

# Micro money, mega results

*Switzerland has been a leader in creating and managing some of the world's first and largest MIVs – the private investment funds that liaise between the microfinance institutions and foreign investors*

BY SUSAN VOGEL-MISICKA



Basket Maker: India Mangu Keriya is a basket weaver who received financing from local NGOs to improve his business

For the average resident of Switzerland, a life without bank accounts, credit cards and insurance is unimaginable. Yet these everyday conveniences are practically unheard of in parts of the world where people earn just USD 2 a day.

Thanks to international microfinance efforts, this is beginning to change. In addition to financing small loans (micro-credit), the goal of microfinance institu-

tions (MFIs) is to bring basic financial services to low-income individuals and small business owners. For example, MFIs offer savings accounts as well as health and crop insurance. While some are affiliated with large banks, others are quite informal.

## The microfinance market

“Nobody really knows how many microfinance institutions there are, but there are about 1,500 major ones worldwide. The

number is not so important; what counts is the quality of the services,” says Hans Ramm, a policy advisor with the Swiss Agency for Development and Cooperation (SDC). Ramm’s area of expertise is financial and private sector development.

Worldwide there are about 100 microfinance investment vehicles (MIVs). These are private investment funds that liaise between the MFIs and foreign investors.

According to the Swiss Microfinance Platform, Switzerland has been a leader in creating and managing some of the world's first and largest MIVs. Of those surveyed by the Consultative Group to Assist the Poor (CGAP) in 2008, more than 20 had a direct link to Switzerland.

"There are some very interesting new developments in microfinance; we've been working with some leading Swiss companies here," notes Ramm. As he points out, the SDC has no direct credit or savings schemes, except maybe in conflict areas. Instead, the Swiss development agency has been working on partnerships with private investors.

"We are moving more to policy level and policy building. Nowadays the SDC is hardly financing directly because we have a developed market of social investors – and some of the most important are based in Switzerland," Ramm says.

### A responsible approach

One of these is responsAbility Social Investments AG, which is based in Zurich. Founded as a registered charity in 2001, it later went on to become a social investment company. In 2004, the responsAbility Global Microfinance Fund was the first Swiss microfinance fund authorised for public sale by the Swiss Federal Banking Commission.

Asked who should consider social investments, responsAbility co-founder and CEO Klaus Tischhauser replies, "Everyone who wants to actively shape the future through his or her investments; people who believe that the challenges that our society faces can also be considered investment opportunities as they generally represent investments in solutions."

Put another way: "Often, social investments attract investors who care about others and who feel the need for ensuring that others also get a fair chance," says Tischhauser.

The SDC's Ramm emphasises the need for companies to remember that objective. "Despite the commercialisation of microfinance, it is very important to keep the social mission."

### What's in it for me?

Indeed, there is some money to be made through microfinance, and some investment businesses have done extremely well – provoking criticism from people like Grameen Bank founder Muhammad Yunus, who won the 2006 Nobel Peace Prize for his groundbreaking microfinance work in Bangladesh.

The trick is to strike a healthy balance of truly helping the clients of small means while remaining attractive to investors. According to Tischhauser, microfinance investing is a win-win situation when carried out correctly.

"Social investments are designed to deliver sustained financial returns while at the same time contributing to development in a sustainable way. Therefore, private and institutional investors can professionally contribute to positive social development while at the same time achieving a financial return. Or in other words: there is a benefit for both the investor as well as the other, often less fortunate, people than the investor."

But why not just make a donation and be done with a good deed without having to worry about getting anything in return? In the late 1980s, people began to rethink the system of donations, which simply wasn't working properly.

"Donations are always limited, so they should probably be reserved as a form of welfare for people who cannot help themselves. Microfinance is help for self-help. These people are in a better position to generate income for themselves," points out Ramm.

Such people might include farmers who wish to invest in more efficient equipment, or craftspeople who want to stock up on raw materials to improve their production flow. Microfinance can also help people to nurture a healthy savings habit by providing a safe place to store hard-earned money and even earn interest on it.

### Preventing problems

Yet the recent credit crisis in India has had many people question the wisdom and feasibility of microfinance – in particular microcredit. Seduced by the appeal of

quick cash credit, desperately poor people soon found themselves unable to repay their loans and the exorbitant interest rates attached to them. Even local politicians encouraged their constituents not to bother settling their debts.

This shouldn't be allowed to happen, according to Ramm: "It's better to tell a client if it's not in his or her best interest to take out a loan." Ideally, potential clients should have a certain level of financial literacy to ensure that they know what they are getting into. Lenders also need to stay sharp; Ramm cites the example of a person

who had taken out loans from 16 different providers in Bosnia, which shows that lenders need to compare notes on borrowers. Apart from that, loan officers shouldn't be overly motivated to dole out loans through a juicy incentive system.

