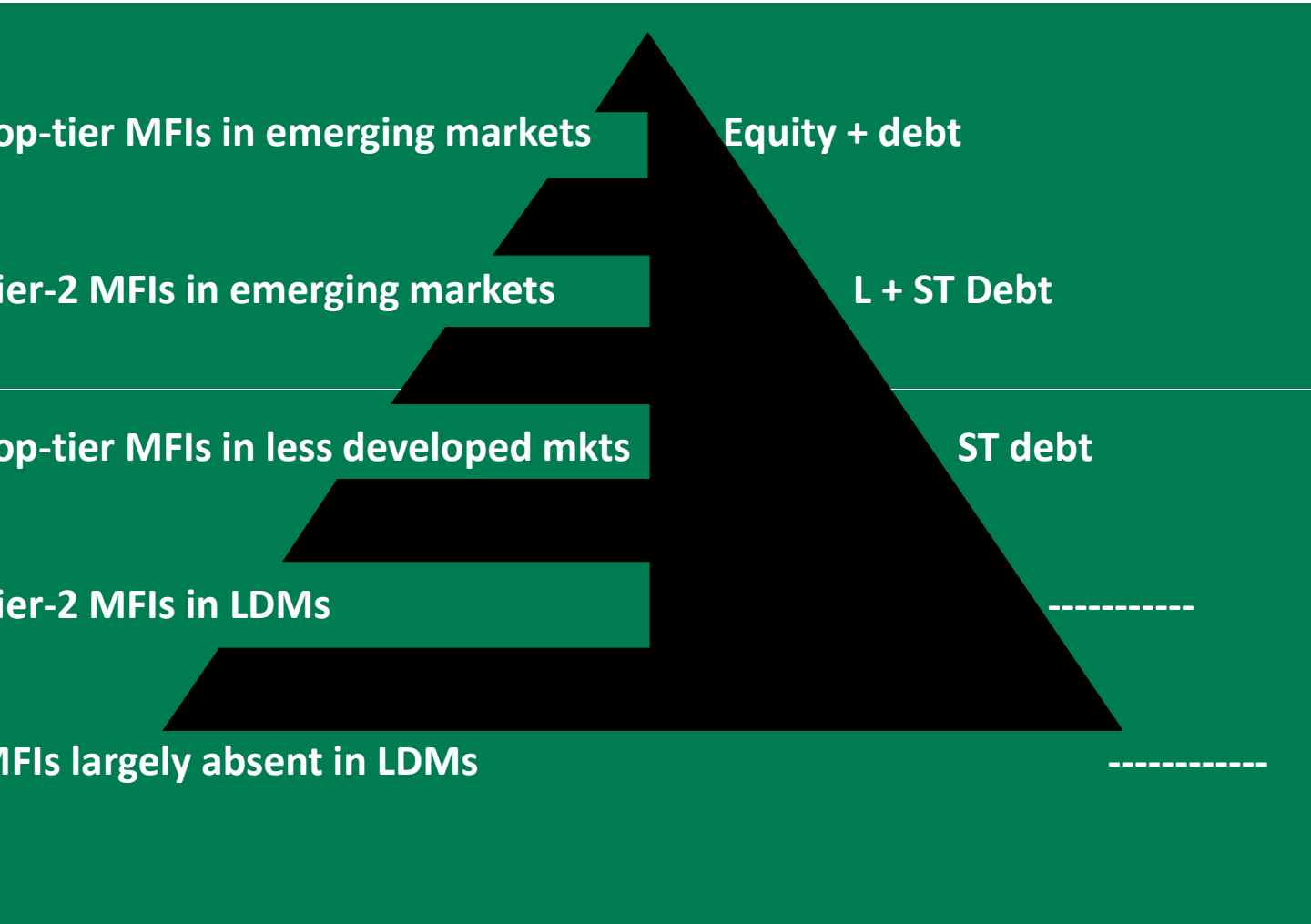
- ✘ Less than 5% invested in Sub-Saharan Africa
 - ✘ SSA is home to 25% of the world's poor, 316m/1.1bn (WRI)
- ✘ Most investments in fixed income, usually short-term instruments
(83% in debt in 2006; Ming-Yee, 2007)
- ✘ An average credit premium of 700 basis points in Dec 08 (CGAP)

