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Abstract

This paper sheds the light on the potential and constraints of possible interactions between Microfinance Investment Vehicles (MIVs) and the two main African Microfinance models namely the cooperative model, well developed in West Africa, and the commercial model, found in East Africa. We assess if both parties can gain from those interactions. We argue that given the significant funding needs of Microfinance institutions (MFIs) in that part of the world, in particular with regards to equity investments and capacity building, the African microfinance sector requires resources that can only be provided with the contest of private investors. In this respect, provided some conditions are met, for instance the presence in these vehicles of Development financial institutions (DFIs) that play the role of catalysts by initiating investments and taking risks that private investors would not dare taking; MIVs could be suitable for the financing of the rural and the micro-enterprises segments which are still seen as highly risky investments. Those segments require more volumes and longer term funding, but they have a great potential positive effect on Microfinance recipients and more generally on the economies they live in.

In the MIVs' perspective, due to excessive risks' perception, the interest for the African microfinance still remains limited to date; however, the increasing demand for socially responsible investments and the needs for Microfinance investment portfolios' diversification will push those vehicles to commit more and more for investments in that part of the world.

Keywords: Microfinance, Microfinance investment vehicles, Sub-Saharan Africa

Introduction

For more than three decades, modern microfinance has aimed to provide financial services to the low-income people excluded from the mainstream banking system and yet being able to carry income generating projects for some of them (Otero, 2000). While gaining visibility, potential recipients of microfinance services have realised that they could benefit from these services while traditional financial actors saw in microfinance a potential market to diversify their activities. As a result, the field has grown tremendously that it is today admitted that more than 10.000 MFIs throughout the world manage a total volume of micro-credits estimated at nearly 36 billion dollars (Magnoni & Powers, 2009) whereas the non-satisfied potential demand would exceed 200 billion dollars (Daley-Harris, 2009; Swanson, 2008). In this context, the question of (re) financing of MFIs becomes legitimate. Formerly financed by non-governmental organisations (NGO) themselves financed by public subsidies, today, MFIs are subject to a growing infatuation on behalf of microfinance investment vehicles (MIV). The question of the role of MIVs and their articulations with the microfinance sector has already been tackled, in particular in terms of impact on the governance of MFIs. Thus, Urgeghe and Labie (2009) give the example of the positive effect on the transparency of MFIs induced by the pressure exerted by those vehicles. Nonetheless, up to date, little research has been devoted to the financial impact (as credible and viable funding means) that could have these vehicles on microfinance in sub-Saharan Africa. The question of the intervention of these new actors in microfinance is relevant when one knows that in this part of the world, 80% of the adult population are unbanked, which corresponds to approximately 325 million people (Chala *et al.*, 2009). In order to tackle this question in terms of adequacy between funding means offer, from MIVs, and funding needs, from MFIs, the first section proposes a definition of MIVs. In the second section, we evaluate if the African microfinance industry, for both the West-African co-operative model and the commercial model well developed in East-Africa, can profit from the contest of MIVs. In the third section, we also evaluate if MIVs can profit from the African Microfinance industry. Finally, the last section concludes.

1. Microfinance investment vehicles – Overview

According the Consulting Group to Assist the Poor - CGAP (CGAP, 2010), as of end 2010, there were 122 MIVs with 8.2 billion dollars of total assets under management. Three-quarters of MIVs assets are represented by fixed income securities with the provision of debt-based products; approximately the same proportion of this debt is issued in hard currencies (euro, dollar). MIVs are varied. They can take the form of funds, but also co-operatives, finance companies, holding companies and if we deviate from the consideration of the importance of their investment power often ascribable to the institutional investors (Urgeghe & Labie, 2009), initiatives such as Kiva can also be qualified as MIVs; from this point of view, we define MIVs as all public and/or private investment channels partly or entirely, directly or indirectly investing in microfinance independently of their size or status.

