

EIF CDO to kick-start micro-finance funding

An innovative CDO emerged at the end of last year – through the European Investment Fund (EIF) and consultancy firm **Symbiotic** – that set a template for funding micro-finance institutions (MFIs) in emerging markets. Since micro-loans are typically only a few thousand euros each, MFIs have difficulty accessing the capital markets – yet there is high potential in terms of business productivity gains and job creation supported by such niche lending activity.

Dubbed Microfinance Loan Obligations, the €30m (US\$36.3m) four-year deal is backed by loans originated by MFIs across seven Balkan countries and represents the first time that such institutions have achieved commercially-priced funding. According to Per-Erik Eriksson, the EIF's senior structured finance manager, MFIs

have previously been able to get cheaper funding from restructuring funds operating in the war-torn region. But with the region stabilising, these donors are likely to move elsewhere and so it was important to create a benchmark alternative financing.

The transaction relies on the first-loss risk being shared equally between a network of MFIs (**Symbiotic** also retained a portion of the equity). It is a compartment structure under Luxembourg law whereby the SPV can be used repeatedly: further tap issues are expected in April and October. "We're currently looking to bring further deals later this year with a larger MFI network across different jurisdictions, this time backed by around 10 loans split across three tranches with a maturity of around five years. The first deal was a pilot so the proceed amount

was small, but we're now targeting around €100m," confirms Eriksson.

He says that some MFIs in the region are migrating towards becoming SME lenders, which is helpful for the scheme: SME loans are around €10,000 to €20,000, making it easier to create the necessary volume as the funding needs of those lenders increases substantially.

EIF placed the senior notes (which accounted for 75% of the liabilities) with a single development bank, while **Symbiotic** marketed the junior notes to its network of specialist MFI investors across Europe and the US. Traditional institutional investors also showed interest in the deal and the arrangers hope that a broader range of accounts will participate in the next offering.