

CALLING ALL INVESTORS!

Microfinance investment opportunities are not limited to institutional investors or development agencies. Social investment funds and notes now enable “lay-investors,” like your mother or your brother, to put their money into microfinance. Shari Berenbach, President and CEO of the Calvert Foundation, points to the possibility of microfinance mutual funds in the future, and explains the existing microfinance investment opportunities for individual investors

The 2007 Report on Socially Responsible Investing Trends in the United States, published bi-annually by the Social Investment Forum, announced that US\$2.71 trillion, or nearly one in nine dollars invested in the U.S., applies at least one social investing strategy. Community Investment, the capital that social investors direct to communities underserved by traditional financial services (including microfinance), is the fastest growing category of social investing, increasing at a rate of nearly 32 percent from 2005 to 2007. While the smallest segment of this market, microfinance still represents a significant US\$25.8bn. Is the typical U.S. investor ready for microfinance?

Is Microfinance Ready for Socially Responsible Investors?

Perhaps the more germane question is whether or not microfinance is ready for the socially responsible investor. Until the current credit crunch, data from a recent study by the Consultative Group to Assist the Poor (CGAP) indicates that private institutional investors have been meeting an increasing share of the capital requirements of MFIs with private microfinance investment vehicles channeling US\$3.5bn into MFIs in 2007 alone.¹ It is too early to tell when the credit freeze will loosen up and liquidity will return to the mar-

kets, but it is likely that when this happens, microfinance will again be an attractive option for institutional investors seeking social and financial returns.

An Eye on Mutual Funds

But what about microfinance investing for the average individual investor? Given the public visibility brought to microfinance through Professor Yunus and Grameen Bank's 2006 Nobel Peace Prize, surely social investors would be ready to invest in a microfinance mutual fund if one were available. In fact, mutual funds are the primary vehicle for individual investors to invest their savings and retirement accounts, representing US\$12 trillion in U.S. assets by the end of 2007, according to the Investment Company Institute.² A more careful look at the Securities Act of 1940, which establishes the guidelines for mutual funds, illuminates some of the challenges inherent in the mutual fund construct for microfinance enthusiasts.

Specifically, mutual funds must be comprised primarily of publicly traded stocks or bonds. This emphasis on publicly traded instruments is keyed to daily valuation and liquidity requirements mandated through U.S. laws and regulations. Yet as of 2008, the number of actively traded stocks or bonds issued by microfinance institutions around the globe is minimal. Given such

a thinly traded environment, the current prospects for a dedicated microfinance mutual fund is quite slim. These markets, however, are growing rapidly, and the number of MFIs selling stocks and bonds in their local markets is on the rise. Therefore, it is only a matter of time before such a fund could be constructed – the question is, “How much time?” Is this opportunity one, three, five or seven years away?

Channels for Individual Investors

In any case, there are already several channels for the general public to invest in microfinance. Dating back to 1990, the Calvert Social Investment Fund, the Calvert World Values Fund, and other Calvert mutual funds began investing anywhere from 1 to 3 percent of mutual fund assets into high social impact investments – including international microfinance. This went so well that in 1995, Calvert teamed up with major national foundations in the U.S. to launch the Calvert Social Investment Foundation (Calvert Foundation) as a separate nonprofit dedicated to popularizing community investment. Calvert Foundation issued a security called the Community Investment Note, which allows the investor to target the full value of their investment to MFIs or other U.S. community development efforts. To date, Calvert Foundation has issued more than US\$140m in Com-

munity Investment Notes, with roughly a third sourced from Calvert mutual funds. The bulk of capital raised is now coming directly from more than 3,000 retail investors. The Note, which has a US\$1,000 minimum, is sold by broker-dealers and other financial professionals, and pays a maximum 3 percent return guaranteed by Calvert Foundation.

Calvert Foundation's effort to popularize individual investment in microfinance builds upon a model initially launched by Oikocredit Ecumenical Development Cooperative Society U.A., of the Netherlands, in 1975. Established by the World Council of Churches, Oikocredit is legally incorporated as a cooperative and sells shares to investors that pay a 2 percent dividend. In the 1990s Oikocredit began selling Social Development Notes to U.S. investors. Today, across the globe, Oikocredit has raised more than US\$300m from investors, which is lent to MFIs, cooperatives and other social enterprises.

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Anyone Can Invest in the Poor

More recently, two new online facilities have emerged that make it even easier for individual investors to channel capital to microfinance institutions. In 2007, eBay launched MicroPlace, a fully registered broker-dealer that makes it possible for the everyday person to invest in the world's working poor. Through this collaboration, Calvert Foundation sells the Community Investment Note online, at a minimum investment of only US\$100



Investment in microfinance benefits people like Fred and Margaret Nsubuga who expanded their farm in Uganda thanks to a loan made through a Calvert Foundation partner, UML.

and the opportunity for investors to target their Note to specific MFIs. Oikocredit's Global Community Notes are also available on MicroPlace.

In contrast to MicroPlace, Kiva offers a peer-to-peer exchange between individual supporters and micro-entrepreneurs. Since Kiva is not registered to sell securities, supporters are not guaranteed interest on their capital – yet it has still attracted public media attention and the participation of tens of thousands of supporters eager to channel capital to microfinance since its launch in 2005.

Only Time will Tell

Private capital is an important source of financing for microfinance and is likely to eclipse the initial catalytic role played by development agencies. Institutional investors can and will play an important role in building out that market, investing in

transactions of significant scale. Presently, however, there are now several avenues for individual investors to channel their capital in safe, reliable investment vehicles that generate modest returns. Such returns are called for when considering the costs associated with aggregating and managing retail investments and vetting and supervising global MFI portfolios. The good news is that there are a growing number of more mature MFIs that offer investors consistent financial performance. No doubt, over time, as more MFIs become listed in the capital markets of their own countries, emerging microfinance market funds will have their day! ■

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Shari Berenbach is the President and CEO of Calvert Foundation, an award-winning nonprofit organization and industry leader in community investment that provides investors with innovative financial products and services that channel flexible, affordable capital to underserved communities. For more information on the Calvert Foundation, please visit www.calvertfoundation.org.

1. Presentation by Elizabeth Littlefield, CEO of CGAP, "Landscape of Microfinance Investments in 2008," presented at ACCION's Cracking the Capital Markets Conference New York, March 2008.
 2. The national association of U.S. investment companies, including mutual funds, closed-end funds, exchange-traded funds (ETFs), and unit investment trusts (UITs).