One of the first classifications was proposed by Goodman (2004) and divided the funds into three categories: development, quasi-commercial and commercial funds.
In this paper, we have used a more comprehensive classification based on Reille & Forster, (2008) and the CGAP (2009).

Registered mutual funds

These funds are mainly recorded in Luxembourg, the Netherlands and in Switzerland to a lesser extent. This category includes funds such as the Dexia Micro-Credit Fund. These funds invest primarily in Latin America and Eastern Europe (to 77% of their total investment portfolios) by senior debt (93%).

Commercial fixed-income investment funds

This category which includes funds such as the Impulse Microfinance Investment Fund, grants relatively big loans which reduces their overall costs and increase their returns. Such funds invest almost totally in areas where microfinance is most developed (Latin America and the Caribbean, Eastern Europe and Central Asia – to around 96% of their total investment portfolios).

Structured vehicles

These vehicles use securitization. According to Byström (2007), structured microfinance vehicles use both direct and indirect securitizations. Direct securitization carries on the securitization of a portfolio of micro-credits by MFIs themselves (e.g. "BRAC Micro Credit Securitization Series I Trust" in Bangladesh. Indirect securitization consists of the securitization of debts of several MFIs at the image of "BlueOrchard Microfinance Securities I". The majority of the vehicles of this category consist of Collateralized Debt Obligations-CDO. In these operations, DFIs often subscribe to the riskiest tranche "equity" (but also remunerative), the other investors subscribing to the tranches "mezzanine" or "senior" according to their risk aversion. These vehicles generate few operation costs due to the fact that for they usually require passive managing strategies.

Blended-value funds

These vehicles are those that require low financial returns and usually pursue clear social objectives. 85% of the investments come from private individuals, foundations or NGOs. Moreover, MIVs of this category choose to invest in small and average MFIs located in under-served areas like Sub-Saharan Africa (up to 26% of their total investment portfolios) or East Asia (17% of their total investment portfolios). Oikocredit, the Dutch confessional cooperative company is one of the MIVs of this category. However, being given the reduced size of the loans granted, these structures generate more operating costs.

Holding companies of microfinance banks

With this category, comes to mind the ProCredit Holding model. In addition to the technical assistance, the MIVs of this category receive the most significant part of investments from DFIs up to a total of 63% of their shares. Holdings of microfinance banks represent the most important investment channel in the microfinance industry in sub-Saharan Africa with 31% of their total investments.

Private equity funds

This category represents the most recent MIV structure. It gathers investments from private equity and Venture capital investments which offer equity investment possibilities and convertible debt to high paste growing MFIs. In fact, their equity investments represent up to 76% of their portfolios. This category includes both the first generation of venture capital funds, launched by the DFIs as well as the second generation with a more commercial dimension. A considerable part of the portfolios of these vehicles is also intended for sub-Saharan Africa for the launching of new MFIs ("Greenfield Microfinance").

This panorama shows a non clear segmentation with a great number of public, private, individual as well as institutional investors focusing on the same top tier MFIs. The panorama also shows that the African continent still remains a marginal investment area.

2. Can the African Microfinance benefit from MIVs intervention?

With more than a billion of inhabitants which is about 15% of the world's population (UNFPA, 2009) but with less than 3% of the world's wealth generated, Africa is the certainly poorest continent. With an adult out of five who has access to formal financial services, it makes around 80 million of beneficiaries and more than 325 other African adults lacking these services (Chala *et al*, 2009). It's agreed upon that in Sub-Saharan Africa, today, MFIs have a great power of savings mobilisation. In fact MIX & CGAP (2010)[2] report that African MFIs resort to international funding only to approximately 11% of their total liabilities; the remainder being brought by savings and loans from local markets, the funding needs of MFIs remain significant particularly due to the fact that most of the collected savings are at sight. It is even more the case for less performing MFIs that can not secure loans from local banks. These latter have specifically long term funding needs notably in terms equity investments and capacity building or reinforcement. In this context, analysing the role MIVs as a credible factor of growth and consolidation of microfinance in sub-Saharan Africa becomes a relevant question.

