



INNOVATE



Message from the MEDA President

Welcome to the first edition of **Innovate**, a newsletter dedicated to MEDA's innovations in investment. Risk capital investment is a critical part of MEDA's solution to poverty. Through smart investments and pioneering thought, we are creating new business solutions to poverty and we thank you for being part of it.

In fact, investment is where MEDA began. Fifty-four years ago MEDA started as a venture capital fund to provide investment capital for Mennonite refugees in Paraguay.

Our first investment in Paraguay was in the Sarona Dairy. The Mennonite refugees who came from Russia after the war settled on small tracts of land with very few resources, in what was called the "green hell" – the Chaco region of Paraguay.

Mennonite Central Committee and others provided some assistance to these farmers, but it was the keen business sense of early MEDA members that recognized the business opportunity to process and sell milk products into larger markets. They knew dairy would help these farmers earn better income – income they desperately needed to feed their families, to educate their children, to afford better health care, and to be able to dream about buying more land and increasing their farms beyond the subsistence level.

The Sarona Dairy repaid MEDA's investment in full over the next 20 years and went on to spin off other dairies that today provide 84 percent of Paraguay's milk products.

Today, that same successful vision continues in the Sarona Risk Capital Fund. Those first MEDA investors each put in \$5,000 (in 1953 dollars). In today's dollars, each of those investments would be worth somewhere between \$38,000 (using the consumer price index) and \$174,000 (using the relative share

of GDP). Obviously, those pioneers took considerable risk for the poor. When these funds were repaid to MEDA in 1972, they formed the core of the Sarona Risk Capital Fund, which today stands at \$6 million.

In the past year, major donors have made commitments of over \$1.25 million to Sarona. We extend a big thank you for helping us invest in the dreams of the poor.

In these pages, you will hear reports of how these funds are being used to solve poverty in creative ways and how you can participate in many new ideas and investments. MEDA is making smart venture capital risks and showing great returns, creating innovative solutions to poverty.

Thank you for your interest and support.

Allan Sauder

Sneak Preview

Expanding in Haiti

We are negotiating a loan to a Haitian institution, founded by a local priest, that serves 100,000 men and women. MEDA has been supporting this institution for several years and, depending on our loan experience, we may consider equity in the future.

Growing a microfinance institution in Tajikistan

Sarona is at the table negotiating an equity investment as the Tajikistan institution converts from foundation to corporation. MEDA has already been supporting this institution for four years.

Returns in Romania

The sale of our 24% stake in CAPA Finance SA in Romania is currently in process. As the company grows and the country becomes more stable, Sarona is less critical to the survival of this microfinance organization.



Major Transactions, January – June, 2007

Codip SA, starch processing, Paraguay

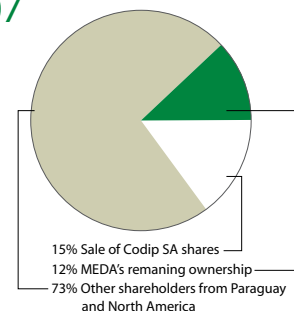
- Sale of 773 shares with net proceeds of \$235,000; Saroná retains 631 shares

CAPA Finance SA, micro-finance, Romania

- Rollover of operations from foundation to corporation
- Saroná owns 24% of the company

Fundacion Chispa (MiCredito microfinance) Nicaragua

- Advanced additional \$658,275 as loan; also facilitated additional \$467,000 loans from private investors



The sale of the Codip SA shares represents approx. 15% of the company, and leaves MEDA still owning 12% of the company shares. Saroná recognized a gain of \$160,000 on the transaction, representing an IRR of 12%.

(Dividends and an earlier share sale had recognized proceeds of \$100,000.)

Saroná Sells Over Half of its Codip Shares at a Handsome Profit

Responding to local demand for shares of Codip SA, Saroná recently sold over one-half of its holdings of this now successful and growing starch processing company in Paraguay.

The shares went to a dozen purchasers who were interested in both the financial and social prospects for the company.

