



# MICROVEST

ANNUAL REPORT JUNE 2009

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Photo: CAPA (Romania)

MicroVest Founders:



## Our Approach



Photo: Crecer (Bolivia)

At MicroVest, we often receive requests from our investors, peers and interested third parties about the social impact of our work. This report attempts to address those questions and articulate what we do to transform lives of the world's poor through access to capital.

MicroVest is a capital-mobilizing intermediary, providing debt and equity capital to microfinance institutions (MFIs) throughout the world. MicroVest offers attractive returns and social impact to our investors and lends to MFIs at market rates. We believe this approach facilitates the flow of private capital to microfinance, meeting the burgeoning demand that far exceeds the funding capacity of donor and government programs. This commercial approach also encourages MFIs to become more efficient and effective, ultimately improving the level of financial services available to microentrepreneurs.

In this introduction, we will discuss MicroVest's founding principles, our approach to the social aspect of our dual mission of financial and social results and touch on a key issue in microfinance — high interest rates. This report highlights several MFIs and their clients and shares social performance indicators for all MicroVest managed funds.

We hope that in reading this report you gain a better understanding of why we do what we do and the effect it has on the world we seek to change.

### MicroVest—In the Beginning

More than five years ago, two world class nonprofits, CARE and MEDA, came together to create a new business model to eliminate poverty. A model based on sound business principles and a commitment to transforming the lives of the world's poor. A model that would leverage decades of work in emerging markets. A model that would connect MFIs to the world's private capital, unleashing the creative energy of the market and far more investment than possible through philanthropic funds. MicroVest is that model.

### What We Do

At MicroVest, we live and thrive in the midst of the sometimes conflicting agendas of social impact and financial gain, balancing our founders' humanitarian missions and the business imperatives of operating a financially sound investment fund. We work through an in-depth understanding of financial markets, MFIs and their environments. Our understanding of capital allows us to raise funds from both private and institutional investors. Our understanding of MFIs is based on years of experience in the field and our rigorous due diligence process that takes place at each MFI before we make a loan or equity investment.

### A Focus on Social Impact

MicroVest's Board began with the understanding that it would achieve a positive social impact by banking financial institutions that served the bottom quartile of the world's population, were located in emerging markets and made loans primarily for



productive purposes. MicroVest's investment teams adhere to these guidelines as they conduct thorough on-the-ground due diligence of each MFI in which we invest. We believe that the best way to maximize the impact of the capital entrusted to us is by carefully investing in local, well-run, commercially viable MFIs with capacity for sustained growth and that provide excellent service to an ever increasing client base.

As of June 30, 2009, MicroVest had active investments in 39 MFIs in 22 countries. Our investments provide financing to an estimated 53,000 working poor, enabling these individuals and their families to build better lives for themselves—and more stable communities. We reach far more working poor than immediately evident: during the three year course of a typical MicroVest loan, a MFI will re-lend the capital up to six times.

Statistics such as these, however, do not paint a complete picture. MicroVest's most valuable social impact screening occurs before investments are made through our due diligence and underwriting processes. Our investment criteria include careful examination of corporate governance, strategic vision, prudent management and fair lending practices. We have instituted specific screens to identify predatory lending and client over-indebtedness —

to address our concern that individual micro-borrowers be protected from the burdens of too much debt and that the MFIs themselves operate in a sustainable manner.

**Predatory Lending:** In 2008, MicroVest adopted an explicit policy on predatory lending—an increasingly common practice in emerging markets as predatory lenders masquerade as MFIs. Our investment team follows strict underwriting procedures designed to detect warning signs of predatory lending both before a loan or equity investment is made and during the term of our financial involvement with an institution.

**Over-indebtedness:** More recently, MicroVest added another layer to our social impact screen: investigating client and systemic over-indebtedness. Our field analysis focuses on how a MFI determines a client's creditworthiness and how the MFI guarantees client protection. We look for MFIs that finance productive activities rather than consumer goods and that have well-developed lending criteria and procedures.

