

SUMMARY

Beneficiary

The immediate beneficiary of this project is Profund, a specialized regional investment fund incorporated in Panama. Profund is also the implementing agency that will be responsible for identifying and investing, efficiently and at an appropriate level of funding, in Latin American financial institutions and NGOs specialized or seeking to specialize in providing financial services to the microenterprise and small business markets. The intermediate beneficiaries of Profund are its investee institutions, whose capital base and small and micro business services will be strengthened through Profund investment and involvement. The ultimate final beneficiaries of the proposed investment are the micro and small businesses (MSEs) that will benefit from increased financing availability and a broader range of financial services customized to meet their business needs.

Sponsors

Profund is sponsored by four founding institutions: Acción International, Calmeadow Foundation, Fundación para el Desarrollo Sostenible (FUNDES) and Société d'Investissement et de Développement International (SIDI). These institutions are expert in the field of micro and small business finance. Each of the founding institutions is contributing to Profund's capital. In addition, the International Finance Corporation, Calvert Group and Rockefeller Foundation are expected to invest in Profund, as is the Swiss government. Profund is expected to achieve its initial capitalization level of \$12 million by the end of 1994; additional Latin and private sponsors are expected to add another \$3 million by September 1995.

MIF Financing

Profund is seeking US\$3,000,000 in equity from the MIF, Small Enterprise Investment Fund. This amount would constitute 25% of the target initial capitalization, and 20% of the final target level of capitalization set for 1995. All Profund equity investments will be made in cash; seed capital investments may be made via the capitalization of technical assistance fees if approved by a two-thirds (2/3) majority of the shareholders.

MIF Subscription:

MIF will subscribe \$3 million in US\$100 units, consisting of \$99 of preferred and \$1 of common stock. The majority of the equity has been structured as redeemable preferred shares in order to establish an orderly divestment mechanism for investors. Profund will begin making investments on or about June 1995. Commitments not drawn down or reserved for specific investments or anticipated expenses, by the fourth anniversary of Profund, will be released. The fourth anniversary date will be calculated as the earlier of the fourth anniversary date of the first investment, or December 31, 1999. Profund's capital structure follows a model in which no earnings are distributed until all preferred shares have been redeemed and a cumulative preferred dividend of at least 5% has been paid. Profund will structure appropriate exit mechanisms to enable the liquidation of its investment positions and termination of the Fund by the earlier of the twelfth anniversary of the first investment, or December 31, 2006. Notwithstanding this, and the MIF's ability to divest its investment, the shareholders may choose to extend the life of the fund or establish a second, similar fund. MIF will have the right to name a Director to the Profund Board, and the right, but not the obligation, to representation on any other significant decision-making bodies, including the Investment Committee.

Project Description

The objective of Profund is to invest in financial institutions (directly or through special purpose subsidiaries thereof) and specialized NGOs that are becoming financial institutions. The purpose of the investments will be to ensure adequate

capitalization of and technical modifications to these institutions so that they profitably and effectively can serve the microenterprise and small business markets, and provide a reasonable return to the investors. Profund will provide equity finance. On an exceptional basis it may provide debt finance or technical assistance, as described in Annex 1 and paragraphs 5.10, 5.20 and 5.21 below.

Profund is a special purpose investment vehicle designed to fulfill the objectives cited above. Two types of investment are contemplated: (1) direct equity investments in institutions -- e.g. newly transformed NGOs, or newer/smaller financial institutions; and (2) joint-ventures with larger financial institutions seeking to enter or expand their presence in the small business or microenterprise markets. Profund intends to take minority positions in its investee companies, in amounts permitting representation at Board level. Consequently, larger, well-capitalized financial institutions will not have access to Profund investments directly.

Environmental Classification

Profund will require that investee companies uphold satisfactory environmental standards with respect to the projects they finance.

Risks and Issues

Equity investments to be made by Profund entail risks and uncertainty regarding the actual state of readiness and potential profitability of the investee institutions. It is possible that Profund's sponsors may not be able to divest in the period and at the prices assumed in the financial projections. Returns are dependent on mix of investments, exit alternatives and other unknowns, including Profund's ability to safeguard the convertibility of its investments and earnings. The commitment of the Founders and the prudential oversight that investors such as the MIF can provide should help control the level of risk inherent in Profund investments.

In addition to the investment risks described above, a number of project-specific risks are discussed in paragraphs 6.02-6.05 below. These include issues related to: i) the treatment of Sponsor group conflicts of interest; minority shareholders rights and privileges; investee company access to other sources of IDB Group financing; and country eligibility.

Project Eligibility

Profund Internacional, S.A. fulfills a number of the objectives deemed eligible for SEIF Global Investment financing. Its investments will: expand the capacity of domestic financial institutions and NGOs to provide financial services to small and microenterprises in a regulated and commercial manner; and expand the range and amounts of financial services available to small businesses and microenterprises through significantly increased levels of private investment in specialized financial institutions. MIF's investment will have a multiplier of 2.6 at the fund level, and approximately 43 at the investee institution level (see paragraph 2.06). Equally importantly, Profund's investment criteria are designed to enhance and safeguard the financial viability of investee companies.

Profund's projected average annual return on investment of 10.1% is low and actual returns may be lower still. However, the projected returns are positive in real terms and, in view of the substantial non-financial returns are thus acceptable by SEIF standards.

Sustainable intermediary financial institutions are essential to foster broad-based economic growth. It is expected that Profund's contribution to the achievement of critical mass in providing financial services to small and micro enterprises on a commercial and regulated basis will result in further regulatory and supervisory changes that will encourage the continued deepening of regulated, competitive growth of these markets.