

Tuesday, 01 June 2010, RIFII Closing Ceremony, EIB

VP P. Sakellaris Welcome and Keynote Speech

“RURAL IMPULSE FUND II”

Good morning ladies and Gentlemen,

It is my pleasure to welcome you to the European Investment Bank on the occasion of the **Closing Ceremony of Rural Impulse Fund II**. This is a very special event for my institution which was and remains a strong supporter of the Rural Impulse Fund concept based on a genuine partnership between public, private and social investors.

I am very glad to see that a number of representatives of developmental financial institutions, notably, **IFC, KfW, BIO and FMO**, have been able to join us for the Closing Ceremony. Less than a month ago, together with a number of other DFIs, we successfully launched a regional microfinance and SME fund for sub-Saharan Africa (“REGMIFA”). The launch of two groundbreaking microfinance initiatives in such a short span of time underlines the commitment of development institutions to support sustainable microfinance activities at the time when such support, we think, is needed most.

Today, I am particularly pleased to welcome **representatives of social and private investors here today**, some of whom have been early supporters of the first Rural Impulse Fund.

I am glad to see that **Bank für Kirche und Caritas** is continuing its involvement with Rural Impulse Fund. It is reassuring to know that socially responsible investments are maintained and promoted by commercial banks operating in a challenging market environment.

I would also like to thank other RIF II investors including **BNP Paribas Fortis, Vinis - Die Erste Sparinvest, Microfinanza - Uno, the Norwegian Microfinance Initiative, ACV CSC Metea, VDK spaarbank and Volksvermogen**

I extend a particularly welcome to the Incofin team, Manager of Rural Impulse Fund. **Incofin Investment Management team**, led by Loïc De Cannière, has made a huge leap from a relatively small team of 5 professional staff some three years ago to around 20 professionals today. This remarkable transformation of Incofin from a niche investor into one of the major dedicated microfinance investment management firms illustrates a number of other important achievements of Rural Impulse Fund I, the predecessor of Rural Impulse Fund II we are signing today.

Rural Impulse Fund I – achievements to-date

Rural Impulse Fund I, the pioneer fund in rural microfinance, was the first commercial microfinance fund to identify the emergence of financially sustainable microfinance institutions in rural areas. Traditionally, microfinance institutions focused on economically active and densely populated urban areas. Expansion to rural areas was constrained by higher costs associated with the provision of financial services, especially microcredit, outside of urban centers. Lower income levels of rural clients and seasonal income patterns acted as another barrier for expansion into rural areas.

In recent years, a number of microfinance institutions started opening branches in **rural areas**. This phenomenon was observed across the world, including sub-Saharan Africa. This expansion was driven mostly by technological innovations, such as very important mobile banking and new lending methodologies, which allowed delivering financial services at a lower cost. The increasing commercialization and competition among microfinance institutions also contributed to the expansion outside of urban centers.

Rural Impulse Fund I was launched in 2007 with a fund size of about USD 38 m and realised its stated deal flow at a much **faster pace than anticipated** (17 months instead of 36), indicating a higher untapped demand from which RIF II will benefit. In less than two years from inception, RIF I has made investments in 23 institutions located in 18 developing countries, serving 1.3 million clients on three continents. These are truly astonishing numbers that show the impact the fund has had around the

world. These bodies have a robust rural profile: 15 out of the 23 institutions have a rural presence of more than 50%.

Less than three years from its inception, RIF I is fully invested and has already reached break-even, performing in line with projections. Despite the negative effects of the financial crisis, all RIF I clients strive to continue their operations on a sustainable and financially responsible basis.

The Fund's successful performance was underscored by the award of the **LuxFlag Microfinance Label** in 2008, a quality label for microfinance funds designed by the Luxembourg Bankers' Association in cooperation with European Investment Fund (part of the EIB Group), the Luxembourg government and the Association of the Luxembourg Fund Industry.

The award of the LuxFlag Microfinance Label is particularly important to the European Investment Bank, which is keen to ensure that its **reputation and social investment objectives** are not undermined by unethical and unscrupulous practices of institutions that seek short-term profits at the expense of the poor and vulnerable clients.