In addition to sound lending practices, we seek MFIs that excel at client outreach and develop innovative financial products for the lower quartile of the economic ladder. Two examples are highlighted in this report. MFI loan officer, Maria Carmen Mena Flores of Prisma, Peru (p. 11) linked her clients to larger markets by arranging bus service to their communities. Kompanion Financial Group in Kyrgyzstan (featured on pages 4-5) developed innovative on-site training and consultation for clients and their communities.

Effective screening of MFIs during due diligence helps us channel our resources to the best MFIs serving the financial needs of their clients and supporting their communities. With thousands of microfinance institutions around the world delivering widely divergent levels of service, it is imperative that MicroVest select its partners with care.

Over the next year, we will be improving our social impact scoring as a corollary to our proprietary credit scoring model developed to assess relative risks in our portfolio. This new scoring model will explicitly capture many of the elements that we have incorporated into the investment process, including truth in lending, client protection, outreach and innovation. We look forward to sharing the results with you next year.

MicroVest's most valuable social impact screening occurs before investments are made through our due diligence and underwriting processes.

## Interest Rate Issue

As we talk about our work, we are often asked the same question: "Don't the interest rates charged by MFIs (often in the range of 35-60%) gouge the clients?" If the microenterprise borrowers are being taken advantage of, how can MicroVest claim any social benefit?

It is true that the interest rates paid by MFI clients seem exceedingly high to those of us with ready access to established formal sector credit. It is also true, however, that these rates are much lower than those otherwise available to poor borrowers lacking collateral: rates from local loan sharks can exceed 300% on an annual basis.

MFI clients are willing and able to repay high interest rates because of the nature of their businesses—low capital to labor ratio. Thus, additional capital in such a business allows the purchase of items like raw material at better, bulk prices and more efficient operations. The resulting leap in productivity allows repayment of interest while retaining a profit.



Photo: CAPA (Romania)

A contributing factor to the interest rate charged by MFIs is the high cost of reaching out to, educating, and evaluating the credit-worthiness of individuals who have had limited or no interaction with formal financial institutions. Such due diligence and client education is necessary given the lack of collateral for loans. As MFIs adopt new technologies (like cell phone banking), learn how to streamline their business model and face increasing competition, those costs decrease. Already we see interest rates starting to drop in the most competitive MFI markets.

## What's Next

As MicroVest moves forward, we remain committed to our underlying principles of addressing the needs of the world's poor through sound financial vehicles. We accomplish this goal through continuous development of our approach to maximize social and financial returns.

W. Bowman Cutter  
Chairman of the Board

Gil Crawford  
Chief Executive Officer



W. Bowman Cutter



Gil Crawford

## MFI Profile: Kompanion Financial Group



**Gross Portfolio (US\$):** 27.8 million

**Average Loan Size (US\$):** 344

**Number of Clients:** 81,017 (as of March 31, 2009)

**Country:** Kyrgyzstan

**Population<sup>1</sup>:** 5.3 million

**Principal Exports:** cotton, wool, meat, tobacco, gold, mercury, uranium, natural gas, hydropower, machinery, shoes

**GDP per Capita (US\$):** 962

**MV Exposure (US\$):** 1.3 million

With over 10 branches and 50 offices in the mountainous, landlocked country of Kyrgyzstan, Kompanion serves more than 80,000 clients. It was founded in 2004 through the consolidation of several credit funds created under Women's Micro Credit, a program initiated in 1997 by Mercy Corps International in partnership with five NGOs spread across the country.

MicroVest first began its relationship with Kompanion in 2006 by extending a US\$ 1 million, 3-year loan to the institution. We were one of the first international investors in Kompanion. Within a year, Kompanion was able to access funds from several other international investors, more than triple its loan portfolio to US\$ 21 million and double its client base to 40,000.