Our hypothesis

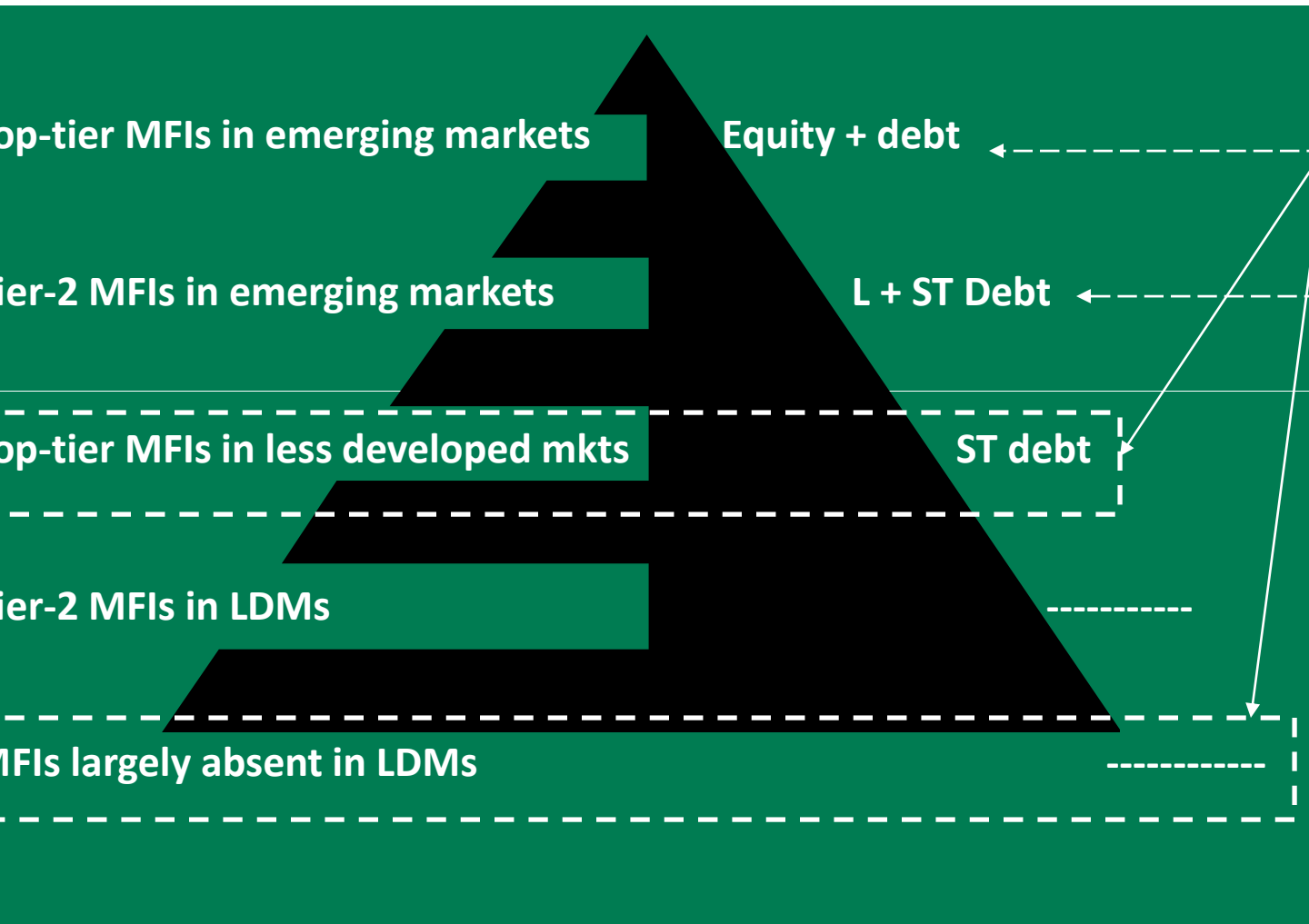
Adequate social focus guarantees a more stable, sustained and healthier financial return in microfinance.