As I already announced at the European Microfinance Week in Luxembourg last year, the EIB has endorsed **Client Protection Principles** and decided to join the Smart Campaign with the aim to help microfinance industry remain both socially focused and financially sound. It is comforting to know that Incofin and a number of co-investors in Rural Impulse Fund have made similar endorsements and are actively contributing to the working groups, which try to define and harmonize social performance standards for the microfinance industry.

Going forward – Challenges and Opportunities for RIF II

The pace and quality of investments made by RIF I proved that **the demand for rural microfinance** is largely unmet by traditional microfinance lenders. The competition for rural MFI financing is fairly limited. The majority of microfinance investment vehicles target dollar based economies and avoid rural regions in their investments.

The Fund thus distinguishes itself from most other investment funds by presenting the following unique features.

First, the RIF has developed a **unique investment strategy**, specifically designed to serve the needs of rural MFIs. Second, the Fund has designed proprietary in-house tools enhancing the social and financial focus of microfinance. Third, the Fund has a distinctive local currency funding feature, which only a few microfinance funds offer. The few funds which include a local currency funding feature do not specialise in rural areas. As a result, the unmet demand for rural microfinance funding is expected to remain high.

In fact, the majority of the estimated **1.4 billion of people living in poverty**, work and live in rural areas. The extreme poverty is most pronounced in Sub-Saharan Africa, where the USD 1.25 a day rate was 50 percent in 2005—the same as it was in 1981, with some ups and downs in the meantime. Average consumption among poor people in Sub-Saharan Africa stood at a meager 70 cents a day in 2005.

As a **precondition of EIB investment**, RIF II, just like we did with RIF I, made a commitment to invest a certain minimum amount in sub-Saharan Africa and other African, Caribbean and Pacific (“ACP”) states. I hope that Incofin and investors in Rural Impulse Fund II will continue supporting the Fund’s focus on Sub-Saharan Africa in the coming years.

The impact of RIF II, which raised EUR 86 million at this Closing and is expected to reach EUR 120 million of total commitments at the Second Closing next year, can be significant. The expected economic impact of Rural Impact Fund II is both direct and indirect. The direct impact includes an improved capital structure of rural microfinance institutions, strengthened corporate governance, and access to new business networks provided by Incofin and its partners. The indirect impact includes improved access to financial services for micro-entrepreneurs and farmers, increased employment and business opportunities in rural areas in the countries of investments.

The effectiveness and the capacity of Rural Impact Fund II should be enhanced by two new features that we see in the Fund. First, RIF II aims to raise EUR 2.5 million for a **Technical Assistance Facility** which will be employed to strengthen the capacity of rural microfinance institutions to provide financial services to their clients in a sustainable and efficient way. RIF II will contribute part of its assets on the annual basis to the Technical Assistance Facility.

Alongside other investors, the European Investment Bank plans to make a meaningful contribution to the Technical Assistance Facility. This facility is aimed at training local staff, implementing management information systems, strengthening governance, internal audit and risk management procedures in greenfield and transforming microfinance institutions in rural areas.

The second new feature of RIF II is a substantial increase in the targeted share of its equity investments, which will account for almost 50% of the total portfolio. The **increased emphasis on equity investments** is both an opportunity and a challenge for Rural Impulse Fund. By taking direct equity stakes in MFIs, RIF II should be able to influence the strategic direction of both the institution and its investees. However, this will come at a cost of increased responsibilities, as well as raised expectations of portfolio companies and RIF II investors. The Fund Manager, the Fund's Board and Investment Committee have a delicate task to find the right balance between a multitude of expectations, some of which might be conflicting at times.

Conclusions

Ladies and gentlemen, as we celebrate the Closing of Rural Impulse Fund II, we should not forget the underlying goal of this operation --- expanding access to financial services and products for small businesses, farmers and microentrepreneurs in rural areas of the developing world. By combining private and public resources, RIF II has a potential to serve as a credible platform for delivering sustainable microfinance investments on a long-term basis. The success of RIF II will be crucial in demonstrating that rural microfinance can be commercially viable and scalable. Let us seize this opportunity in order to give a chance to those who need it most!

Thank you. And in particular to those who made it work and the teams of all the partners involved, as well as my EIB colleagues.