In order to support Kompanion's strong growth, MicroVest extended another US\$1 million, 3-year loan in 2007. Since then, Kompanion has strengthened its position as one of Kyrgyzstan's top microfinance institutions, completing its transformation into a fully licensed bank in 2008.

Kompanion distinguishes itself in the Kyrgyz microfinance market by providing innovative products to fulfill its clients' needs. In 2008, Kompanion established a Technical Support Unit by gathering a team of trained agriculture, veterinary and real estate specialists to provide on-site training and consultation to its clients and their communities. In 2007, Kompanion partnered with Habitat for Humanity to offer pilot mortgage loans to clients working with Habitat to build their homes. Kompanion has also developed a Kompanion Mortgage Product and an Eco-Mortgage Product. The Eco-Mortgage product provides clients with an architectural eco-home plan and focuses on the construction of ecologically safe construction materials and environmental sustainability. In 2006, Kompanion introduced an educational loan for students enrolled in vocational schools in partnership with several educational missions in Kyrgyzstan.



<sup>1</sup> All population and GDP figures from *The Economist Intelligence Unit* country reports.



## Client Story

Oliyahn Narmatova is the owner of a small farm in Kyrgyzstan's densely populated southern oblast (province) of Osh. By today's measures, she is considered to be well-off with 30 chickens, 6 cows with 2 calves, 15 sheep and one horse. But until this year, Oliyahn's financial future looked bleak. In 2007, she retired and tried living on a small government pension that was not enough to pay her bills. When food and fuel prices escalated, Oliyahn decided to improve her financial security. She had heard of Kompanion and its group solidarity loans for business development. So, she assembled four of her neighbors in similar situations, whom she knew well and could rely on, and suggested that they apply for a Kompanion loan. *"Taking out a loan was risky and I thought a lot about it"* said Oliyahn. *"On the other hand, what was the use of sitting and waiting for something to happen? I am a pensioner..."*

Oliyahn Narmatova used her first loan of US\$ 300 to purchase livestock and build a barn. Two loans later, she has improved her farm considerably. *"Every day I sell 15 liters of milk. Thanks to Kompanion we not only make ends meet, but also make a profit and have learned to better manage our businesses,"* says the now seasoned entrepreneur.

Besides access to financial resources, Oliyahn and her business also benefited from another service from Kompanion – consultation with a veterinarian as part of their new Technical Support Unit. *"I was very surprised,"* says Oliyahn recalling the day Kompanion offered her a veterinarian's help, *"because a financial institution offering such a service was something completely new to me."*

