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e-MFP Action Group of Investors in Tier 2/3 MFIs

Results of the survey conducted among the Action Group members according to the definition of tiers in microfinance

Introduction

Since 2012, the e-MFP Action Group of Investors in Tier 2/3 MFIs has been working to foster the growth of the microfinance sector from the investors' perspective and publishing periodical updates in the form of public papers shared with all the microfinance community.

The Position Paper No. 1, published by the European Microfinance Platform in 2012, started the study of the Tier 2/3 MFIs distribution among the e-MFP Action Group members and laid the foundations for the present analysis. The following year, the e-MFP Discussion Paper No. 1 proposed a specific definition and criteria for tiers, addressing the need for clarity on this subject. After the publication of the Paper in April 2013, e-MFP submitted to the Action Group members a standard spreadsheet to classify by tier the MFIs funded during 2012 and collect additional financial data on the investments.

This survey was submitted to 13 funders in Europe, members of the e-MFP Action Group of Investors in Tier 2/3 MFIs. 10 responded with complete data, while one sent only partial information. The data collection reflected the portfolio of the investors as of end 2012. Taking into account the limited number of funders in the Action Group, this study does not presume to represent the investment strategy in Tier 2/3 MFIs across the whole microfinance sector; it is simply an analysis of the portfolios of the e-MFP Action Group members. The data collected allows a meaningful overview of these portfolios by tier, type of investments and geographical location.

The tier classification's criteria of the previous e-MFP Discussion Paper has been strictly respected in this analysis and is shown in Table 1.

Table 1
Criteria by Tier

Tier 2	Tier 3
USD 5 – USD 50M in assets	No Criteria
Positive ROA in 1 out of the last 3 years and other > -5% OR positive trend in ROA and all > -5%	
Audited financial statements for at least 3 years	

Overall, the e-MFP survey presents the data in Table 2:

Table 2
Overall Data for 2011 and 2012 Surveys

Data	2011 (Position Paper No. 1)	2012
Funders¹	8	11
MFI Investees	241	389
No. Investments	332	465
No. Countries	73	76
Portfolio (€)	99,768,030	365,793,756

¹ Among the institutions that were part of the surveys, just seven participated both in 2011 and 2012. However, one did not provide for the amount of investments for 2011. Therefore, the comparison has been conducted on the six that have provided full financial data.

The study has been directed to Tier 2/3 MFIs only, as they are the focus of the Action Group. However, in order to know the proportion of Tier 2/3 MFIs in the total portfolio, the number of Tier 1 MFIs and investment in these MFIs was also collected. The analysis of the total portfolio by tier (See Figure 1) reveals that Tier 1 MFIs accounted for 65% of total investments (≈€657M), Tier 2 MFIs received 30% (≈€316M) and Tier 3 MFIs 5% (≈€49M).

Figure 1
Total Investment - Tiers Breakdown (%)

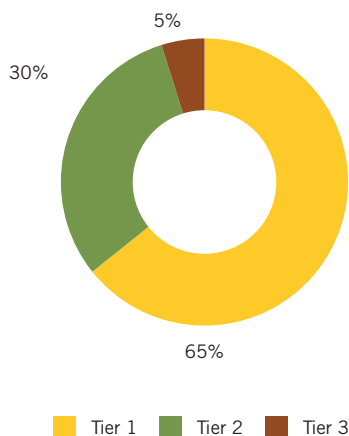
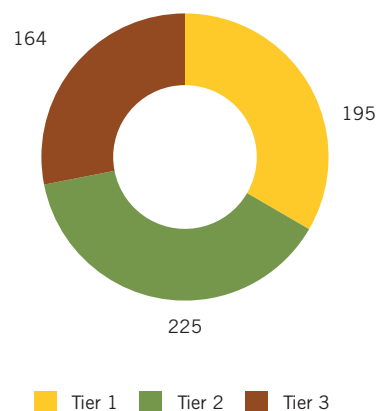


Figure 2
Tiers Breakdown (No. MFIs)