MIVs can be considered part of the solution, the presence of various stakeholders within these instruments being a key success factor, DFIs in the first place.

As a matter of fact, DFIs played a big role on the MFI level by providing starting funds during the launching of new institutions and by filling the gap between local funding and subsidies when necessary; DFIs also played the role of catalysts in the setting-up of MIVs.

For funders, entering in public-private partnerships represents an effective alternative to direct funding of MFIs where subsidised loans provided by national banks failed because of non-repayments and corruption. For these organisations, the activity of microfinance is relatively easy to control compared to other development projects implemented. Moreover, the majority of the funds invested in the MFIs 3,5 even 10 years before are still present as opposed to what can occur in other sectors. Lastly, and it is one of the main reasons, these investments represent credible exit scenarios.

These public-private partnerships are also likely to leverage private capital with less public resources without forgetting that they reduce overall risks (because these latter are shared) of funding of certain MFIs for which the country-risk would have made either impossible or very expensive to resort to such operations. Thus, within MIVs, without the contest of DFIs that act as catalysts, initiatives such as "The Currency Exchange Fund" (TCX)[3], REGMIFA[4] or "Emergency Liquidity Facility" (ELF)[5] respectively, to mitigate

[2] According to this report related to the year 2009, approximately 60% of Sub-Saharan African MFIs resources come from deposits- 80% of which are made of voluntary savings; 20% of loans- half of which consist of foreign loans; and a little more than 20% of own funds- 3% of which consist of donations and capital subsidies.

3 This fund gathers public investors (DFIs like KfW, IFC, FMO or BIO) as well as private investors and guarantees to its shareholders and partners the conversion of loans they grant to MFIs made out in hard currencies in exotic currencies, which makes it possible for MFIs to receive funding in local currencies. This kind of funds is however not generalised yet.

exchange risk, to finance microfinance on the African continent or to mitigate liquidity risk; would never have been launched without forgetting that the presence of these institutions within these partnerships brings insurance against mission drift risks (Mersland *et al.*, Forthcoming; Hudon, 2007).

The case of the West-African financial co-operative model

In sub-Saharan Africa, the co-operative model is the dominating model in West Africa (Ouedraogo & Gentil, 2008). Indeed, according to figures from the World Council of Credit Unions (WOCCU), on a total estimated at 15,59 million members for the whole African financial co-operatives (FC) in 2009, the West African FCs counted more than 12,15 million members[6], that is to say at least 80% of the total number of members of the African FCs.

In addition to the business model which is not made to attract external investors to the co-operative membership and from the limits in terms of governance in particular (Périlleux, 2009), one can then expect that they gather in networks to have a critical size which would enable them to negotiate with MIVs. For this reason, the example of "Confédération des Institutions Financières" (CIF) in West Africa is interesting because not only the confederation is a network of networks (and thus it reaches a size such as it could develop relations with MIVs - with conditions to define beforehand) but this one also has as project of launching a bank (Périlleux, 2009) whose majority shares will logically be intended for the member networks, but whose minority shares can be yielded to thirds. A case as this one is certainly likely to attract possible partners. Via the bank, the members of the confederation would have access to international financial markets and as far as the statutes of the CIF allow it, MIVs would have access to the FCs members, approximately 2.2 million members in this case (Boubacar & Bédécarrats, 2009).

Such interactions could allow a better funding of rural areas with the provision of higher long-termed loans, in a context where the Parmec law which regulates decentralised financial systems in West Africa requires FCs to have long-term resources to be able to

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4 The Regional MSME Investment Fund for Sub-Saharan Africa was designed to fund Micro, Small and Medium enterprises in Sub-Saharan Africa.

