

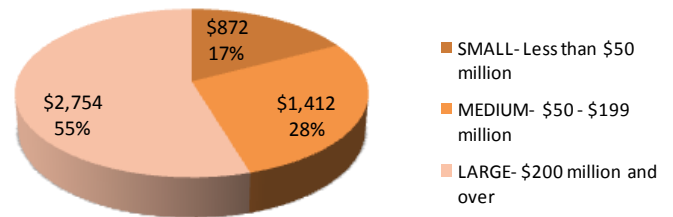
STATE OF MICROFINANCE INVESTMENT

THE 2009 MIV SURVEY
August 2009

The rapid growth of microfinance investment seen in years past took a significant hit in 2008 as the financial crisis started ramping up and investors became cautious, and more prudent, questioning the resilience of microfinance against the global financial market.

MicroRate's *State of Microfinance Investment: The 2009 MIV Survey*, analyzed information from 68 of the 74 microfinance investment vehicles (MIVs¹) identified. The impact of the financial crisis was reflected in a significantly lower growth rate. In 2008, MIV assets grew 31%, from \$3.8 billion to \$5.04 billion, compared with an average growth of 80% from 2005-2007. Total outstanding microfinance assets grew 29%, from \$3.04 to \$3.91 billion, compared to an average growth of 108% from 2005-2007. The number of new MIVs in 2008 remained constant as did the ratio of microfinance assets to total MIV assets which held at 78%.

Total MIV Asset by Size as of 2008 (in US\$ millions)



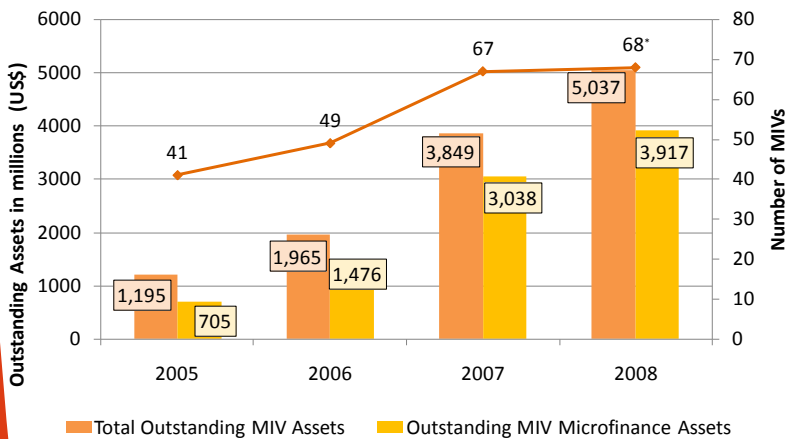
MIV Composition Trends

At the end of 2008, large MIVs (total assets of \$200 million or more) held 55% of MIV assets, followed by medium MIVs (total assets of \$50-\$199 million) at 28% and small MIVs (total assets of less than \$50 million) at 17%.

The average growth rate for a large MIV was 8% however aggregate MIV assets held by large MIVs grew 89% because of 3 MIVs that moved into this size category for a total of 7 MIVs. Small MIVs had the highest individual average growth rate of 30%. Medium-sized MIVs decreased in aggregate assets and remained at the same average size.

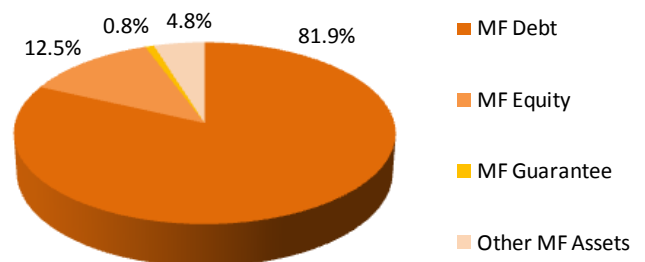
MIV's microfinance assets continue to be structured primarily as debt instruments representing 82% of the portfolio. Debt remained a constant proportion of microfinance assets whereas the proportion of equity investments decreased from 16% in 2007 to 13% in 2008. Guarantees remain low at 1% and other microfinance assets increased to 5%.