Key findings

- Average investment per MFI in Tier 2/3 MFIs accounts for €0.71M, considerably below the Symbiotics MIV Survey 2013 average (€1.8M in 2012)² but well higher than the Position Paper n°1 average (€0.3M).
- The average size of Tier 2 investment is slightly over €1.4 M and for Tier 3 is around €0.25M.
- The six institutions who provided their investment data for both 2011 and 2012 registered a global portfolio growth in Tier 2/3 MFIs of €228M (from €92M to €320M, 248%). This is mainly due to two funders that invested €223M more in 2012, also raising considerably the average amount of each investment.
- The number of MFIs increased by 18% (from 291 to 343) with an average investment of €0.94M considerably higher than the amount for 2011 (€0.33M) for the funders participating in both surveys.
- Sub-Saharan Africa is the region with most Tier 2/3 MFIs funded; however, it recorded a 7.6% drop in percentage of total investment falling from 23% in 2011 (see Position Paper No. 1) to 15.4% in 2012.
- Technical Assistance was extensively implemented during 2012 through 81 programs, mainly in Sub-Saharan Africa.

Geographical Breakdown

The survey required the funders to provide for the geographic location of the 2012 investments in order to elaborate an overall breakdown by region. This analysis has been carried out by type of investment (debt, equity and guarantees) and its results can be comparable with those of the Symbiotics MIV Survey published on a yearly basis.

Overall, the geographic distribution of investments tends to reflect the debt positions since they account for 95.5%³ of the total amount for 2012 whereas equity stands at 3.6% and guarantees at 0.9% (See Figure 3).

The geographical distribution of the MFIs shows that Sub-Saharan Africa is the region with most MFIs funded (32.7%), while South America and Central America & Caribbean together accounted for 35.8%. The combined share of the other five regions is 31.5%, with each region ranging between 3% and 13% (See Figure 4).

² As described before, this study does not include Tier 1 investments while the Symbiotics MIV Survey does. This disparity could be the cause for the difference between the average investments during 2012.

³ They accounted for 95.1% in 2011 while equity stood at 3% and guarantees at 1.9%.

Figure 3
Total Investment by Type (%)

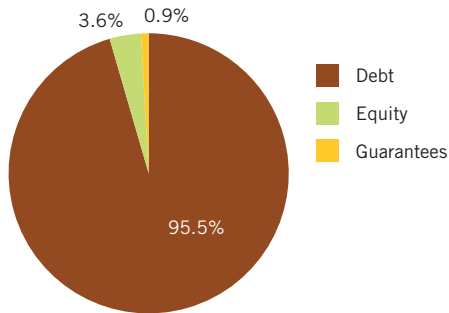
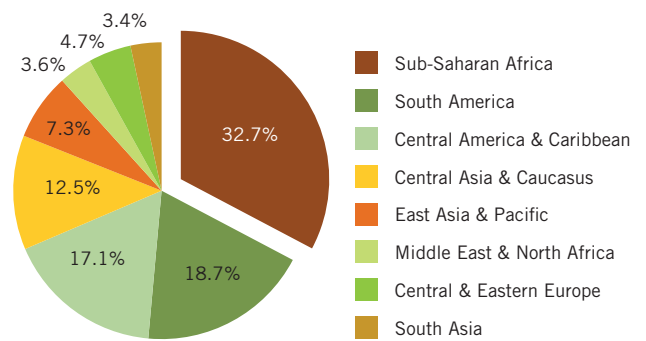


Figure 4
No. MFIs - Geographical Breakdown



The geographical distribution by type of products for the debt positions (See Figure 5) is uniform since five regions have values between 10% and 30%. Central Asia & Caucasus stands at 27.0%, the higher value, followed by South America (20.6%). Instead, the equity positions have been concentrated in three main regions: Sub-Saharan Africa, South Asia and Central America & Caribbean, that absorbed over 80% of these positions (See Figure 6).