...therefore, microfinance investments should actively track their social returns and treat them at par with financial returns.

MIV market segments



AMF: Value proposition



AMF:

- Equity
- Structured debt
- Swaps, hedges

Pilot:
Creation/incubation of new MFIs

AMF: Value proposition

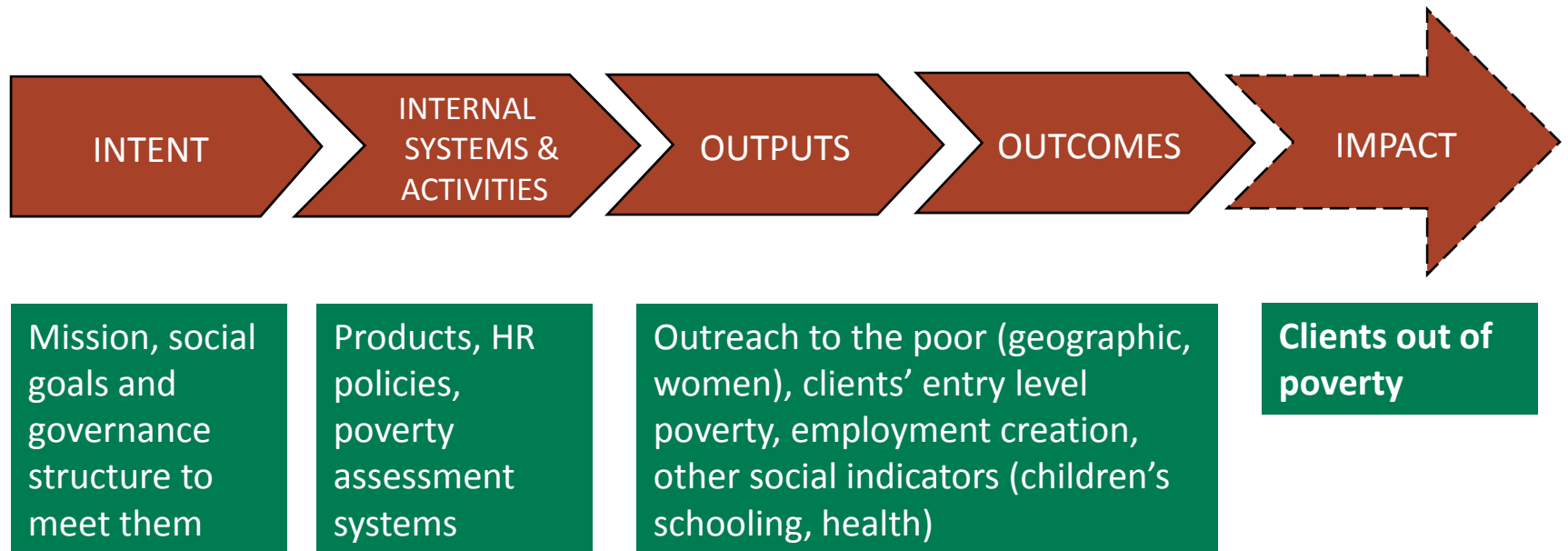
Mission Statement: To maximise the social return on investments while maintaining a healthy and fair financial return for investors and partners.

Operating Approach

- **Focus on a balanced approach (social and financial performance)**
- **Geographic focus – Asia, Sub-Saharan Africa**
- **Support innovations – on methodology, technology, products etc**

The value proposition – social returns

Defining social returns – the agreed framework*



*Framework used by members of the Social Performance Task Force

The value proposition – social returns

Ensuring sustainable social returns

- **Partnerships in the field with livelihoods & research organizations**
 - Concern Worldwide
- **Expert advice**
 - AMK's participation in Imp-Act and its own Social Performance Committee
- **Information systems**
 - In-house MIS to track and measure progress
- **Tracking progress – Ratings, Impact evaluations (independent assessments)**
 - External validation through social ratings and impact evaluations

