



OPIC and microfinance

Promoting development through financial inclusion

OPIC expands its support for microfinance, fostering sound investment to meet developmental needs

Microfinance involves the provision of loans and other financial services to the poor and underserved in developing countries who have been excluded from the mainstream financial system. It can play an important role in improving people's lives, by providing affordable and reliable access to capital, and the opportunity to initiate and expand microenterprises. At the same time, microfinance institutions have demonstrated their ability to operate on a sustainable and profitable basis.

The developmental and commercial success of the microfinance sector has led to significant growth in

expertise in underwriting microfinance transactions and in tailoring OPIC products to the specific needs of the industry.

The central role of OPIC and other development banks in fostering the growth of microfinance has been made apparent by the global financial downturn. OPIC has responded to the crisis both by taking the initiative in new funding vehicles and by responding to the needs of existing investors and networks that have experienced unexpected funding shortfalls. In doing so, OPIC has worked closely with other development banks and leading



recent years. Still, only a small percentage of people living in developing countries that lack access to financial services are currently served. While private sector financing has increased, the role of public sector financing from organizations such as OPIC remains critical to the ongoing success of microfinance.

With its strong developmental impact and need for financing, microfinance fits well with OPIC's mission. In 2008, the agency made microfinance a priority by creating a unit dedicated to it in its Small and Medium Enterprise Finance Department. OPIC also provides significant support to microfinance through its Structured Finance and Insurance departments. OPIC professionals have developed considerable

investors to share risk in these transactions. OPIC also seeks to promote best practices in the industry with respect to social performance measurement and results.

In recent years, OPIC has partnered with leading microfinance investors, providing finance that has been critical to their expansion. A key objective for OPIC in these transactions is to catalyze the participation of U.S. private investors. OPIC also aims to participate in transactions that meet particular industry requirements, such as the need by investors to hedge foreign currency risk associated with microfinance lending. At present, OPIC finance is supporting more than 100 microfinance institutions in 30 developing countries.

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OPIC answers President Obama's call for a microfinance fund for Latin America

Microfinance plays an important role in increasing economic opportunity in developing countries, particularly for people at the lower-income segments of society. The industry's rapid growth has been interrupted by the global financial crisis, which has slowed lending activity and increased portfolios at risk. Since the onset of the crisis in late 2008, OPIC has been called upon by the industry to address financing gaps that have arisen, and the agency has responded.

A key OPIC-led initiative involves the Microfinance Growth Fund. In April 2009, President Obama announced at the Summit of the Americas a partnership between OPIC and the Inter-American Development Bank (IDB) to launch a microfinance growth fund for Latin America. The concept of the fund grew out of discussions initiated by the Department of the Treasury with OPIC

and the IDB to identify a useful response to the impact of the global financial crisis on the availability of finance for micro and small business. At the announcement, the President said that "the fund will provide stable medium and longer-term sources of finance to microfinance institutions and microfinance investment vehicles to help rebuild their capacity to lend during this difficult period and to increase the supply of finance for micro and small businesses as recovery takes hold."

OPIC has been working in close partnership with the IDB to develop and launch the fund. In November 2009, OPIC's Board of Directors approved an OPIC loan of up to \$125 million to the fund, which will invest in more than 40 MFIs in up to 17 countries in the region. The fund, which will be managed by Blue Orchard SA, a leading global micro-



President Obama at the Summit of the Americas, April 2009

finance fund manager, is expected to have a first close and initiate lending activity during the first half of 2010.

U.S. investors in the Fund are expected to include Accion International, Citi, and Gray Ghost Microfinance Fund. Other investors are expected to include the Multilateral Investment Fund (MIF) of the Inter-American Development Bank (IDB), the Inter-American Investment Corporation (IIC) of the IDB, the Andean Development Corporation (CAF), Norwegian Microfinance Initiative (NMI), and Netherlands Development Finance Company (FMO).

OPIC expands successful global microfinance program with Citi

In September 2009, OPIC's Board of Directors approved up to \$250 million to expand a successful partnership with Citi that provides microfinance lending to borrowers in emerging markets worldwide. This program will enable MFIs to expand their outreach and achieve scale in financing microentrepreneurs around the world, and has the potential to reach more than 480,000 borrowers.



Working across Citi's businesses, product groups and geographies, Citi Microfinance serves microfinance institutions (MFIs), networks and investors as clients and partners around the world with products and services spanning the financial spectrum – from

OPIC will risk participate in Citi-originated and funded local currency loans to microfinance institutions (MFIs), which in turn make loans to micro-borrowers in Africa, the Middle East, Asia, Eastern

Europe and Latin America. The project represents the expansion of a \$100 million OPIC-Citi microfinancing funding facility launched in December 2006.

financing, access to capital markets, transaction services and hedging for foreign exchange risk, to credit, savings, remittances and insurance products - to expand access to financial services

for the underserved on a scalable and sustainable basis.

"Citi has long been committed to globally expanding access to financial



services to microentrepreneurs. Leveraging Citi's emerging markets presence, this new Citi/OPIC \$250 million Global Program will provide incremental funding to achieve our shared objectives of supporting microentrepreneurship and

stimulating economic growth," said Vikram Pandit, Chief Executive Officer of Citi.

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OPIC backs microfinance industry initiative to address currency risk

OPIC is providing a \$20 million guaranty to MFX Solutions (MFX), a new entity that will enable microfinance investment vehicles (MIVs) to increase their lending in local currencies to microfinance institutions in developing countries, thereby addressing a major constraint on the growth of microfinance lending. Expansion of lending to MFIs has been constrained by the need for MFIs to receive loans in local currency - something lenders have been unable to do because they could not hedge the foreign exchange risk.

