



MICROFIX

The Micro Finance Local Currency Connection for Micro Finance Organizations

The local microfinance sector in emerging economies faces many challenges in conducting its business. It is widely recognized that the main challenge concerns the financial products available to fund the microfinance institutions (“MFIs”). The MFIs provide micro-loans to end-borrowers preferably in local currencies or, where they cannot, in USD, while the majority of their funding is denominated in hard currency. Whilst receiving local currency loan receivables, they are faced with hard currency liabilities that present a financial currency mismatch to the MFIs. This mismatch increases the business risk to the MFIs, as they are faced with a financial volatility they do not control.

The solution to this problem in the Micro Finance Sector is now being provided by the micro finance local currency fund. This is a unique local currency risk mitigation fund initiated jointly by Corporate Connect and Planet Finance. The fund will be implemented by Corporate Connect together with PlaNIS the Investment Services arm of PlaNet Finance and is expected to be operational early 2009.

MICROFIX is backed by technical assistance from BNP Paribas, FMO and TCX (the local currency capital markets development fund).

It is designed to assume segregated currency exposures from transactions originated by its participants, which enables them to directly transact in local currencies in emerging and sub-emerging markets.

The Fund will have a catalytic developmental impact:

- It will give small lenders access to local currency, complementing current products available
- It will reduce risk for local MFIs by allowing existing international MF Organizations to offer local currency financings, and
- It will deepen local capital markets

The Corporate Connect and PlaNIS’ ultimate goal is to develop the markets in such way that it becomes market practice to consider local currency options alongside traditional hard currency financing by Micro Finance investors as well as their recipients

Investors

Corporate Connect and PlaNIS currently are in discussions with emerging market investors, commercial banks, donors and international finance institutions. In addition the initiators aim to attract Microfinance Institutions with like-minded intentions to provide local currency solutions to their clients. The Fund aims to attract investors focusing on the Micro Finance sector, that have an established long-term hard currency involvement in emerging and sub-emerging markets and who are interested to develop local currency products for improved risk, cost efficiency and development purposes. The Fund offers these sponsors clear benefits by pooling risks and effort, scale efficiencies in hedging and management compared to going it alone.

Fund size

Corporate Connect and PlaNIS target capitalization with \$ 70 mln, providing a risk mitigation capacity of \$ 350 mln.



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The management

Once established PlaNIS will be the Manager of the Fund. Corporate Connect will act as service provider to the Fund Manager during the term of the Fund.

Contacts

Corporate Connect

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