Illustration – MIS/internal reporting, AMK Cambodia

	Dec-05	Dec-06	Dec-07	Dec-08
OPERATIONAL HIGHLIGHTS				
- Number of branches	5	9	15	20
- Number of sub-branches	0	0	0	25
- Number of villages	912	1,586	2,999	4,762
% coverage of total villages in Cambodia	7%	11%	22%	34%
- Total staff	108	188	340	566
% field officers over total staff	48%	48%	52%	57%
- Number of active borrowers (exc. staff)	36,221	67,006	120,111	188,696
• Group Loan Borrowers (%)	96%	95%	94%	85%
• Individual Loan Borrowers (%)	4%	5%	6%	15%
- Loan portfolio (US\$, exc. staff loans)	\$2,444,106	\$5,230,443	\$10,306,981	\$23,187,911
• Group Loans (%)	91%	85%	80%	65%
• Individual Loans (%)	9%	15%	20%	35%
- Number of voluntary savers	765	1,460	1,842	1,702
- Voluntary Savings Balance (US\$)	\$4,677	\$8,335	\$27,851	\$11,494
- Active borrowers/Avg Field Officer	739	937	880	746
- Active borrowers/ Field Officer	697	736	660	582
- Loans outstanding/Avg Field Officers (US\$)	\$50,499	\$73,801	\$76,490	\$92,563
FINANCIAL HIGHLIGHTS - (% and US\$)				
- Net Profit (after tax, US\$)	\$13,980	\$393,442	\$823,222	\$986,145
- Operational Self Sufficiency (OSS) (YTD)	103%	121%	125%	118%
- Financial Self Sufficiency (FSS)	75.0%	100.9%	100.4%	104.7%
- Return on Assets (RoA) (YTD)	0.5%	8.3%	8.9%	4.3%
- Return on Equity (RoE)	0.6%	15.1%	25.4%	12.7%
- Portfolio Yield	36.0%	36.0%	35.4%	35.9%
- Operating Cost Ratio	36.9%	28.5%	24.5%	22.4%
- Average Cost of Funds	0.3%	1.1%	2.2%	8.3%
- Leverage Ratio (Debt to Equity)	0.34%	1.22%	2.35%	1.82%
- PAR30days	0.05%	0.09%	0.66%	0.35%
- Write off Ratio	0.95%	0.01%	0.08%	0.19%
SOCIAL HIGHLIGHTS				
- Women Borrowers (%)	86%	85%	84%	85%
- Loans below US\$300 (%)	99%	99%	96%	89%
Loan accounts below US\$300 (#)	35,850	66,068	114,842	168,046
- Rural borrowers (%) – estimation		90%	88%	95%
- Clients in the bottom half poorest provinces	56%	54%	50%	58%
- Avg outstanding loan per borrower (US\$)	\$68	\$79	\$87	\$124
• Group borrowers	\$62	\$66	\$68	\$77
• Individual borrowers	\$154	\$227	\$263	\$286
- Avg Loan Disbursed (US\$)	\$73	\$87	\$100	\$140
• Group borrowers	\$67	\$75	\$82	\$115
• Individual borrowers	\$229	\$322	\$374	\$357
- Avg voluntary savings per saver (US\$)	\$6.00	\$5.71	\$15.12	\$6.75
- Drop-out rate (%)	15%	14%	17%	16%
- Adjusted drop-out rate (minus resters, %)	15%	11%	14%	13%
<i>Depth of outreach: - New Clients (< 1 year)</i>				
below poverty line				
• Estimation below rural food poverty line (%)	n/a	71%	75%	63%
• Estimation below rural food poverty line (#)	n/a	25,025	40,192	56,605