MFX offers currency hedging products such as currency swaps to MIVs, which will provide loans in local currency to MFIs in countries around the world. By enabling MFIs



to borrow in their own currency, the project will significantly lower risk and should catalyze the flow of capital to otherwise creditworthy MFIs.

MFX dates to 2007, when a consortium of microfinance organizations - led by ACCION International, Calvert

Foundation, and Global Partnerships - began to explore ways to address the currency issue. At the same time, FMO, a Dutch development bank, began to develop the Currency Exchange Fund, known as TCX, which offers affordable hedging instruments to investors in countries availability is limited.

The consortium formed MFX as a vehicle to invest in TCX, which allows MFX to manage the currency risk it assumes from the microfinance industry. In order to launch its operations, however, MFX required a guaranty that would be acceptable to TCX and other potential counterparties on hedging transactions. OPIC was able to respond by using its guaranty authority to meet this need.

How OPIC supports microfinance

Finance:

OPIC can provide financing for microfinance through:

- ✓ Loans and guaranties to individual microfinance institutions (MFIs) and to networks supporting a group of MFIs in a region or globally
- ✓ Loans and guaranties to microfinance investment vehicles lending to a portfolio of MFIs
- ✓ Risk sharing framework agreements with banks and microfinance networks providing capital to MFIs
- ✓ Guaranties to other financial intermediaries supporting the microfinance industry

Political Risk Insurance:

OPIC can provide political risk insurance to microfinance equity investors, lenders and investment funds to cover the following risks:

- ✓ Inconvertibility of local currency - local government actions that create new restrictions on currency exchange or transfer that prevent the transfer of investment returns or debt service payments from the local MFI to the insured
- ✓ Expropriation (nationalization, confiscation, creeping expropriation) - local government actions such as a change in regulations affecting the microfinance sector
- ✓ Political violence - which causes damage to either the MFI or its microfinance borrowers.

OPIC supports expansion of BRAC microfinance lending in Africa

In 2008, BRAC, a leading international development organization founded in Bangladesh, created an investment vehicle to support the expansion of its microfinance activity in Africa. BRAC sought OPIC participation in this vehicle - the BRAC Africa Loan Fund - and OPIC responded by committing to serve as an anchor investor in the Fund in the amount of \$28 million. Proceeds of the OPIC loans will be used by BRAC Africa to make loans to BRAC-owned MFIs in Tanzania and Uganda. The MFIs will in turn use the loan proceeds to expand their lending activity. In addition, other BRAC Africa proceeds will be used to make loans to BRAC's operating entity in Southern Sudan. Total capitalization of the Fund is \$62.6 million.

BRAC estimates that the proceeds of the fund will enable the operating entities in the three target countries to add 141 new branches to their 82 existing branches, to reach roughly 500,000 new borrowers with an average loan size starting at just under \$200 and growing to over \$500 as borrowers repay loans and take out larger ones, and to expand BRAC's consolidated gross African loan portfolio from \$11.5 million to over \$240 million within ten years.



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OPIC uses insurance and finance to support MicroVest

In 2009, OPIC provided support to MicroVest – a successful microfinance fund manager with a track record of sound investing and demonstrated commitment to maximizing developmental impacts – in the form of both political risk insurance and finance.

OPIC entered into a master contract with MicroVest I, LLP (MVI) to provide political risk insurance for its investment of approximately \$15 million, comprising 13 loans to MFIs in ten countries. The master contract is tailored to the needs of a microfinance lender, and specifically addresses the risks associated with both the borrowing MFIs and their underlying microborrowers. The insurance coverage also addresses the possibility of

changes in microfinance regulations or trade restrictions that could affect the ability of the borrowing MFIs to repay their loan to MicroVest. As MicroVest disburses new loans in high risk countries, OPIC and MicroVest will work together to continuously update the covered portfolio by adding new loans for coverage. The master contract also enables MicroVest to offer the benefits of political risk insurance coverage to its co-lenders under syndications led and serviced by MicroVest Capital Management.

Regarding financing, in 2009 OPIC closed on a \$10 million loan to MVI. Proceeds of the OPIC loan are being used by MVI to expand its MFI lending in OPIC-eligible countries worldwide,



generating nearly 100,000 estimated new loans for micro-borrowers and impacting up to a half-million individuals in developing countries. The principal U.S. sponsors of MVI are CARE USA, MEDA Investments Inc, PerlsFoundation, and Omidyar Network.

U.S.-backed Mexican financial institution receives OPIC support to expand lending to micro and SME sectors

A U.S. small business will use an OPIC loan to provide lending to non-bank financial institutions (NBFIs) in Mexico, which in turn will serve as a source of much-needed capital for micro, small and medium-sized enterprises (MSMEs) in the country.

OPIC will provide a \$25 million loan to Velifin, a newly-formed NBFI in Mexico. Velifin will in turn use the funds to provide credit financing to

other Mexican NBFIs, called sofoles and sofomes, which are non-depository institutions that have typically relied on bank lines of credit for funding and have recently begun to approach the limits of their lending capacity. Seventy percent of the project's financing is expected to support SMEs, and the remaining 30 percent microenterprises.

By acting as a wholesale lender, Velifin will serve as a source of secondary financing for credit-constrained NBFIs, bringing increased liquidity to the underserved MSME and microcredit sectors.

Velifin was established specifically to both generate attractive returns for investors and encourage the extension of credit to poor and



underserved populations. Velifin is owned by an experienced group of MSME investors including Cambridge Liquidity Partners, Inc., a U.S. small business which is owned by U.S. individuals, the Omidyar-Tufts Microfinance Fund, and Mexican investors.