For Saroná, the sale represented a successful partial exit from a very exciting investment. But the sale was not without second thoughts as Gerhard Pries explains:

“It’s never an easy decision to sell an investment that is performing so incredibly well. But, upon reflection, our Board agreed that our purpose was not to catch all of the future upside, but rather to be there at the beginning, take an early risk, bring a plan together, and set it free for private owners to operate and benefit from.”

In 1999 Saroná invested \$220,000 to help private investors in Paraguay launch this company. Their goal, right from the beginning, was twofold: operate a private company for modest profit and provide significant social benefit to poor farm families.

Despite a near-death scenario in 2001-2002, the company began to thrive and the selling of Codip SA shares for profit is evidence of fulfilling the first goal. As for the second goal of providing benefit to the poor, the overwhelming evidence is in the number of families being helped. The company has expanded from its first processing plant, which served 800 farm families, to a second plant serving an equal number.

The second facility is now set to double in size and plans are underway to build a third, much larger factory to serve even more farmers.

Not only does the company provide significant cash injection to these families, but it also contracts with a local non-profit agency to provide credit, agricultural, nutritional and family counseling assistance to these families.

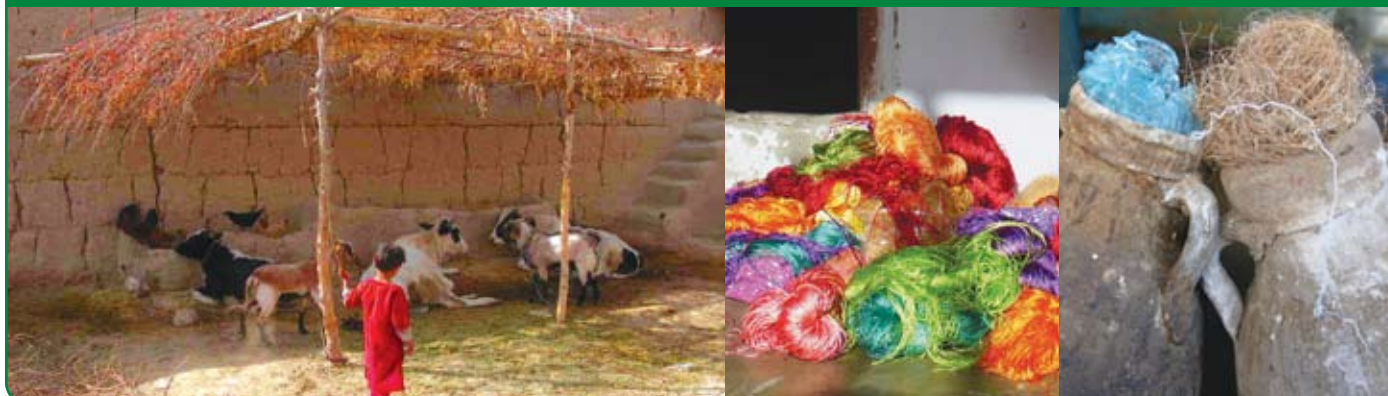
The innovative business model has been so successful that both the Paraguayan government and the InterAmerican Development Bank have held up Codip SA as a model to be followed in the rest of Latin America.

The sale of the Codip SA shares represents approximately 15 percent of the company and leaves MEDA still owning 12 percent of the company shares. Saroná recognized a gain of \$160,000 on the transaction, representing an IRR of 12 percent. (Dividends and an earlier share sale had recognized proceeds of \$100,000.)