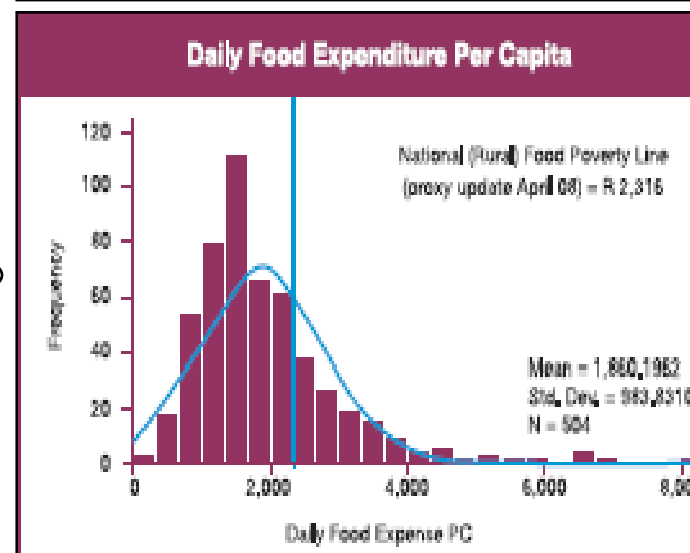
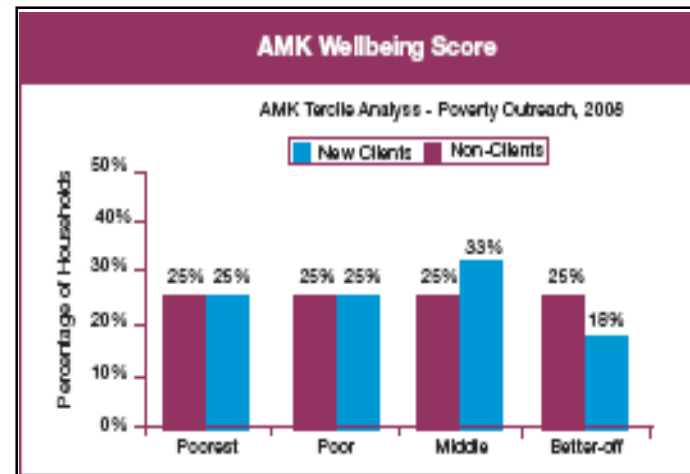

