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BlueOrchard is blazing a responsible investment trail in microfinance – and finding that institutional clients see its modus operandi as increasingly attractive. Mike Scott talks to the firm's chief executive

BlueOrchard is an unusual asset manager. It may be based in Geneva, one of Europe's principal banking centres, but its clients are organizations that lend tiny sums of money to some of the poorest people in the world.

'We are entirely focused on microfinance,' says chief executive Jean-Pierre Klumpp. The company provides cash to more than 100 microfinance institutions (MFIs) in 40 emerging market countries, which in turn fund micro-entrepreneurs 'at the bottom of the pyramid'.

The firm was founded in 2001 by two former employees of Dexia Bank, when the bank outsourced management of its microfinance fund. Its approach represented a change in how microfinance operated, says Klumpp. 'In the 25 years since the sector was established, it's mostly been funded by development banks and charitable grants. But it's an interesting area for investors – it gives both private investors and institutions the opportunity to embrace something with a very strong development component.'

It has also turned out to be something of a haven in uncertain times. 'Microfinance is largely uncorrelated to the formal economy, and it has low volatility', says Klumpp. 'We've not seen any defaults among MFIs, and micro-entrepreneurs are quite resilient. A rising number of MFIs are deposit taking and they operate at a level where they've not been contaminated by what's going on in the global economy.'

However, the sector is finding it more difficult to attract funding because of the credit crunch. Although potential customers waited on the sidelines in October and November, December saw a €20m commitment from one institution even though it was in the process of being taken over. January has continued the trend, and with a new fund available to US investors for the first time, BlueOrchard expects to see inflows from across the Atlantic, too. It has also just been chosen as one of three asset managers to manage a €500m fund set up by the International Finance Corporation, part of the World Bank and KfW, the German development bank.

The firm's first customers were private wealth clients, but it quickly saw the potential among pension funds with a social component to their investment strategy and 60 per cent of managed assets are now from institutions.

However, BlueOrchard is not looking for 'opportunistic investors who want to put their cash with us because there is nothing else'. Instead it is hoping to attract people 'who have a natural affinity with social investing.' Likewise the firm does extensive due diligence on the MFIs it helps out, interviewing senior staff about the social impacts of their lending and making use of an emerging set of ratings for the sector. Organizations must have been in business for a year and have \$1m in assets.

Microfinance is a long-term investment, Klumpp stresses. 'People who borrow from MFIs have no social safety net below them. If you pull out in times of trouble, you aggravate the situation for people who have only recently seen improvements in their lives.

'You are socially responsible not just when you get in, but also when you do not get out. We stress to investors that this should be a buy-and-hold investment with a lasting commitment. Most of our clients are proud to have this in their portfolio.'

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