# MicroVest —

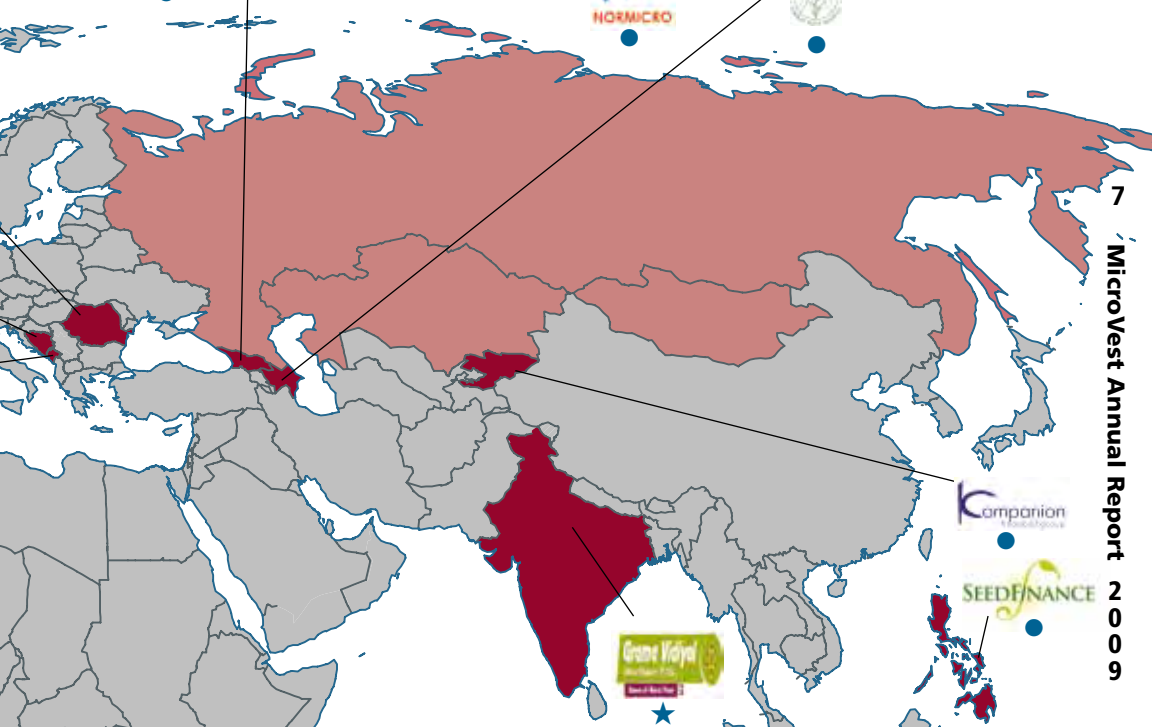
MicroVest Annual Report 2009



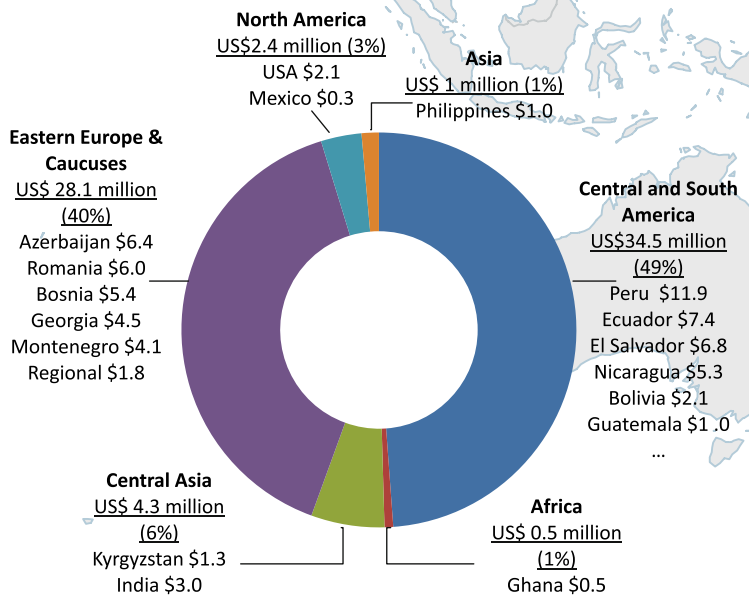
**Key:**

- Current Investments
- Previous Investments
- MV I, LP Investments
- MV II, LP Investments
- Other investments or assets under advisory including MicroAccess Trust, MicroPlace and syndicated transactions

# Investments by Country



**Not shown:** MV I, LP indirect investments via Balkan Fund and Opportunity Eastern Europe regional facilities in Croatia, Moldova, Albania, Russia and Macedonia.



## MFI Profile: Grama Vidiyal



**Gross Portfolio (US\$):** 33,700,000

**Average Loan Size (US\$):** 160

**Number of Clients:** 407,500

**Country:** India

**Population:** 1.23 billion

**Principal Exports:** Engineering goods, petroleum products, textiles/clothing, gems/jewelry, agricultural products

**GDP per Capita (US\$):** 1,067

**MV Exposure (US\$):** 3 million

**Grama Vidiyal is the 10th largest MFI in India and the market leader** in Tamil Nadu, a southern state with a population of over 65 million. Grama Vidiyal demonstrates how strong leadership, commitment to the traditional values of micro-finance — emphasis on client touch and repayment discipline — and focus on the double bottom line of social and commercial returns combine to provide sound financial services to hundreds of thousands of poor people.