5 "Emergency Liquidity Facility" is a fund of 10 million dollars created by multiple public and private funders (among others the Inter-American Development Bank, Accion International Argidius Foundation or Gray Ghost Microfinance Fund) for Latin America and the Caribbean to act as lender of last resort for MFIs facing natural disasters or crises.

6 This figure does not include the number of co-operatives of 4 countries. These figures were drawn from the WOCCU Internet site consulted on February 26, 2011.

provide long term loans whereas members' savings are very often at sight. Indeed, according to aggregate figures from the Central Bank of West African States, West African liabilities of FCs are represented to 75% by savings, approximately 60% of which are represented by short-term savings. According to Périlleux (2010), the German financial co-operatives of the 19th century had regional centrals which granted liquidity facilities and which provided monitoring services to the member co-operatives, which made it possible for these co-operatives to provide long-term loans to their member customers. We suggest that MIVs could to a certain extent and provided adaptations to the local context, play such roles.

In any case, any interaction should be designed without changing the decision-making process to avoid the erosion of the identification feeling of the original FCs members. Indeed, the opening of the FCs membership to externals would result in driving the FCs to be more heterogeneous (Périlleux, 2009). The increase in the size which a partnership with MIVs could require would also generate other challenges. In fact, any partnership with MIVs would require important investments (Management information Systems - MIS…). The growth of FCs can push certain members who believe that their "voice" was diluted in the mass, to develop "free-rider" behaviours (Desrochers *et al*, 2003). There can also be a challenge related to the recruitment of qualified personnel in this case to deal with MIVs. A conflict of vision between new employees and the historical personnel can consequently be feared (Périlleux, 2009). Even if this conflict was overcome, the growth brings complexity in the interactions which require technical skills on behalf of the members to control the personnel's work (Branch & Baker, 1998). The setting into networks which can be necessary to deal with MIVs can in addition create a gap between base members with those of higher levels (Périlleux, 2009) whereas a strong centralisation of power can feed dispossessed feelings among members (Chao-Béroff *et al*, 2000).

Beyond the business model constraints, any interactions between MIVs and FCs go undoubtedly with heavy challenges for the latter. Indeed, they would need to grow in order to reach a critical size to deal with MIVs, in this respect; the setting in networks would be the most logical step for the co-operatives. This growth would ineluctably involve challenges (financial, regulatory and in terms of governance) for the FCs. Experiments as that of the CIF are interesting because they could be seen, provided adequate adaptations, as one of the future investment channels of private investors in the West-African co-operative model.

The case of the commercial model

According to the development stage of MFIs, they have specific funding needs. We briefly review these needs in the following paragraph based on the classification suggested by Van Maanen (2005). This classification will enable us to explore the potential interventions of MIVs in the funding of MFIs according to their stage of development.

Category 1: It is the "start-up" category. MFIs of this category need a sponsor for capital[7] and subsidies[8]. This sponsor can be a Foundation, a DFI, an NGO or any combination of those funders.

Category 2: This category gathers the majority MFIs of less than three years of existence. The operational self-sufficiency, which is the capacity to cover operational costs by interest revenues, depends on the pace to which the clientele grows.

Category 3: This category represents MFIs that reached operational self-sufficiency and which are headed towards financial self-sufficiency (coverage of both operational and financial[9] costs by interest revenues). This category thus gathers MFIs which will be soon viable. Soon, because the financial costs (related to market funding and prudential provisions) will increase the total costs' level compared to the preceding stage when MFIs functioned exclusively with cheaper resources from funders.

Category 4: This category corresponds to mature MFIs that have reached financial self-sufficiency. To reach the ultimate stage, MFIs of this category should be allowed to collect savings and deposits, which inappropriate and rigid regulations do not allow them to do in many cases.

Category 5: This category corresponds to MFIs which are recognised as financial institutions by regulatory authorities and which can collect savings and deposits.

This classification clearly emphasizes the funding needs of MFIs at various stages of their development.

