



INTERNATIONAL FINANCING REVIEW

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Deutsche raises microfinance

By Mark Baker

FINCA, an international microfinance organisation, announced last week that it had raised US\$21.2m in commitments to a new fund, structured, placed and managed by Deutsche Bank. The transaction, which was twice subscribed and attracted 17 institutional investors in addition to Deutsche and FINCA, was a landmark for the sector, being the first microfinance sub debt deal since 2007 and the first ever for a single microfinance network.

The institutional investors included Met Life, Hewlett-Packard, State Street and The Co-Operative Bank. Alongside them was a junior tranche of high net worth individuals.

"Microfinance has its origins in charitable donations, but in setting up our practice we wanted to help propel the industry forward and help it become more sustainable in giving it access to capital markets," said Gary Hattem, managing director of Deutsche's community development finance group.

Hattem acknowledged that the microfinance industry has come in for criticism as it has attracted commercial players that have been less prudent, running the risk of over-indebtedness among the poor. But he said that Deutsche saw very low default rates in the sector – less than 5% historically, and below 3% in some managed portfolios.

In addition, FINCA has been operating in this field for about 25 years and has a strong record.

"We are in this business to achieve a social good and are very careful about who we choose to lend to," said Hattem.

The funds raised in the latest deal will be lent to seven local FINCA affiliates in CIS countries as well as Mexico and the Democratic Republic of Congo, with these bodies then leveraging the funds with senior debt raised from the local bank markets. The expectation is that about US\$100m will be on-lent.