With more than 20 years of operational experience and deep knowledge of the market, Grama Vidiyal grew more than 5 times over the past four years, increasing its outreach to 27 districts and one new Union Territory (Pondicherry). Its loan portfolio grew to US\$ 33 million and its client base to 400,000 active borrowers. A strong focus on sustainable growth and solid operations is reflected in excellent portfolio quality and client loyalty.

Key to Grama Vidiyal's recent growth is its receipt of a "Non-Bank Financial License" in February 2007 and its subsequent transformation in January 2008 into a regulated Non-Bank Financial Institution. This new legal entity, Grama Vidiyal Micro Finance Ltd, is no longer limited to grant funding, it now finances growth through debt and equity capital.

MicroVest invested in Grama Vidiyal in March 2009, in its second round of equity financing along with existing shareholders Unitus Equity Fund and Vinod Khosla, a well known venture capitalist and social investor. Grama Vidiyal is MicroVest's first investment in India and the first investment out of MV II-A, LP, our newly launched equity fund. MV II's investment of US\$ 3 million common equity represents an approximately 15% stake. This investment will provide Grama Vidiyal with necessary capital to continue its healthy growth trajectory, maintain its market leadership in Tamil Nadu and expand in the neighboring states of Kerala and Karnataka. MicroVest aims to continue a strong financial partnership with Grama Vidiyal, supporting its growing operations with debt and equity capital and providing institutional support at the Board level.



## Client Stories



Mehru Bhanu operates a sari business in Thiran Nagar in Trichy. Prior to joining Grama Vidiyal, Bhanu owned a sari shop in Karumandapam, a nearby village. Initially, she received financing from a local vendor to start her business. In 1999, a flood destroyed Bhanu's shop and Rs. 50,000 worth of materials. She lost her livelihood and could not reopen her business; Bhanu was unable to meet her daily needs including food.

At that time Bhanu learned about Grama Vidiyal's operations in her area and enrolled as member. With her first loan of Rs. 3,000, Bhanu again started a small sari selling business. Over the subsequent years with consecutive loans from Grama Vidiyal, Bhanu has developed her business and slowly regained confidence. Her steady performance and growth has been noticed by Grama Vidiyal: recently she took out a loan of Rs. 40,000 to expand her business to the next stage.

*"I have been a member of Grama Vidiyal for more than 8 years. Today I am able to sell saris in large numbers. My family is happy about the progress that I have made in my life. My son is working for a private concern. Our lifestyle has improved greatly and we have gained the respect and love of everyone around us. All this credit definitely goes to Grama Vidiyal"* says a delighted Bhanu.

Chandhini and her husband run a cycle repair shop. With a loan from Grama Vidiyal, they were able to purchase the materials required to expand their business. Services they offer included oiling chains, repairing punctures and assembling new bicycles.

Prior to joining Grama Vidiyal, Chandhini was a teacher. She resigned in order to better care for her children and help develop her husband's business. During that time she learned about Grama Vidiyal's loans for women. Chandhini has taken out three loans from Grama Vidiyal, with the third loan of Rs. 12,000. Now Chandhini is able to earn Rs 3,000 per month to support her family.



*"With the loan from Grama Vidiyal, I have expanded the line of mending and am running the business very well. Now I own a house of about 1,000 square feet. We live on the first floor and rent out the ground floor for Rs 1,500 a month. My ambition and dream is to make my son an engineer and my daughter a chartered accountant,"* says Chandhini.