MIV Assets, 2005-2008



¹ MicroRate defines an MIV as an independent investment vehicle, which satisfies the following three criteria: 1) must be an independent legal entity for raising and investing funds (i.e. independent of the MFIs being funded). MFI holding companies such as ProCredit Holdings are not included; 2) presence of and/or open to multiple investors; and 3) focus on investing in microfinance.

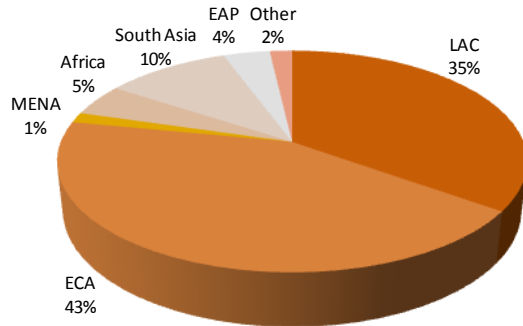
Microfinance Asset Composition



Out of the 68 participants, 12 MIVs disclosed Fund of Fund investments of \$152 million.

As of December 31, 2008 MIVs held 2,617 investments resulting in an average investment size of \$1.5 million.

Regional Distribution of Microfinance Assets



Geographic concentration continues to be dominated by Latin America & the Caribbean (LAC) and Eastern Europe and Central Asia (ECA). Together they represent close to 80% of all MIV investment. ECA surpassed LAC for the first time with a 43% market share compared to LAC's 35%. This is partly due to MIVs' internal investment limits being reached in several Latin American countries.

The fastest growing region was the Middle East and North Africa (MENA) with a 552% increase in investment. Two MIVs in particular, OikoCredit and Triodos MF Funds increased their focus in this region. Still, MENA only has 1% of global microfinance investment. During 2008, Africa's market share declined from 7% to 5%.

MIVs' Cautious Behavior

Both MIV and microfinance institution (MFI) managers are being cautious in growing their portfolio. MIVs are managing risks by reducing the size of investments, shortening the tenor of loans and strengthening their monitoring capacity. Many have postponed investment opportunities until the effects of the financial crisis can be better calibrated in local markets.

In response to tightening liquidity at the end of the 2008, MIVs took additional measures to prepare for reactions from investors and microfinance institutions. MIVs had a higher liquidity reserve in

their microfinance assets than in previous years. MIVs are intentionally maintaining 5% of "other MF Assets," approximately \$200 million, as a protection against any early redemption in addition to pending disbursements. MIVs do expect a further deterioration in their portfolio quality and are making adequate loan loss provisions.

MIVs are increasing the level of scrutiny in evaluating their portfolios, giving particular attention to foreign currency exchange risk.

Some MIVs are proactively rescheduling loans coming due in 2009 and are preparing to provide renewal facilities to ensure stable funding to MFIs. Renewal facilities, being offered by MIVs are at increased interest rates and shorter tenures. Average loan terms reduced to 18 months to 3 years. Most MIVs indicated that the average size of their loans would remain unchanged.

Most MIVs agree that this slowdown in growth was not due to lack of viable projects but tightening credit. MIVs also view the slowing of growth as a natural cycle in any rising industry and they are using this opportunity to consolidate and improve portfolio quality and internal systems. They viewed previous years' growth rates as unsustainable and believe this deceleration in growth is beneficial for maturing the industry in the long run.