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7 Of which the MFI will lend a part. The basic function of a traditional finance company is to collect savings and to lend a part of it. In the case of a start-up MFI, since it is not regarded as a business firm - thus it does not have starting capital, and since it cannot collect savings yet at this stage- since the law does not allow it; if it does not receive the starting capital, it cannot simply function.

8 MFIs need these subsidies because at the beginning the number of the clients is too restricted to apply the total costs to them. With these subsidies, MFIs can apply a "reasonable" private; the gap being filled by these contributions.

9 Financial costs correspond to MFI funding costs and provisions for doubtful debt.

The first lesson of this classification is that MFIs of categories 1 and 2 require capital, to be able to grant loans, and subsidies which will make it possible to charge "fair" prices to the yet too restricted number of clients. NGOs, foundations, DFIs or any combination of public-private partnerships can assume such risks. The presence of a social partner, like an ONG, a foundation, or public, like a DFI, is indeed essential because at this stage, uncertainties as for the viability of the MFI are high. MIVs gathering public and private investors are thus indicated to finance MFIs as from their beginning. This is already the case and according professionals[10], the trend should intensify. These vehicles, whose optimal relative weight between public and private actors is to be defined according to cases, are thus likely to be major actors of the development of microfinance in sub-Saharan Africa.

The second lesson is that even the first two stages passed, it is essential to continue to support MFIs of category 3 in our classification and help them reach financial self-sufficiency.
The growth requirements of MFIs of this category drive them to still need significant equity investments. MFIs of category 3 also still need subsidies and guarantees for MFIs willing to borrow from local banks (Counts, 2005). These resources can be provided by DFIs, NGOs, foundations or MIVs gathering for example foundations and private investors. More generally, if the goal is to expand the microfinance's outreach, it is essential to reinforce intermediate MFIs (Creusot & Poursat, 2009).
In addition to the fact that the presence of foreign investment vehicles can help to raise more funds through an increased leverage, it represents also a way of acquiring a banking licence more easily enabling them to collect savings and thus to better manage their (re) funding sources, especially for MFIs of category 4 of our classification (Van Maanen, 2005; Hudon, 2007).

MIVs can also intervene in turmoil periods as for the recent setting-up of the "Microfinance Enhancement Facility" (MEF) intended to assist MFIs facing liquidity stresses appeared with the recent financial crisis (Magnoni & Powers, 2009).

Nonetheless, the role of DFIs should be limited in time to avoid the crowding-out of private investors (Abrams & von Stauffenberg, 2007). At the same time, these institutions should also be able to intervene from time to time to support MFIs when necessary. Consequently, the role DFIs should be to attract private investors, to

10 This is extracted from a phone interview which we carried out in March 2010 with Tor Jansson who was occupying the function of "Microfinance Principal Investment Officer for Sub-Saharan Africa" at IFC and based in Johannesburg.

participate in mitigating risks that private investors would not have been ready to support and help avoid mission drift risks.

3. Can MIVs benefit from the African Microfinance?

The starting point is that around 120 MIVs invest roughly speaking in 400 to 500 top-tier MFIs throughout the world. These funding excesses partly explain the lately explosion of MFIs' repayment defaults in several countries like Nicaragua, Bosnia, Pakistan or Morocco (Chen, 2010). In this context, questioning whether the African microfinance can represent a diversification source for MIVs becomes relevant.

In addition, according to MicroRate (2010), since all MIVs' envisaged investments in 2009 were not cashed; they accumulated significant liquidities that exceeded 1 billion dollars that year. These liquidities accounted for approximately 17% of the total assets, compared to 10% the previous year. This can even justify more attraction for the African Microfinance from MIVs. Indeed, this is precisely the region of the world where MIV investments increased the most in 2009 (45%) whereas on the global level, MIV assets only grew by 22% in 2009 compared to the previous year.