"There were many actors in India, some of them very informal. You will never completely prevent a credit crisis," warns Ramm.

Tischhauser of responsAbility says his company was not badly affected by the credit crisis in India.

"As a professional investor, our investment decisions are based on a structured and thorough investment process which includes e.g. also a country and market analysis. As a result of this, we have invested very little in India (less than 3% of our total assets) and hardly anything (approx. 0.15%) in Andhra Pradesh where some market overheating was observed."

He adds that, after a good selection, the company's second most important principle is diversification. In order to limit the risk, responsAbility invests in numerous countries and institutions. Currently, responsAbility manages USD 920 million invested in 350 institutions located in 65 countries.

### Looking ahead

Tischhauser predicts that in the very long-term, microfinance may disappear as the formerly excluded clients are fully integrated into the formal banking sector. In order to achieve this, he believes that the microfinance industry will have to reach

out further to rural areas and offer savings products to the clients.

“This usually requires a banking license and therefore the trend towards formalisation will continue.” In Ramm’s opinion, collaboration between banks and

post offices or retailers can also work out well here. Regardless of the route this multi-million dollar industry takes, the goal should remain the same – as Ramm puts it: “Ultimately the objective is to have a properly functioning financial market so that everybody has access, including the poor.”

**MICROFINANCE  
FAST FACTS**

- Total estimated microfinance loans outstanding: USD 35 billion (CGAP)
- Total estimated microfinance customers: 154 million (Micro-Credit Summit)
- Total estimated potential customers: 1.5 billion (CGAP)
- Total number of microfinance institutions eligible for commercial funding: 250 (CGAP)
- Total estimated investment by microfinance investment funds (MIVs): USD 13 billion (IAMFI)
- Estimated compound annual growth rate of MIV investment: 79% (CGAP, 2004-2008)
- Number of MIVs: 109 (IAMFI)
- Percent debt deals: 67% (IAMFI)
- Percent equity deals: 30% (IAMFI)
- Percent guarantees: 3% (IAMFI)
- Microfinance funding gap to meet demand: USD 265 billion (CGA)

SOURCE: THE INTERNATIONAL ASSOCIATION OF MICROFINANCE INVESTORS (IAMFI) [WWW.IAMFI.COM/MICROFINANCE\\_INVESTMENT.HTML](http://WWW.IAMFI.COM/MICROFINANCE_INVESTMENT.HTML)

**THE 11 KEY PRINCIPLES OF MICROFINANCE**

1. The poor need a variety of financial services, not just loans.
2. Microfinance is a powerful instrument against poverty.
3. Microfinance means building financial systems that serve the poor.
4. Financial sustainability is necessary to reach significant numbers of poor people.
5. Microfinance is about building permanent local financial institutions.
6. Microcredit is not always the answer.
7. Interest rate ceilings can damage poor people’s access to financial services.
8. The government’s role is as an enabler, not as a direct provider of financial services.
9. Donor subsidies should complement, not compete with private sector capital.
10. The lack of institutional and human capacity is the key constraint.
11. Microfinance works best when it measures and discloses its performance.

SOURCE: CGAP



Tribal Art: An Iban woman weaves a carpet using her tribe's traditional techniques. She is part of a government-supported microfinance program that operates through self-help groups. Self-help groups are groups of five to fifteen women who save and borrow together



Fish trader Oman In a local fish market in Muscat, Oman, a man hands over fresh tuna to a butcher. As much as one-fifth of households in the country depend on microfinance to sustain their enterprises

**EXPANDING THE BUSINESS**

Maria Lucia Potosi Ramirez,  
San Jose de Chorlavi,  
Ecuador

Maria Lucia earns her living by weaving wool sweaters and selling them at the local market. Initially her income was sufficient for the daily necessities of her family, but not enough to buy wool in bulk at lower cost. Not able to provide any collateral, Maria Lucia could not access a loan from a traditional bank. But then she learned about the microfinance institution FINCA, and took out a loan of USD 200. This allowed her to travel to Otavalo City, where she could purchase wool at a lower price. Now her family is doing much better.



**NEW SOURCES OF INCOME**

Cooperativa Agraria  
Cacaotera, Acopagro,  
Peru

The Acopagro cooperative was created in 1992 as part of a UN initiative to combat the cultivation of drugs. Its goal is to give the rural population alternative sources of income. One example is cocoa-growing in Alto El Sol. The cocoa grown there is top quality and in great demand among Swiss chocolate manufacturers. The cooperative's job is to market the cocoa. It now has 1,300 members, all of whom supply environmentally friendly, fairly traded cocoa. responsAbility has supported the cooperative since 2008 with credits to finance the harvest and exports.