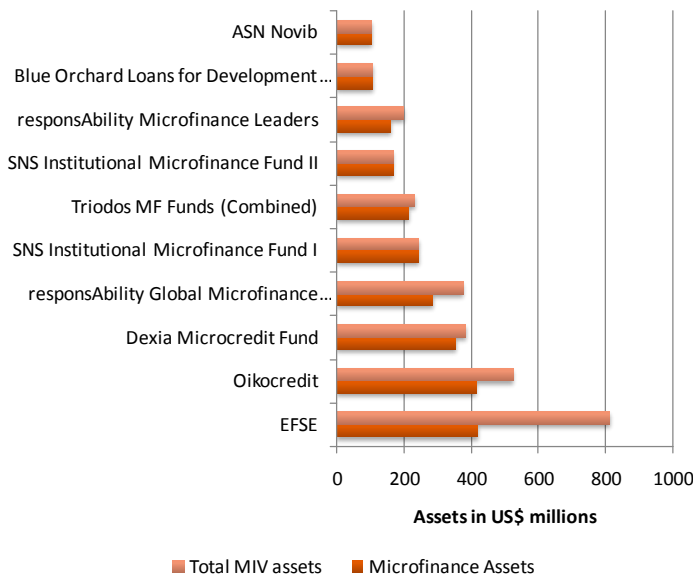
Despite the crisis and its aftermath, MicroRate finds that the upcoming challenge for microfinance investment will not be centered on the credit crunch. Rather, results from the first half of 2009 show that investor interest in MIVs has continued to be strong, whereas the demand for funding from MFIs continues to be slow. Instead of facing a liquidity crunch, MIVs are complaining about excess liquidity. This situation is made worse by the \$500 million "Microfinance Enhancement Facility." While its sponsors, the IFC and KfW, intended it to be a source of liquidity during a time when financial markets were seizing up, it only began to be disbursed in May 2009, when MIVs were reporting excess liquidity.

Investor Demand

Although growth slowed dramatically in 2008, investor appetite remained healthy. During the year, 8 new MIVs were identified. This is comparable with the prior year's growth as 11 MIVs were created in 2007. A global investment program of nearly \$300 million was launched by PGGM, a dutch pension fund, with Blue Orchard as the manager. SNS Institutional Microfinance Fund II successfully closed its US\$ 166 million microfinance fund. Two private equity funds were launched in 2008– Blue Orchard Private Equity Fund and Catalyst Microfinance Investors.

The top 10 MIVs all had microfinance portfolios of nearly \$100 million or more. The four leading MIV managers remain unchanged since 2006.

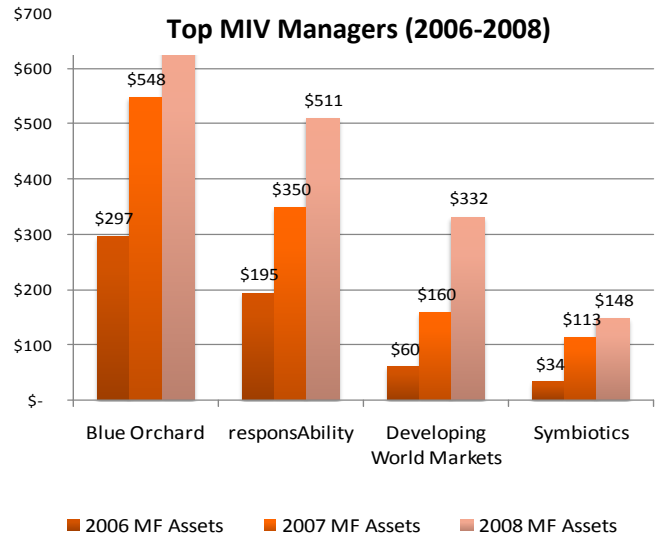
Top 10 MIVs



Future Growth and Investment Outlook

While microfinance investment slowed in the volatile financial markets, microfinance as an asset class remains resilient. Investors, MIVs and MFIs on the whole are prudently taking a second look at their portfolios, adjusting their investment or lending methodology appropriately in light of the global financial crisis.

Top MIV Managers (2006-2008)



Despite the crisis, MIVs plan on increasing investment by at least \$0.7 to 1 billion during 2009. This suggests that the sector will continue to grow at a lower – but still rapid - pace until the global markets recover.

Conclusion

Investment in microfinance was previously characterized by an exuberance fed from its success and social mission of helping poor entrepreneurs. Growth of MIVs had far exceeded MFI growth and concerns were beginning to arise regarding how long this could continue without jeopardizing asset quality. From this point of view, the slowdown in 2008 may have been a blessing in disguise.