## MFI Profile: Financiera Edyficar S.A.



Gross Loan Portfolio (US\$): 185,290,446

Average Loan Size (US\$): 1,023

Number of Clients: 181,175

Country: Peru

Population: 29.1 million

Principal Exports: Petroleum products, minerals, agriculture products, textiles

GDP Per Capita (US\$): 4,381

MV Exposure (US\$): \$3.5 million

**On March 18, 2008, Financiera Edyficar achieved a milestone:** approval from Peruvian regulators to complete their transformation into a regulated financial entity. This transformation represents the maturation of a NGO that was MV I, LP's first equity investment.

As a regulated financial entity, Edyficar now may accept deposits from corporate and retail clients and expand its financial service offerings. In June 2009, Edyficar placed US\$ 6.4 million in local currency CDs at a rate of 5.96%, just above what the government of Peru is able to command. Access to such low cost funding allows Edyficar to serve their clients better.

Only 22% of the population in Peru uses formal financial services — about half the average for Latin America. This ratio is even lower among the poorest segments of the population. Understanding this fact is key to appreciating Edyficar's focus on reaching clients new to the formal banking system, a process they call "bancarización." In 2007, for instance, Edyficar reached 14% of Peru's new banking clients, the second highest number for a Peruvian bank and an impressive feat considering their relatively small size. By introducing clients to the formal banking sector, Edyficar helps them build a credit history and gain access to greater opportunities, both professionally and personally.

Beginning in 2004, MV I, LP has provided equity and debt in various rounds of financing, providing capital to fuel the organization's growth and success as a financial organization and in its mission to provide poor Peruvians the opportunity to transform their economic status.

### Client Story

A native of the community of Umasbamba, in the town of Chinchero – Cuzco, Marcelina (age 32) is a weaver, a skill she learned as a young girl. In addition to textile work, Marcelina works in the fields with her husband, cultivating carrots, potatoes and peas that serve as the basis of the family's daily diet.

Seven years ago, Marcelina started producing crafts for the Cuzco markets. Members of her community dye the wool she uses in weaving patterns that preserve ancient Incan designs. EDYFICAR was the first financial institution Marcelina ever worked with. With her next loan, she plans to open a small shop to sell her weaving directly to national and international tourists that come to Cuzco. She is happy to be able to contribute her time and efforts to improving the education and welfare of her two teenage children.

## Maria Carmen Mena Flores, Loan Officer

Asociacion Benefica Prisma, Piura, Peru

Interviewed by Gabriel Mizrachi, MicroVest Investment Analyst for Latin America

When Maria Carmen Mena Flores is asked if it is all worth it—the dog chases, the struggles to find clients who live on nameless streets, the competition that lends to her clients without examining their capacity to repay loans, the hard work of building groups willing to guarantee each other's loans and the continuous work to build financial awareness—she answers: *"Of course."*

Maria Carmen is passionate about her role as a loan officer in Piura, a city of fewer than 400,000 inhabitants located in the northern part of Peru near the border with Ecuador. Maria Carmen, who received a degree in secretarial studies from a local vocational school and is currently enrolled in a local business administration degree program, explains, *"None of my formal studies could ever prepare me for business as much as my experience as a loan officer."*

Good loan officers such as Maria often become knowledge centers of what works in their communities and catalysts for change. *"I could see that some communities in which I worked did not have adequate transportation, so I asked bus drivers I knew to include those communities in their minibus routes."*

Loan officers usually service 300 clients working in more than a dozen different industries. Their exposure to such variety allows them to recognize opportunities or market saturation. *"What really frustrates me is that you see one client opening up an internet booth in their homes and soon the entire neighborhood replicates the idea. Soon after, the community suffers as too many internet booths are available. We need to recognize when markets get saturated and try to help our clients innovate."* This on-the-ground knowledge often helps Prisma and other MFIs respond quickly to risk and identify potentially bad loans.