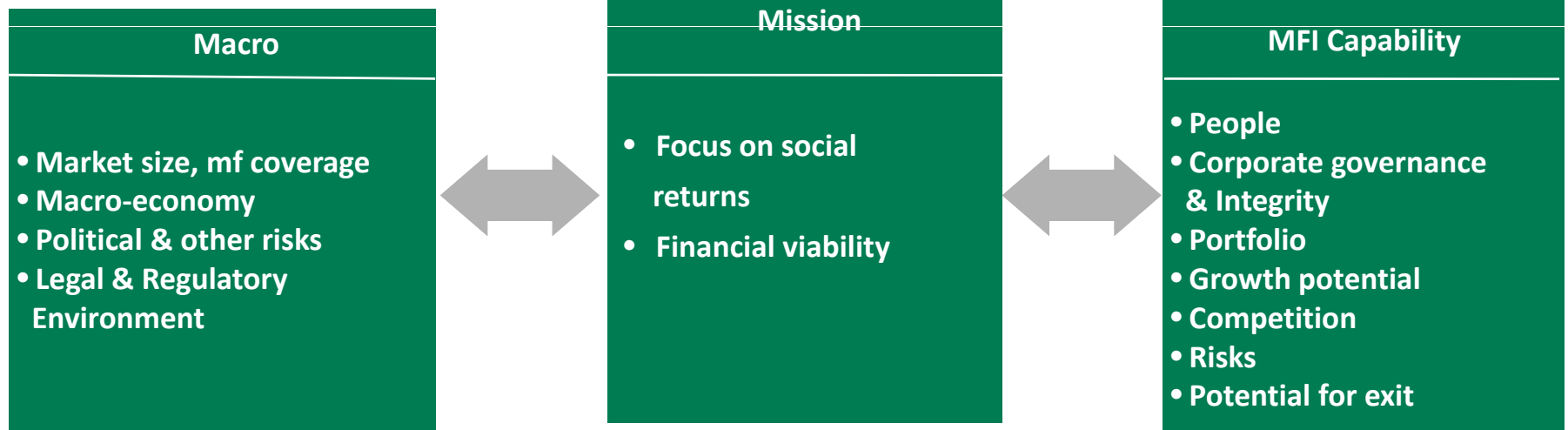


Illustration – external validation, AMK Cambodia

 Social Rating: Comprehensive using MFI client data																					
AMK	CAMBODIA																				
<i>Limited Liability Company with MFI license</i>	2007																				
PERFORMANCE RATING	SYNOPSIS																				
<table border="1"> <tr> <td>SOCIAL RATING (Proposed)</td> <td>$\Sigma\alpha$</td> </tr> <tr> <td>CREDIT RATING (M-CRIL)#</td> <td>α</td> </tr> </table> <p># Credit Rating December 2006</p> <p>Mission Statement: To help large numbers of poor people in rural Cambodia to improve their livelihood options through the sustainable delivery of appropriate and viable microfinance services to the economically active poor.</p> <p>Guiding principles:</p> <ul style="list-style-type: none"> ♦ financial discipline ♦ open and transparent operations ♦ a learning organisation ♦ client protection <table border="1"> <thead> <tr> <th>Social Rating dimensions</th> <th>Rating</th> </tr> </thead> <tbody> <tr> <td colspan="2">Process/organisational systems</td> </tr> <tr> <td>Mission and Systems</td> <td>$\Sigma\alpha+$</td> </tr> <tr> <td>Responsibility to clients</td> <td>$\Sigma\alpha-$</td> </tr> <tr> <td>Other Social Responsibility</td> <td>$\Sigma\alpha-$</td> </tr> <tr> <td colspan="2">Results/outputs – client level information*</td> </tr> <tr> <td>Depth of outreach</td> <td>$\Sigma\alpha++$</td> </tr> <tr> <td>Appropriate services</td> <td>$\Sigma\beta+$</td> </tr> </tbody> </table>	SOCIAL RATING (Proposed)	$\Sigma\alpha$	CREDIT RATING (M-CRIL)#	α	Social Rating dimensions	Rating	Process/organisational systems		Mission and Systems	$\Sigma\alpha+$	Responsibility to clients	$\Sigma\alpha-$	Other Social Responsibility	$\Sigma\alpha-$	Results/outputs – client level information*		Depth of outreach	$\Sigma\alpha++$	Appropriate services	$\Sigma\beta+$	<p>Angkor Mikroheranhvatho Kampuchea (AMK) originated from the development activities of the NGO Concern which started village banking in 1993. In 2003, AMK was registered as a limited liability company and was granted an MFI license by the National Bank of Cambodia in 2004. As of end 2006, AMK is operating in 9 out of 24 provinces in the country serving 67,000 clients with an outstanding portfolio of \$5.2 million.</p> <p>AMK has a very strong double bottom line. AMK achieved operational self sufficiency in 2005 and has excellent financial performance and portfolio quality. The organisation has introduced sound organisational features to track its mission and values – achieving very substantial outreach to the rural poor, with a range of credit products.</p> <p>AMK is growing rapidly, with plans to expand into all provinces of the country.</p> <p>Strengths</p> <ul style="list-style-type: none"> ⇒ Leadership commitment (Board and senior management) to balancing financial and social goals ⇒ Balance built into governance structure with a Social Performance Committee mirroring the financial role of the Audit Committee ⇒ Organisational department focuses on systematic research and reporting related to social performance: annual sample based reporting on outreach (socio-economic profile of group clients joining AMK), client satisfaction, exit survey;
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Investment criteria – 3Ms

Macro Indicators ↔ Mission alignment ↔ MFI capability



Value proposition for MFIs

- Social Performance systems
- Affordable and efficient funding lines
- Flexible options – debt, equity, swaps etc