If African microfinance could present an unbalanced risk-return profile at least for risk-averse investors (Brière & Szafarz, 2011), investments in that part of the world, and more generally speaking, pursue both financial and social objectives that is referred to as "double bottom-line" and can be analysed with the lens of socially responsible investments (Urgeghe, 2010) or "impact investments" (O'Donohoe *et al*, 2010). Social Performance is even found to be profitable. In fact, recent research has showed that there is actually no trade-off between social and financial performance (Bédécarrats *et al*, 2009; Lapenu, 2007). Indeed the findings show that the pursuit of social performance does not preclude financial performance. Rather, they can reinforce each other mutually in the long run; thanks to a deeper understanding of clients that leads to better adapted services, greater trust and transparency between clients and MFIs. Such benefits result in loyalty and improved repayment rates.
It should however be noted that the lack of harmonisation of social performance measurements to date still makes it difficult for the MIVs to take them into account in their investment decisions (Lapenu, 2008).

The need to diversify is pushing more and more MIVs to target less performing MFIs. This fact can benefit the African microfinance characterised by a relatively young sector. If less performing MFIs are targeted, we can reasonably assume that part of the financial means from public funders that were up to that point intended to top MFIs would go to less performing MFIs. This is likely to increase equity investments and capacity building or reinforcement that the African microfinance needs. This fact can also help raise even more funds with a care put on the MFIs absorption capacity.

Because of an excessive risk perception of micro-enterprises, the ratio of credit to GDP for the African private sector reaches only 18% on average; it reaches 30% in South Asia and more than 100% in high income countries (Tadesse, 2009). In fact, the African financial system is not well equipped to finance small companies which need greater and long-termed funding. Indeed, Despite their over-liquidity (Nsabimana, 2009), African banks still mistrust micro-enterprises and often choose to support large companies with short-term loans (Collier, 2009). In such a context, MIVs have the possibility to take part in the micro-enterprises financing. Private equity and venture capital funds can be the most appropriate vehicles to finance this segment.

More generally, and even if the saving is sometimes more important than the loan provision for certain populations (Labie, 1999), in Africa, on macro level, African MFIs' savings can not respond sufficiently to their funding needs. In fact, an aggregated figure points out a loans to savings ratio of 121, 59% (Table 1).

Table 1: African Microfinance funding structure

2007	Loan Portfolio (millions US$)	Savings (millions de US$)	Loans/Savings (%)
Afrique	2 236	1 839	121,59
Central Africa	142	232	61,21
Eastern Africa	1 025	799	128,28
Southern Africa	417	254	164,17
West Africa	652	553	117,90

Source: MIX & CGAP (2008)

Situations differ between the African sub-regions. Central Africa seems to be characterised by an atypical profile. Indeed its loan portfolio is the weakest of Africa and collected savings exceed by far loans granted by MFIs of the sub-region. This can be explained by a late recognition of the sector by the sub-region's banking regulator in 2002. West Africa is the sub-region (with a more typical profile so to say) whose savings are relatively the highest compared to its loan portfolio. This is due to the importance of the co-operative model (Ouedraogo & Gentil, 2008) dominated by "net savers" (Périlleux, 2009). East Africa, with the most important loan portfolio in absolute terms, has a ratio of loans on savings of 128%. This emphasizes a more developed credit culture. Lastly,

there is the Southern Africa sub-region, where in spite of a general weakness of the microfinance sector, as in central Africa, loans still exceed savings.
The indicator used here may highlight where MIVs could intervene if we do not take into account other (re) funding sources other than savings.

In this respect, despite the fact that the West African sub-region generates less operating costs due to the fact that the FC model usually goes together with member voluntary participation (table 2) and because of the atypical profile of central Africa, these two sub-regions seem less interesting for MIVs. Indeed these two sub-regions seem to have a great savings mobilisation capacity that enables them to fund a big part of their loan portfolios.
The Southern African and the East African sub-regions seem to have more funding needs. However, the MIVs' interest in the Southern African sub-region would seem to be constrained by high operating costs (table 2). We therefore believe that a number of MFIs in this latter region seem to need subsidies to a big extent. On the other hand, to reinforce the high paste growth of MFIs of the East African sub-region, MIVs could be suitable, those targeting equity investments and capacity reinforcement being even more suitable.