Maria Carmen and the thousands of loan officers like her who work in the microfinance industry will be drivers of change in the years to come. They are well positioned to increase the competitiveness of their countries by combining ideas from different industries, connecting parts of the productive channels they serve, noticing products or services lacking in the market and otherwise promoting productive change.



Doug Young and Gabriel Mizrachi of MicroVest join Maria Carmen Mena Flores, Prisma Loan Officer (far right) on a visit to a client's business

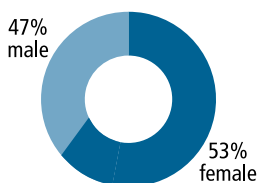
## Social Metrics

Since the beginning of its operations in January 2004, MicroVest has provided over US\$ 137 million in debt and equity financing through our family of funds<sup>1</sup>. Over the past five years, the MicroVest portfolios have invested directly in 46 MFIs across 20 countries and indirectly in over a dozen MFIs via 3 regional facilities. As our funds continue to grow, so will our outreach to microfinance clients.

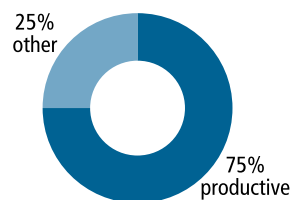
MicroVest funding at June 30, 2009 of US\$ 70 million reaches an estimated 53,000 microfinance borrowers. Our portfolios include 39 MFIs located in 22 countries. Over 1.4 million active borrowers<sup>2</sup> access financial services through MicroVest funded MFIs.

While there are many social benefits to microfinance, it is often difficult to quantify social impact. Below, we highlight factors we have identified as closely tied to social impact.

**Average Microfinance Loan Size** varies greatly by country depending on the specific economic environment. Across all MFIs in the MicroVest portfolios, the **average loan size is US\$ 1,325** with a range from US\$ 90 to US\$ 5,000. As an indicator of relative size and target market, microfinance loans placed by MFIs represent **68% of country GNP** on average.



MFI CLIENTS BY GENDER



MFI LOANS BY USE

## Summary Statistics

*funding at June 30, 2009*

**22 countries** represented through direct and indirect investments

**39 MFIs funded** (direct and regional facilities)

**US\$ 1.9 billion** GLP of MFIs in MicroVest portfolio

**1.4 million** Total Active MFI Clients

**US\$ 1,325** Average Loan Size

**US\$ 70** million Total MicroVest Financing

**53,000** clients MicroVest Outreach

**Women** comprise 53% of the clients of MFIs funded by MicroVest. Microfinance can play a critical role in empowering women through access to capital and building independence. As a result there are positive spillover effects within households and communities.

**Productive Loans** are utilized by borrowers to grow businesses in commerce, services, agriculture and manufacturing. 75% of the loans issued by MFIs in our portfolios are used for productive purposes; 25% are used for consumer, housing, education and other purposes. Many MFIs in our portfolio also offer other financial products such as savings facilities and insurance.

<sup>1</sup> Includes MicroVest I, LP, MicroVest II-A, LP, MicroAccess Trust, syndicated partnerships and advised assets with MicroPlace and others.

<sup>2</sup> Based on reporting provided by MFIs; excludes institutions or regional vehicles that do not report numbers of Active Borrowers.



## MicroVest Team

Back Row: Gabriel Mizrachi, Andreas Eichin, Douglas Young, Radoil Mitov  
 Middle Row: Susan Blake, Tiffany Yep, Santiago Arias, Michael Edberg, Candace Smith, Varun Parmar  
 Front Row: Monica Slovik, Iris Korovesi, Chris Laurent, Gil Crawford, Sharini Kulasinghe, Cecelia Beirne

## MicroVest Senior Management

Gil Crawford  
*Chief Executive Officer*

Candace Smith  
*Chief Financial Officer*

Michael Edberg, CFA  
*Director of Investments*

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*The Torrey Funds*

Thomas Bishop  
*D.A. Davidson & Co*

Deborah Burand  
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