CODIP SA COMPANY PROFILE:

- Assets June 2007: \$2,600,000
- Sales 2006: \$2,200,000; est 2007: \$3,200,000
- Market: starch sold in Paraguay and abroad.
- Farm families supported: 1,600
- Shareholders: ~75 private investors from Paraguay; 15 from North America
- Manager: Herman Rempel

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Current Portfolio – June 2007

Key Investments	SRCF Investment	Member Direct Investments	Company Assets
MicroVest Capital General Partner LLC	Equity Cost = \$403,000 Net Book Value = \$32,000	None	\$822,000
MicroVest I, LP	Equity Cost = \$1,318,000 NBV = \$1,441,000 Loan \$500,000 mPower Notes \$0	\$4,043,000 \$2,300,000 \$1,004,000	\$27,803,000
CAPA (Romania)	Common Share Equity Cost = \$287,000 NBV = \$900,000	None	\$22,000,000
Codip, SA (Paraguay)	Common Share Equity Cost = \$37,000 NBV = \$225,000 Loan None	\$100,000 \$138,000	\$2,597,000
Fundacion Chispa, operating as MiCredito (Nicaragua)	Subordinated loan \$500,000 Senior Loan \$770,000	None \$1,134,000	\$2,634,000
Smucker Company (Pennsylvania)	Loan \$455,000	None	\$5,700,000
Argentina Microfinance SA	Preferred Shares (performing as a loan) None	\$435,000	\$1,500,000
Global Microfinance Group	Common Share Equity None	\$65,000	\$500,000
Saroná Global Investment Fund Inc	PA Subvention Certificates None – SRCF is the beneficiary	\$336,000	
MEDA	Promissory Notes None – SRCF is the beneficiary	CAN \$1,917,000 US \$1,048,000	

Saroná Risk Capital Fund Statement of Earnings

Year ended June 30, 2007, Unaudited

	FY07	FY06
Revenue		
MEDA Contributions	568,011	148,927
Interest	178,680	201,182
Dividends	5,284	2,024
Realized gains and losses	24,652	31,197
Unrealized gains and losses	455,296	25,440
Amortization of purchase discounts	9,902	31,970
Grants and contracts	0	575,000
Total Investment Revenue	1,241,825	1,015,740
Provision for Losses		
Provision for loan losses	8,875	73,813
Net Investment Revenue	1,232,950	941,927
Financial Expenses		
Interest paid on debt	136,547	122,792
Exchange (gains)/losses	(22)	0
Total Financial Expenses	136,525	122,792
Net Financial Revenue	1,096,425	819,134
Operating Expenses		
Management fees	164,997	120,000
Bank charges	537	1,261
Total Operating Expenses	165,534	121,261
Net Income (Loss)	930,891	697,873



Jaunita's Story: Making the Daily Bread

Walking through the makeshift gate and into the yard of Juanita's humble house, you wouldn't believe she was the owner of a thriving bakery business. A few chickens roam free in the yard and the evidence of poverty is everywhere. This is shantytown Nicaragua, the poorest country in Latin America.

But look closer and you get a glimpse into a successful home business that has transformed Juanita's life. A large wood-fired clay oven is smoldering at the perfect baking temperature, three young men are rolling out hundreds of pounds of dough, her husband is loading up the delivery vehicle to send fresh bread and pastries out to various retailers, and Juanita is making sure that everything runs like clockwork from early until late.

Life for her wasn't always this way. Before she started the bakery, Juanita struggled to put food on the table each day and her kids couldn't attend school. She had dreams of growing a small business but simply did not have the capital needed for start-up costs. Mainstream banks rejected her applications

because she had no collateral and she refused offers from loan sharks certain to bankrupt her.

Everything changed when Juanita discovered a microfinance bank set up to fund loans for the working poor with a business dream. She received a loan to grow her business and with hard work and determination her business has grown along with her hope for the future. Her family is fed, her kids are going to school and she looks to the future with great optimism and pride. A simple loan goes a long way in making the daily bread.

News

- MicroVest Capital Management (Saron owns 45% of this company) closed a \$39 million deal with Lehman Brothers Bank in June, making five-year loans to 10 microfinance institutions in eight countries.
- In July, MEDA Investments Inc. launched a sister fund, Saron Risk Capital Fund ILP, a private fund for accredited investors. Both Saron funds will invest in the same companies on the same terms.

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