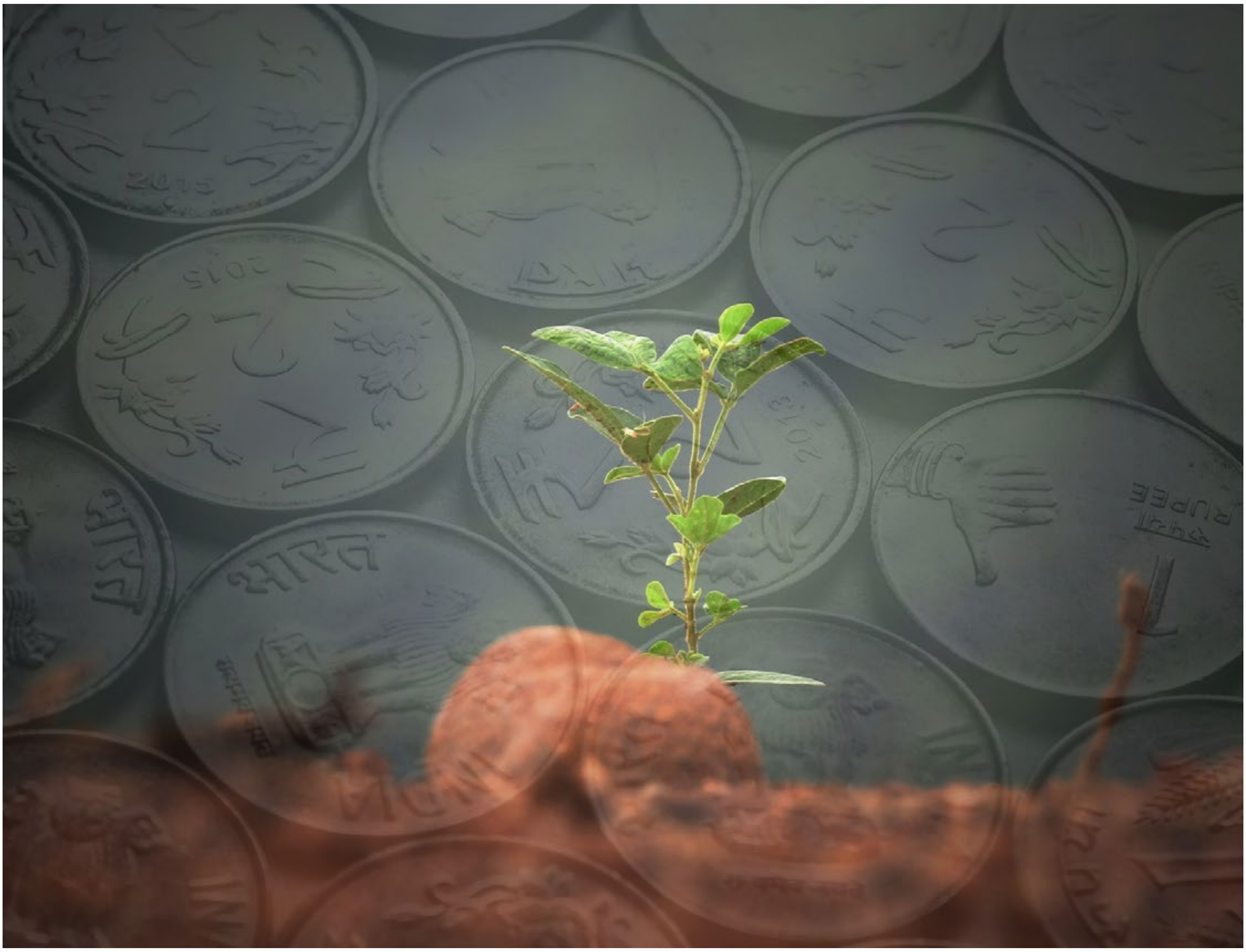
Event Summary

Microfinance

From Covid-Relief to Fintech Opportunities

by Julia Axelsson, CAIA



"Although 2020 was not a good year, returns-wise, I think the managers of our microfinance fund handled the crisis well, continuing to provide capital to those who needed it most."

Cecilia Kellner
Investment Manager & Sustainability Strategist
Nordea Life & Pension

Over the years, microfinance has proved to be an effective way of generating meaningful social impact. It also offers an exciting investment opportunity for investors, from institutions to individual savers. Microfinance investments are less correlated with public markets and show remarkable resilience to shocks while providing positive opportunities to finance relief programs. With the unprecedented expansion of internet and mobile phone connectivity, microfinance is also perfectly positioned to accelerate the movement for financial inclusion, empowering local entrepreneurs and supporting economic development.