Table 2: Efficiency of microfinance in Africa per sub-regions

2005	CA [11]	EA	SA	WA	Weighted average
Cost per borrower ($)	84	58	83	77	72
Cost per saver ($)	29	27	56	21	29

Source: Lafourcade *et al*, (2005)

The arguments justifying the little interest of MIVs for the African microfinance to date relate to difficult environments where the majority of African MFIs operate (high risk) and its low profitability, which highlights an unbalanced risk-return profile. Indeed, the African microfinance, compared to other regions of the world, is highly characterised by the small size of loans granted, which partly justifies high costs and thus reduced profitability (table 3).

[11] CA: Central Africa; EA: East Africa; SA: Southern Africa; WA: West Africa.

Table 3: Characteristics of the African microfinance compared to other regions

2008	SSA [12]	EAP	EECA	LA	MENA	SA	All regions
Outreach							
Average loan per borrower ($)	626	684	4 008	1 341	746	912	1 588
Efficiency							
Transaction costs (in % of loan portfolio)	44	24	19	39	25	18	30
Return							
Median ROA (%)	1,1	2,8	2,9	2,3	2,9	1,0	2,1
Median ROE (%)	3,6	13,9	11,3	8,8	4,1	8,7	8,9

Source: Gonzalez (2009)

These features still justify today the little attraction of the African microfinance for MIVs especially for the commercial ones. For instance, on the 8 MIVs labelled Luxflag[13] in April 2010 and based in Luxembourg, the majority of the regulated MIVs being recorded there, 7 invested in sub-Saharan Africa with a focus on East Africa but their investments did not exceed 3% of their Net Asset Value and were bound for the largest MFIs like Equity Bank or KWFT in Kenya or Akiba in Tanzania. West Africa, because of the preponderance of the co-operative model, seems to be of little interest to MIVs. Indeed, the business model and the property structure of West African FCs seem to raise scepticism among investors.

[12] SSA : Sub-Saharan Africa ; EAP : Eastern Asia and Pacific ; EECA : Eastern Europe and Central Asia ; LA : Latina America ; MENA : Middle East and North Africa; and SA : South Asia.

13 Source: Luxflag, data drawn from monthly reports consulted in April 2010.

Conclusion

At first sight, the African microfinance seems to be *a priori* characterised by an unbalanced risk-return profile at least for risk-averse investors (Brière & Szafarz, 2011), which could explain the relatively little interest of MIVs in investing in that region. Nevertheless, recent repayment crisis caused by excessive funding in some areas of the world such as Latin America is pushing MIVs to diversify their portfolios, in geographical terms and by targeting less performing MFIs, which will likely benefit African MFIs. The recent infatuation for socially responsible investments can also justify MIVs' increasing commitment for the African microfinance to a big extent. Attracting private investors will still require guarantees. Such guarantee schemes can take the form of public-private partnerships, within MIVs or not, where public interveners play the role of catalysts by initiating investments in areas where there are no or few MFIs and by mitigating the risks that many African MFIs still face today or by providing technical assistance that a great number of MFIs of Africa need to professionalise.

Lately microfinance has been facing severe criticism, at the same time investments in the sector have never been so high. This paper represents a first step in explaining the current and near future drivers of microfinance investment decisions in the African microfinance sector.

Recent research has documented microfinance as an Asset class, its main characteristics being that it exhibits low correlation with other asset classes while providing attractive returns (Krauss & Walter, 2009). Other research finds that adding microfinance funds to a portfolio of risky international assets does not seem beneficial, especially for the African Microfinance (Rients *et al*, 2011). In others words, microfinance would not be considered as an asset class. To better understand the drivers of microfinance investment decisions, further research is needed.

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