Optional: Technical assistance/linkages

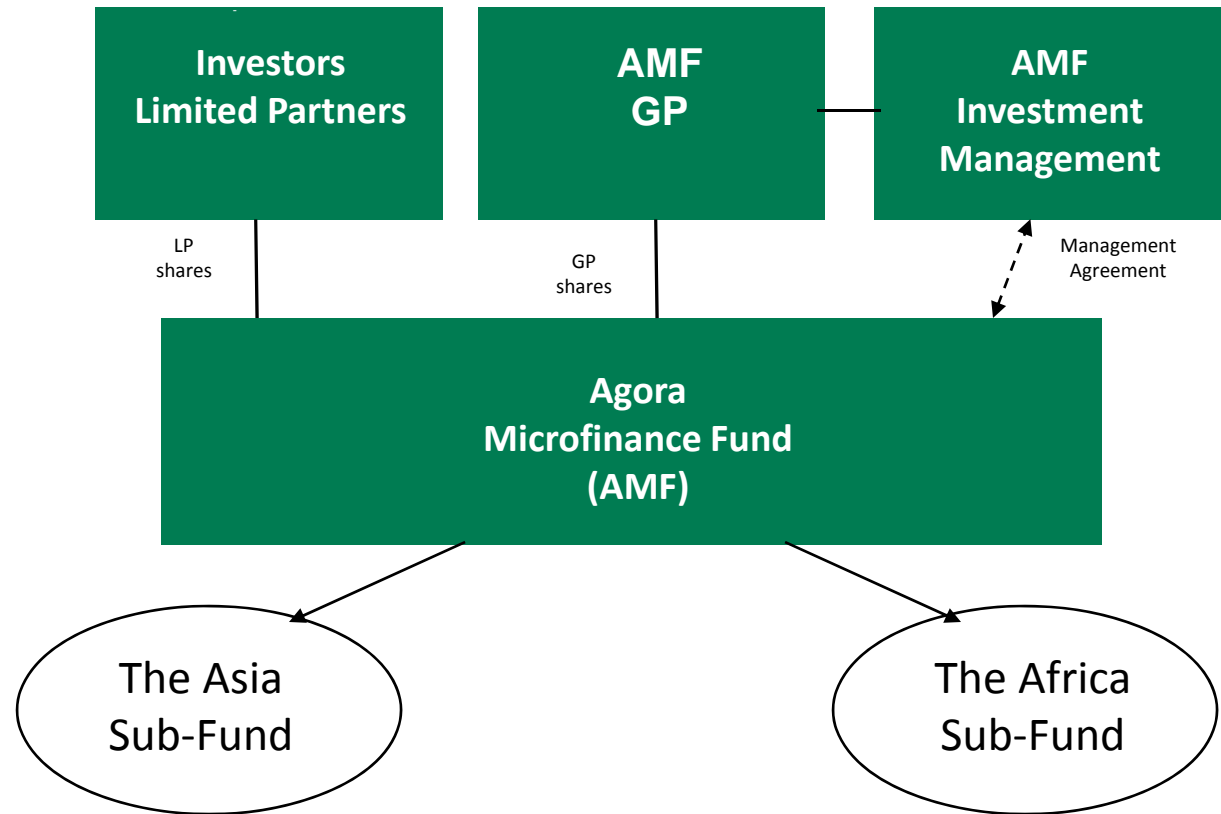
- Product design
- Appropriate technology
- Market/Social Research

