

FINANCIAL TIMES

Microfinance group in CDO scheme

By Sarah O'Connor and Sophia Grene

Published: November 11 2009 23:29 | Last updated: November 11 2009 23:29

[Deutsche Bank](#) and a major microfinance company are trying to rehabilitate the much-maligned collateralised debt obligation as a means of funnelling money from global capital markets into the pockets of the world's poorest people.

Finca International, a US-based microfinance organisation, is set to announce on Thursday that it has sewn up a \$21.2m CDO with the help of Deutsche Bank. Its affiliates in places such as the Democratic Republic of Congo and Azerbaijan plan to leverage that money up another five times before lending it out in \$500 chunks to tiny start-ups and would-be entrepreneurs.

Its move comes as microfinance institutions search for new ways to access international capital markets amid growing demand and investor interest.

CDOs were at the heart of the US subprime mortgage meltdown, spreading risk far and wide via their supposedly safe senior tranches of debt. But Asad Mahmood, managing director of Global Social Investment Funds at Deutsche Bank, said they remained useful structures.

"It's not the CDO that is to blame, it is an instrument. We're using the CDO to do well, to do good."

By offering some tranches of debt that are protected from the first swathe of losses, Deutsche Bank – which structured, placed and managed the deal – said it was able to tap a new set of conservative investors, such as pension funds, that have fiduciary duties to their clients.

Those investors, which include the insurer [MetLife](#), the bank [State Street](#) and [Hewlett-Packard](#), will receive a 7.5 per cent fixed rate. Investors in the riskiest slices will get a rate of about 16 per cent.

Initially, it was a tough sell. "The atmosphere was pretty bad," Mr Mahmood said. "You've been through the worst economic crisis where things are failing left and right, and you go back to investors as say 'I've got a deal for you: you can invest in Congo!'"

But the fund ended up being oversubscribed as investors looking to fulfil their social responsibilities were brought on board.

“We found a wonderful reception for this product among the subscribers who loved the social aspect, the idea they would be sitting in the comfort of their home in Hamburg or Dallas, Texas or Paris, and their money . . . would be going to work to help solve the problem of some of the poorest people on earth,” said Rupert Scofield, Finca president and chief executive.

It is an interesting time for microfinance. The rapid growth of some institutions is driving them to engage with capital markets in ways some critics have called a betrayal of the original philanthropic nature of the enterprise. The founders of Compartamos, a Mexican microfinance bank that listed on the stock exchange in 2007, attracted such a hail of criticism they issued an open letter to justify their rapid growth and commercialisation.

For Finca, raising equity was not an option. Its affiliates were knocking up against their debt-to-equity ratio covenants, but could not raise equity amid the global financial meltdown.

http://www.ft.com/cms/s/0/c4eb7b5c-ceff-11de-8a4b-00144feabdc0.html?nclick_check=1