Figure 5
Total Debt (%) - Geographical Breakdown

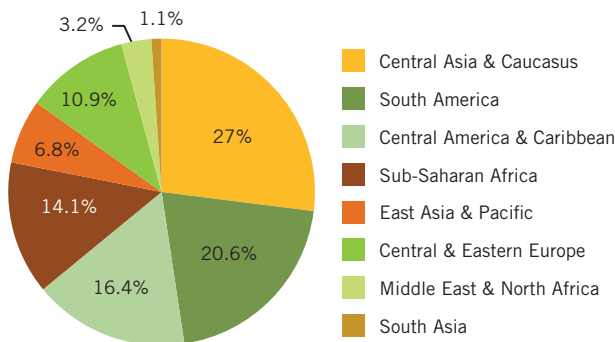
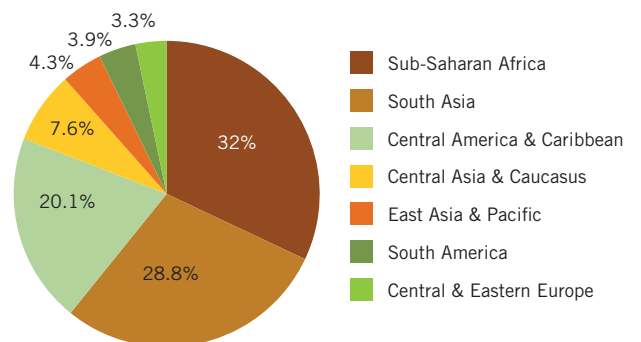


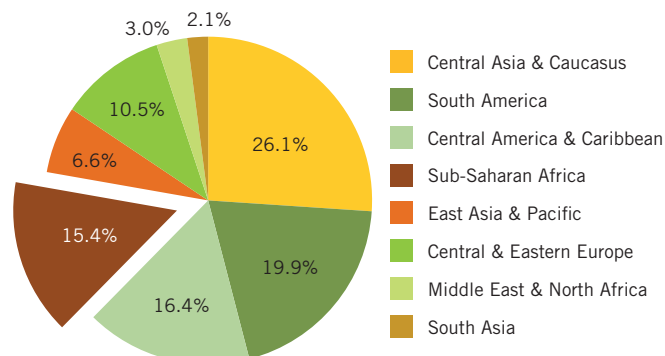
Figure 6
Total Equity (%) - Geographical Breakdown



Finally, the guarantees market has been very limited: just €3M have been invested in this kind of product. All these types of investment have been directed towards Sub-Saharan Africa while just one has been finalized in South America.

When analyzing the geographic distribution of total investments (See Figure 7), Sub-Saharan Africa represents the biggest peculiarity since it accounts for 32.7% of total MFIs funded (as shown in Figure 4) while absorbing only 15.4% of the investments with an average of €0.38M per disbursement.

Figure 7
Total Investments (%) - Geographical Breakdown



It was possible to undertake a deeper analysis focusing on the six funders that participated in both surveys:

Table 3
No. MFIs Geographical Distribution - 2011/2012
Analysis limited to the MFIs funded by the e-MFP members who participated in both surveys (2011 and 2012)

Year	Central & Eastern Europe	Central Asia & Caucasus	Middle East & North Africa	Sub-Saharan Africa	South Asia	East Asia & Pacific	South America	Central America & Caribbean
2011	3.8%	9.3%	2.7%	26.8%	4.5%	10.0%	24.4%	18.6%
2012	6.0%	14.4%	4.1%	18.0%	3.3%	9.3%	24.5%	20.4%
Change	+2.2%	+5.1	+1.4%	-8.8%	-1.2%	-0.7%	+0.1%	+1.8

Table 3 highlights the changes in MFIs funded by geographical region between 2011 and 2012. Sub-Saharan Africa recorded an 8.8% drop while Central Asia & Caucasus registered a 5.1% growth; instead the other regions' values remained stable as they experienced minor changes between -1.2% and +2.2%. Overall, the comparison between the two studies shows an increase in investments for Central Asia & Caucasus and a fall for East Asia & Pacific; moreover it reveals a substantial decrease in the percentage of investments in Sub-Saharan Africa.