Microfinance's ability to weather the financial crisis along with an increase in transparency which is now demanded by investors will only increase its credibility as a viable asset class.

This year's Survey had several additions including information on investors in MIVs, MIV classifications,² and number of investments by each MIV. To view the 2009 Microrate MIV Survey presentation, please visit, www.MicroRate.com.

² MicroRate's MIV Classifications: 1) Registered mutual funds, 2) Private investment funds, 3) Structured finance vehicles, and 4) Not-for-profit investment funds.

APPENDIX I: MIVs as of December 31, 2008

Participating MIVs	
1	Access Microfinance AG
2	ACCION Gateway Fund LLC
3	ACCION International Global Bridge Fund
4	ACCION International Latin American Bridge Fund
5	ACCION Investments in Microfinance SPC
6	Advans SA Sicar (old name La Fayette Investissement)
7	Africap Microfinance Investment Company Ltd.
8	ALTERFIN
9	Antares Equity Participation Fund
10	ASN Novib Fund
11	Balkan Financial Sector Equity Fund
12	BBVA Codespa Microfinance Fund
13	Bellwether Microfinance Fund Private Limited
14	Blue Orchard Loans for Development 2006-1
15	Blue Orchard Loans for Development SA (BOLD II)
16	Blue Orchard Microfinance Securities 1
17	Blue Orchard Private Equity Fund (BOPEF)
18	Calvert Foundation
19	Catalyst Microfinance Investors
20	Consorzio Etimos SC
21	CreSud SPA
22	Developing World Markets DWM Microfinance Fund I
23	Developing World Markets - Microfinance Securities XXEB
24	Development International Desjardins FONIDI
25	Dexia Microcredit Fund
26	Dignity Fund
27	Dual Return Fund (SICAV)
28	Dutch Microfinance Fund
29	European Fund for Southeast Europe
30	Global Commercial Microfinance Consortium
31	Global Partnerships Microfinance Fund 2005
32	Global Partnerships Microfinance Fund 2006
33	Global Partnerships Microfinance Fund 2008 (MFF2008)
34	Gray Ghost Microfinance Fund LLC
35	Hivos Triodos Fund Foundation
36	Impulse Microfinance Investment Fund NV
37	Incofin CVSO
38	Investisseur et Partenaire pour le Developpment
39	Kolbri Kapital ASA
40	LocFund
41	LokCapital
42	Luxmint
43	Menmonite Economic Development Associates (MEDA)
44	MicroAccess Trust 2007
45	MicroCredit Enterprises

APPENDIX I cont'd

Participating MIVs	
46	Microfinance Loan Obligation Compartment LC
47	Microfinance Loan Obligations SA Compartment Opportunity Eastern Europe 2005-1
48	Microfinance-Invest. Nr 1-First German Fund for Microfinance
49	MicroVentures
50	Microvest I, LP
51	Minlam Microfinance Offshore Master Fund, LP
52	MLC Frontiers LLC
53	Oikocredit Ecumenical Development Co-operative Society U.A.
54	PGGM
55	responsAbility Global Microfinance Fund
56	responsAbility SICAV (Lux) Microfinanz Fonds
57	responsibility SICAV (Lux) Microfinance Leaders
58	Rural Impulse Fund S.A.
59	Saint Honore Microfinance
60	ShoreCap International
61	SIDI Solidarite Internationale pour de Developpement et l'Investissement
62	SNS Institutional Microfinance Fund I
63	SNS Institutional Microfinance Fund II (SIMF II)
64	Societe Cooperative Fonds International de Garantie (FIG)
65	Triodos -Doen Foundation
66	Triodos Fair Share Fund
67	Unitus Equity Fund LP
68	Working capital for Community Needs, INC
Non-Participating MIVs	
1	AXA Investment Managers/ Axa World Funds - Responsible Development Bonds
2	Aavishkaar Goodwell India Microfinance Development Company
3	Global Microfinance Facility
4	Global Microfinance Facility (CDO)
5	Latin America Challenge Investment Fund
6	Solidus Investment fund