Innovations in Debt Financing:
Advances in the Fields of Microfinance and Community Development

Introduction to Microfinance Debt Offerings and Securitization

Many blended value investors' primary goal is to achieve real social returns together with financial returns that are not concessionary to the risk-adjusted rate investors could otherwise attain. Investments meeting that goal would be fairly easy to trade and have investment terms that are understood by the average investor. Such characteristics would generate significant demand from all sorts of investors—especially those who do not now take account of how they might create blended value in making capital investment decisions. For these reasons, the practice of securitizing loans to microfinance institutions (MFIs) is a very promising prospect for many involved in BVI.

Built on hundreds of millions of dollars in donated and concessionary-rate (which is to say, below market rate) capital, microfinance has proven to be a sound and powerful investment in blended value. However, despite wide-spread growth in microfinance around the world, the industry has now reached a critical point: many funds have lent all or most of their available capital; they must either sell some of the debt on their balance sheets or otherwise secure substantial new funds in order to expand their lending activity.

Those investing philanthropic capital for social returns have supported microfinance institutions in becoming viable, in proving that poor people make good customers for financial services, and in reaching a remarkable scale. Nevertheless, the size of the microfinance industry has the potential to be dramatically larger, and philanthropic capital alone will not be sufficient to achieve this potential. To extend microfinance to a substantial majority of the world's poor, a new kind of capital must enter this market, and that capital will most likely come from the mainstream capital markets, where the majority of funds are currently invested without regard for social or environmental returns.

Fortunately, a growing number of microfinance institutions possess the business fundamentals necessary to access those capital markets. Before commercial capital may fund the microfinance industry on a large scale, capital markets will require investment products capable of meeting the needs of both microborrowers and investors of capital. This section examines several very promising early examples of these products, which may represent the path toward a suite of investment instruments offering truly blended returns that maximize social and financial value.

The Microfinance Success Story

In the thirty years since the Grameen Bank, ACCION and other MFIs showed the rest of the world that small loans to poor women could dramatically improve the lots of families and communities, microfinance has become a widely celebrated model of economic development. Many sources document the growth of the sector over recent decades, and this paper's Appendix A presents a brief review of key microfinance innovations. Those innovations have made microfinance securitization possible. Much of this section explores how securitization has opened new options to capitalize on and invest in both financial performance and social impact.

Among many blended value investing strategies, microfinance is one of the most mature. Its sustainability and replication have introduced innovations that are not only enhancing the fundamental value proposition of microfinance, but now appear applicable to other blended value investment programmes. These innovations continue to bring microfinance to new levels of large-scale efficacy, and may eventually find application in other areas in order to bring those areas to a similarly substantial scale. Since other publications have explored the current state of the field, this section will *not* examine the overall state of the microfinance industry.[1] Though the section will discuss several innovations in the sector, more complete explorations of those innovations can be found in other sources cited later in this text.

The following narrative examines the structure and actors in several microfinance securitization deals, delving more deeply into one particular deal to offer lessons learned and help identify emerging issues associated with successfully securitizing debt to MFIs.