Table 4
Geographical breakdown of amount invested - 2011/2012
Analysis limited to the investments made by the e-MFP members who participated in both surveys (2011 and 2012)

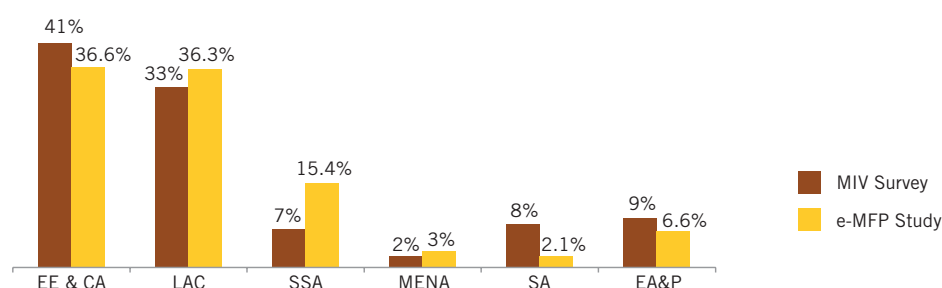
Year	Central & Eastern Europe	Central Asia & Caucasus	Middle East & North Africa	Sub-Saharan Africa	South Asia	East Asia & Pacific	South America	Central America & Caribbean
2011	4.5%	21.5%	2.0%	20.5%	4.8%	14.0%	15.6%	17.1%
2012	11.0%	27.4%	3.2%	12.1%	1.3%	6.8%	21.0%	17.2%
Change	+6.5%	+5.9%	+1.2%	-8.4%	-3.5%	-7.2%	+5.4%	+0.1%

Table 4 highlights the variation of geographical distribution of investments for the members common to both studies; it is evident that the major shifts follow similar patterns to those reflected in Table 3, even if it is possible to draw some further considerations:

- Sub-Saharan African investments recorded a higher drop.
- The growth for Central Asia and Caucasus is considerably lower.
- South America investments registered a higher increase.

The comparison of these results with the portfolio geographical breakdown of Symbiotics MIV Survey 2013 shows several different trends (See Figure 8)⁴:

Figure 8
Portfolio Geographical Breakdown - MIV Survey & e-MFP Study



⁴ Following the classification in the MIV Survey 2012: EE&CA Eastern Europe and Central Asia, LAC Latin America & Caribbean, SSA Sub-Saharan Africa, MENA Middle East and North Africa, SA South Asia, EA&P East Asia & Pacific.

- Eastern Europe and Central Asia reached 41% in the MIV Survey while standing at 36.6% in the e-MFP study.
- Latin America & Caribbean stood at 33% in the MIV Survey though amounting to 36.3% in this study.
- Sub-Saharan Africa accounted for just 7% in the MIV Survey, a value 8.4% lower of the one measured in this survey.
- South Asia accounted for 8% in the MIV Survey whereas it stands at 2.1% in the present study.

The analysis reveals that there are major differences among the percentages of the remaining regions with the Symbiotics MIV Survey 2013, notably on the percentages of Sub-Saharan Africa and South Asia⁵;

Because of this, it is possible to validate the assumption that the sole Tier 2/3 investments have a different geographic distribution compared to the one proposed by the MIV Survey 2013 that includes Tier 1 MFIs.

Geographical Breakdown by type of Tier

The data collected through the survey allows for an even more specific breakdown for Tier 2 and Tier 3 MFIs.

Figure 9
Geographical Breakdown Tier 2 & Tier 3 (No. MFIs)

