

Many micros make a macro?

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Microfinance is the provision of financial services (credit, savings, fund transfers, insurance) to the working poor in developing countries and countries in transition, who would not normally have access to such services. The large majority of these populations are effectively cut off from banking services.

And yet among these are an important number of micro-entrepreneurs, many of them women, for whom adequate savings and credit services would allow them to graduate from a situation in which they are consumed by their families' day-to-day subsistence to one where they can participate in small

businesses that generate longer-term growth and income. It is this expanding market that is targeted by microfinance institutions (MFIs), those specialized financial entities that seek to respond to these needs and to mitigate the incapacity, or the lack of interest, of the traditional banking sector to cover them. Recent studies estimate the size of this market at USD 250 billions, at a minimum, of which only one-tenth would be financed to date.

Since the end of the 1990s, microfinance has seen an unprecedented boom and has enjoyed growing public recognition, thanks in large part to the efforts of the United Nations, which declared 2005 the "international year of micro-credit", and to the 2006 Nobel laureate Muhammad Yunus and his Grameen Bank.

Birth of a Stable Industry

Having gotten its start from international development players and NGOs, microfinance has progressively moved closer to the private sector. The emergence of MFIs, which join profitability and financial inclusion, has permitted the establishment of a stable and responsible industry.

At the same time, a growing number of microfinance investment vehicles (VIMs) has appeared in the past decade, with the goal of financing the phenomenal growth of MFIs brought about by the tremendous market demand. At the end of 2007, the total assets of these vehicles were estimated at USD 5.4 billion, a growth of over 70% from 2006. This trend was set to continue in 2008 and does

not seem to have been hurt by the current turmoil in the financial markets.

A Unique Investment Opportunity

Microfinance provides an opportunity to invest in a sustainable asset, to contribute to the fight against financial exclusion, and to democratize access to capital, while at the same time offering unique exposure to emerging markets. In exchange, these investments generate a steady return, whose non-correlation with traditional financial markets is confirmed in crisis after crisis. Many institutional and private investors have already made the choice.

Geneva and Investment in Microfinance

At the end of the 1990s, from within the UN Conference on Trade and Development (UNCTAD) in Geneva, the idea emerged to create an investment fund to finance MFIs. Thanks to this UN initiative, this purely commercial fund, the first of a long series, was launched in Luxemburg in 1998. In 2001, the management of this fund was brought back to Geneva and entrusted to an asset manager specializing in microfinance, the first of its kind in the world. Since then, other specialized financial intermediaries have emerged and contributed to reinforcing the major role of Geneva, which is involved in about 20% of the global volume of MFI refinancing by microfinance investment vehicles.