On November 16, NordSIP invited experts in microfinance to explore the intricacies of and the latest developments in this fascinating asset class. Two asset managers, Tim Crijns, Fund Manager for the Microfinance Fund at Triodos Investment Management and Yann Groeger, Regional Director for Africa and Latin America at BlueOrchard Finance, joined asset owner Cecilia Kellner, Investment Manager & Sustainability Strategist at Nordea Life & Pension in a discussion moderated by NordSIP's Editor-in-Chief, Aline Reichenberg Gustafsson.

A good match for responsible pension strategy

When Nordea Life & Pension started allocating money to microfinance Kellner was actively involved in the search for appropriate investments. To kick off the discussion, she shared her thoughts on the rationale behind investing in microfinance and how this niche asset class fits in an institutional portfolio. According to her, this particular investment proposition is attractive both from an impact perspective and because of its very low correlation with other assets. The microfinance investment is part of Nordea Life & Pension's emerging market fixed income allocation. Both the long-term commitment and the social aspect of supporting entrepreneurship for small businesses are a good fit for a pensions' portfolio.

The Covid scare

"We were worried, of course, about how the Covid-19 pandemic would affect our investments," admits Kellner. "The countries in our microfinance portfolio were hit hard by lock-downs and lack of vaccines. Luckily, we didn't experience any liquidity issues. And, although 2020 was not a good year [for our microfinance allocation], returns-wise, I think the managers of the fund handled the crisis well, continuing to provide capital to those who needed it most," she says.

Crijns agrees with her that Covid-19 has been somewhat challenging. "To understand why, we need to look at the background of microfinance's inherent decorrelation," he says. "These investments, especially in emerging and frontier markets, have historically

Yann Groeger
Regional Director for Africa
and Latin America
BlueOrchard Finance

been quite resilient to shocks, particularly if you look at the global financial crisis in 2008," explains Crijns. "This time around, however, the nature of the shock was not just financial. It hit the real economy, depriving many people of their livelihoods."

Providing relief

Observing first-hand the devastating effects of the pandemic on their investees, in 2020, Triodos supported them in these unprecedented and challenging times, providing additional facilities, or restructuring current ones. "If we had been the only ones doing that, however, while others withdrew their money, microfinance would collapse," he says. Triodos reached therefore out to other microfinance actors, and many of them joined the initiative, providing liquidity to get the sector through this rough patch.

"Liquidity was really crucial during this period," agrees Groeger. As many institutions continued to finance small businesses despite the circumstances, it was essential to support them and give them sufficient time to repay. "The crisis also gave a strong push towards digital solutions, especially in Africa and Latin America," he adds.

"Overall, the sector proved to be more resilient than what we would have expected," says Groeger. According to him, while assessing the situation, they saw the need for liquidity in the short term and solvency support in the long term. Based on this analysis, BlueOrchard was quick to launch a specific strategy to address both issues, and the response to it from investors has been overwhelmingly positive.

"People need cheaper and safer solutions, and impact investors can help by financing those. It is also a promising investment, from a commercial point of view."

Themes and examples: Education & Climate Change

Covid-19 has demonstrated clearly what an elevated sense of urgency means and how it puts other impact themes in perspective. Looking beyond the pandemic, Kellner mentions how difficult it is for an investor to prioritise between different impact areas. Climate change, human rights, education are all urgent issues, yet it is impossible to tackle them all at once. "Climate is the theme we have prioritised," she shares. "But we do invest in other themes, too, and I know we are coming to do more in the coming years," she adds.

At the very mention of education as an investment theme, Groeger, a teacher himself, is eager to talk about the urgent need for investment in this area. He points out the high out-of-school rate in Africa, where currently 110 million children are not receiving the education they need. Financing flexible solutions that combine public and private efforts to tackle the problem, especially in the field of vocational training, is vital, according to him. "Microfinance is the perfect tool to connect investors with solutions," he says.

Rather than dividing all the impact themes into neat separate buckets, Crijns advocates for a more integrated approach. "Climate change is ultimately a social issue too," he says. He is highly aware that the countries his funds operate in and the people who need microloans are probably among those to be most severely affected by climate change. Investing in solar panels in tropical areas is one solution, of course. Triodos Emerging Markets Renewable Energy Fund does precisely this. "At the same time, we need to make sure that people in these countries have the resilience and the buffers to withstand crises," he adds.

Crijns provides many examples of the way microfinancing can help. Like providing credit to people in Kenya not connected to the electricity grid to purchase a solar home system and repay it in instalments. Lending money to taxi drivers in Peru to transform their gas-driven cars to LNG-driven is another example of microfinance advancing the clean energy transition.