Value proposition for Investors/partners

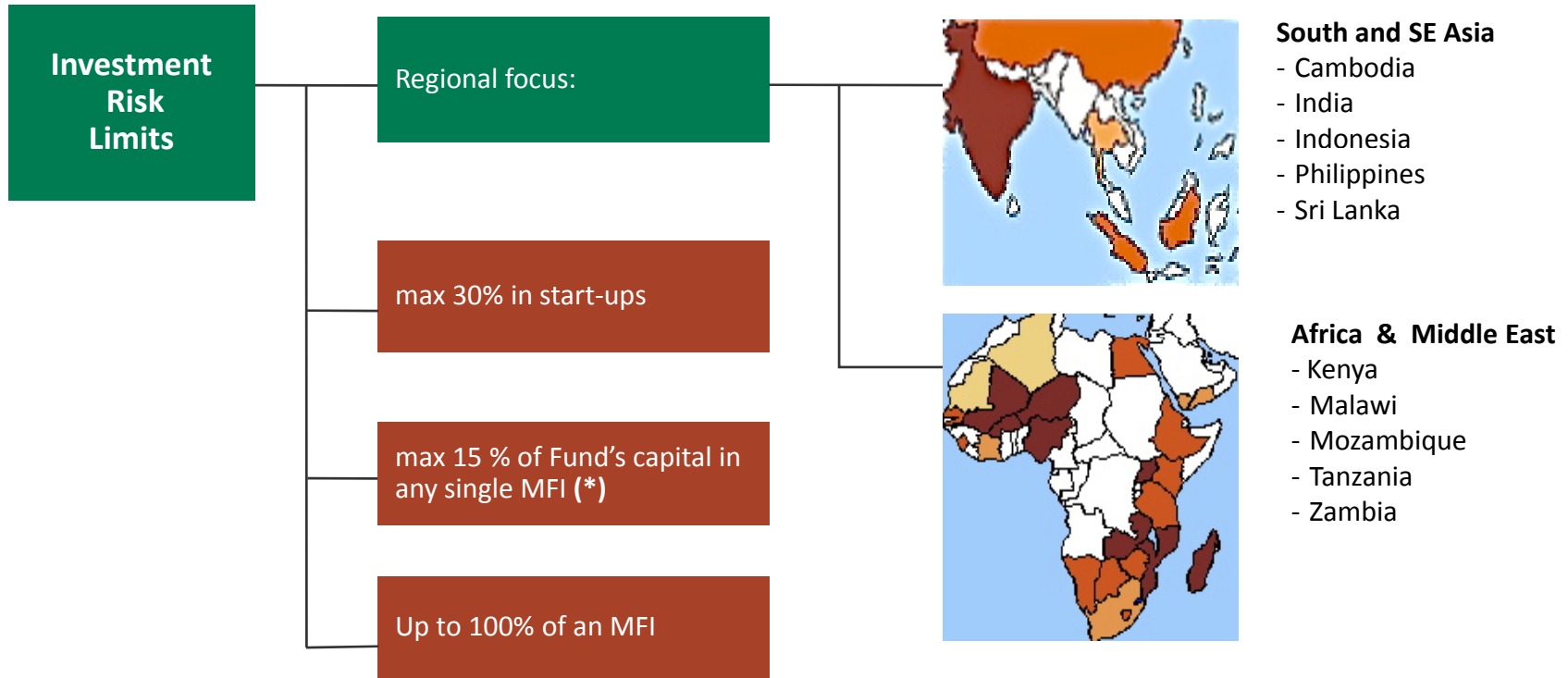
- Portfolios of well rounded MFIs on financial/social aspects – high social relevance
- Healthy returns
- Options to focus on specific geographies for investments (sub-funds for Asia and Africa)

Fund Structure

- **AMF** will be formed as a Limited Partnership (LP) in the form of a SIF
- The Management Company **AMF Investment Management** will be a Luxembourg based SCA (“The Manager”)
- The General Partnership **AMF GP** will be a Luxembourg-based SPV
- **AMF** will issue LP shares to third party investors



Fund Diversification



Regional as well as diversification in terms of development stage of the respective MFIs.

(*) the risk limit of a maximum of 15 % of Fund's capital in any single MFI shall only apply from the end of the Commitment Period

The maps represent the percentage of the population living on less than \$2 per day (year 2000), with darker colors representing a higher percentage of the population below the \$2 line. The bands are: 75-92%, 50-75%, 28-50%, 15-28%, 2-12%; white signifies the absence of data. Courtesy of www.theodora.com/maps

Progress so far

- Committed start-up capital of Euro20m
- Partnership agreement with Concern Worldwide for AMK Cambodia and Africa (Africa Microfinance Initiative)
- AMK Cambodia: Equity purchase under discussion
- ZAMICO Zambia: A start-up MFI being created
- India – 2 debt transactions likely in the next 3 months

Disclaimer

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Thank You