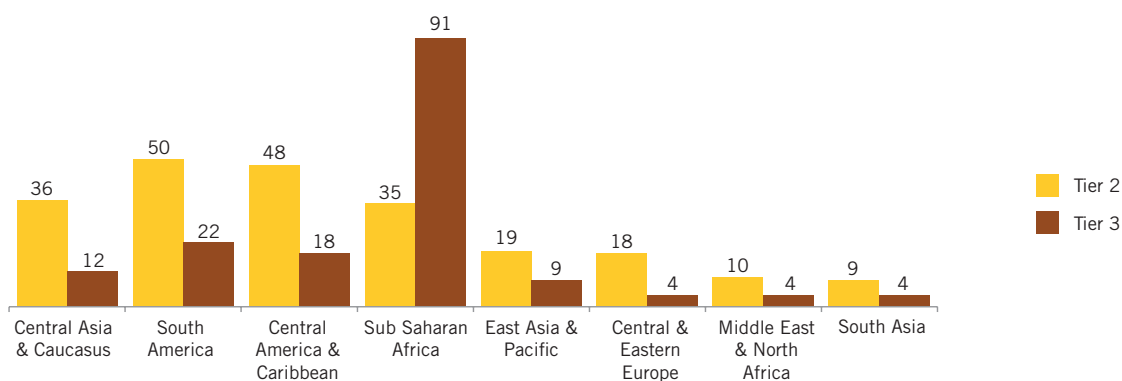
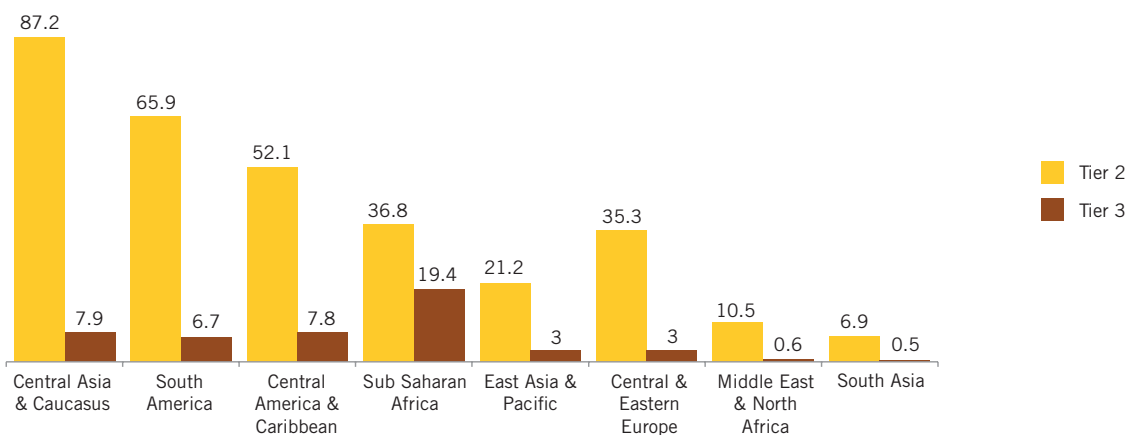


Figure 10
Geographical Breakdown Tier 2 & Tier 3 (€M)



⁵ Unfortunately, it is impossible to consider other relevant differences among the other regions since the MIV Survey proposed to unify Eastern Europe and Central Asia, Latin America and Caribbean while this study keeps four different geographical regions (Central & Eastern Europe, Central Asia & Caucasus, South America, Central America & Caribbean).

Figures 9 and 10 offer an insight on Tier 2 and 3 MFIs that reveals several findings:

- Tier 2 MFIs are distributed mostly uniformly since all the regions have between 9 and 50 MFIs funded.
- Tier 2 investments presented a more pronounced difference since the regions' values range between €6M and €87M, the highest being in Central Asia & Caucasus.
- Tier 3 institutions appear to be concentrated mostly in Sub-Saharan Africa that has by far the highest number of MFIs (69 more MFIs compared to the second region ranked).
- The lead of Sub-Saharan Africa is reflected in the amount of investments disbursed since this region draws €19M in direct funds recoding €12M more than the second region ranked (Central Asia & Caucasus).

Ranking - Top 5 Countries by Total Investments

Table 5
Top 5 Countries by Total Amount of Investment Received in 2012

Worldwide	Central & East-ern Europe	Central Asia & Caucasus	Middle East & North Africa	Sub Saharan Africa	South Asia ⁶	East Asia & Pacific	South America	Central America & Caribbean
Ecuador	Kosovo	Russia	Lebanon	Tanzania	Sri Lanka	Cambodia	Ecuador	Mexico
Russia	Belarus	Tajikistan	Jordan	Senegal	India	Indonesia	Peru	Nicaragua
Tajikistan	Albania	Georgia	Palestine	Cameroon	/	Philippines	Bolivia	El Salvador
Mexico	Bosnia H.	Armenia	Morocco	Mali	/	Vietnam	Colombia	Honduras
Peru	Serbia	Azerbaijan	Egypt	Togo	/	Timor Leste	Argentina	Guatemala
RANGE (€M)	€8M to €4M	€20M to €10M	€4M to €300k	€7M to €3M	€4M to €3M	€15M to €400k	€24M to €4M	€17M to €7M

The Top 5 worldwide countries received investments between €25M and €15M. Sub-Saharan Africa was the one to receive among the lowest ones (the region Top 5 countries received investments between €2M and €7M).

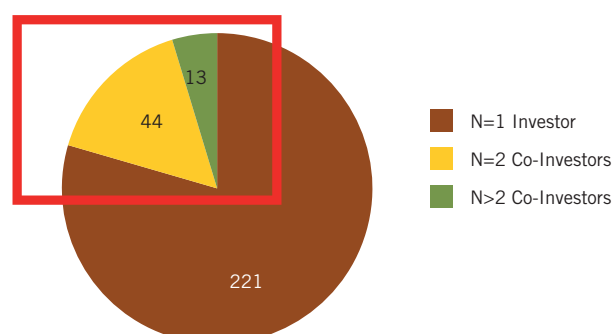
In general, during 2012, the number of MFIs investees increased by 60% and 7 more countries were reported receiving investments in 2012, whereas 4 received funds in 2011 but not in 2012:

- Malawi, Mozambique, Turkey and Ukraine have been funded in 2011 but not in 2012.
- Belarus, Chad, Costa Rica, Madagascar, Panama, Paraguay and Poland are reported being funded in 2012 only⁷.

Co-Investments

The analysis of the data collected disclosed that in several cases the 10 funders were co-investors in single institutions⁸. Therefore, it has been possible to group the investments to provide for a statistical review of common, but indirect, partnerships. These data may foster the partnerships to grow and the expansion of common technical assistance programs or simply facilitate the exchange of information over time.

Figure 11
Breakdown by Number of Co-Investors



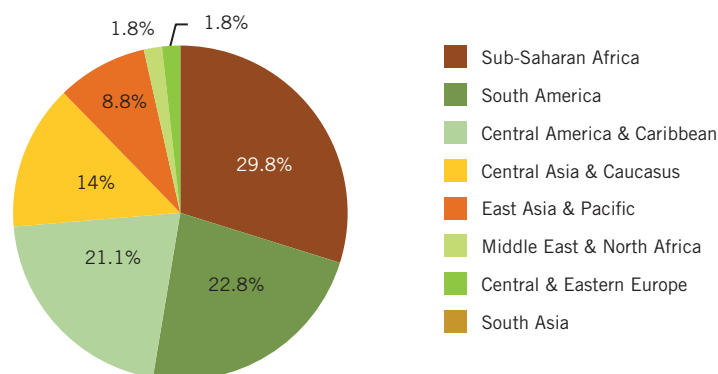
⁶ South Asia counts just two countries funded for 2012.

⁷ This data is gathered from the comparison of the 2012 data with the Position Paper No. 1 findings; indeed, the countries mentioned may have received funding for 2011 or 2012 but they are not reported among the aggregate figures of the studies.

⁸ The number of institutions providing full data was 10 since one didn't provide the names of the MFIs funded. Therefore the total of MFIs for the statistical analysis decreases from 389 to 278.

As shown in Figure 11, there are 57 MFIs currently receiving funds from two or more investors, they represent 11% of total investees and absorb 16% of total investments (≈€57M). Among these investments, most are debt instruments whereas only three MFIs received equity participations from two different funders. Furthermore, it is relevant to highlight the growth of the amount of co-investment: this value increased by 56% in 2012, from €30M to €57M. This growth is partially explained by the inclusion of the investment data of three other funders for the 2012 study.

Figure 12
Total Co-investment - Geographical Breakdown



Geographically, Figure 12 shows that the co-investments are more common in Sub-Saharan Africa, South America and Central America & Caribbean with percentages between 20 - 30%. Instead Middle East & North Africa and Central & Eastern Europe appear to be the regions where co-investments rarely occurred⁹; in any case these regions did not attract a lot of investment in their respective microfinance sectors from the participants of the survey.

It is important to note that this analysis is only valid for the 10 investors surveyed. It is evident that the MFIs normally have more than just one foreign investor, but this can't be recorded within this survey.

Technical Assistance

During 2012, several technical assistance (TA) programs have been implemented to foster the growth of Tier 2/3 institutions; often technical assistance programs followed the approval of an investment and provide for a necessary improvement within the MFIs' organizations.

Among the funders that took part in this survey four offered a total of 81 TA programs during the past year; Sub-Sahara African institutions were the subject of 71 programs.

The survey highlighted that 38 institutions received only technical assistance, while 43 received the technical assistance as a complement to the ongoing investment. Furthermore, it appears that the MFIs receiving smaller investment were more likely to receive technical assistance: indeed the average investment with TA is around €0.31M though the general average is slightly over €0.71M.

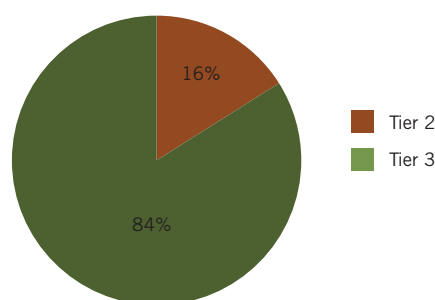
Table 6
Technical Assistance Breakdown

MFIs receiving only TA	38
MFIs receiving TA + Investment	43
Average Investment with TA	€308,183

As shown below (See Figure 13), 84% of the MFIs that received technical assistance were among the Tier 3 group. These data confirm that TA programs correctly target weaker MFIs to strengthen their capacity building and foster a sustainable growth. Technical assistance programs have been implemented mostly in Sub-Saharan Africa (87% of programs conducted in 2012).

⁹ Indeed, these two regions had each just one co-investment under way during 2012.

Figure 13
Total Investments in TA (%) – Tier Breakdown



Conclusions

The European Microfinance Platform launched this survey during 2013 in the wake of another strong year for microfinance. The trend of growth has been confirmed although some countries have become more difficult to work with due to political instability (MENA Countries) and difficult global and local macroeconomic conditions. Nevertheless, the e-MFPs' members maintained their positions in many countries.

In particular, the survey unveils probably one of the best years for the members of the Action Group; it is astonishing to find a 248% growth in total portfolio in just a 12-month period considering that the investments remained well distributed between the different regions where microfinance institutions operate: in this sense every region drew less than 30% of total portfolio investments. This growth is mainly due thanks to two major investors.

The analysis by tiers shows how Tier 2 institutions in 2012 received most of the total investments in Tier 2 and 3 MFIs. It is interesting to note that the geographical distribution is quite different compared to the global investment from the Symbiotics analysis. The drop of investments in Africa between the six funders that took part to both surveys is surprising, as more and more investors are claiming to focus more on this continent. However it is interesting to notice that Africa is gathering most of Tier 3 MFIs' investments.

Technical assistance is provided by only 4 of the funders and focuses mainly on African Tier 3 MFIs, showing the close correlation between working with Tier 3 MFIs and capacity building.

Developing Partnerships and Creating New Synergies

In just one year, the improvements of the overall data, highlighted in the study, are impressive notably regarding portfolio and number of investees; furthermore, this growth has been combined with a newly found openness to share data to create new synergies within the sector.

The survey's results along with the complete list of the investment have already been shared with the 11 funders that contributed to this study. Access to these data should foster the different organizations to work more together while sharing information, knowledge and experience on the different regional sectors and MFIs.

Especially in areas where instability and local crisis are currently spreading, effective collaboration and strong partnerships are essential to find information and provide for assistance to MFIs.

As suggested in Position Paper No. 1 (July 2012), establishing joint actions such as technical assistance programs or monitoring missions would facilitate the work for both investors and investees.

Over the past year, the e-MFP Action Group was able to foster a collaborative environment between the members that are working together to achieve cooperation and common growth for the entire sector. This study represents the product of such collaborative attitude of the Group.

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