

Microfinance's attractive potential

The sector is booming. Geneva-based Symbiotics celebrates ten years of success and intends to double its assets under management in the next three years.

By Myret Zaki

AFTER TEN YEARS OF EXISTENCE, Symbiotics stands out as a microfinance success story in Switzerland and is transforming into a mature sustainable finance manager. The company was founded in Geneva in 2005, the "International Year of Microcredit" as declared by the UN General Assembly. As a microfinance leader in Switzerland, it facilitates access to credit for small entrepreneurs in developing countries who cannot obtain traditional bank loans. Specifically, it channels money from Swiss and international investors to microfinance institutions that lend to small traders or farmers locally. "The Symbiotics business model is to be a guide for investors in the microfinance market," summarize its founders, Genevans Roland Dominicé and Vincent Dufresne. CEO Roland Dominicé was a microfinance pioneer in Geneva, having worked three years as CFO of BlueOrchard, the first microfinance company founded in 2001 "based on an idea that had matured since 1998", before leaving to found Symbiotics.

"No investor has the necessary infrastructure to invest locally in microfinance, and we offer expert research and consulting in this field", says Vincent Dufresne, Deputy CEO. Today, Symbiotics manages assets totaling one billion Swiss francs invested in microcredit. This money funds the loans granted by local institutions to households and low-income micro-entrepreneurs. In view of its role, Symbiotics prides itself on being a "leader in sustainable and inclusive finance (impact investing)."

Rather than working in large emerging markets that have grown beyond the first stages of development, Symbiotics has instead targeted frontier markets such as Bolivia, Peru or Cambodia in recent years. "Today we cover 50 frontier markets through 200 local institutions," says Roland Dominicé.

The company, which does not disclose its revenue, can attest to continuous growth since its inception. "We have experienced an average growth of 40% per year over the past decade and hired 32 people in 2014, for a total of 85 today," stresses Vincent Dufresne. The company has offices in Zurich, London, Cape Town, Mexico and Singapore.

The activities of Symbiotics have vast potential. "The microfinance market is worth between 80 and 100 billion dollars, and microcredit needs are estimated at 250 billion, at a rate of 500 dollars multiplied by 500 million potential micro-entrepreneurs," according to Roland Dominicé.

Responsible investment

Microfinance is considered a sustainable and socially responsible investment because it represents a development approach that promotes economic and financial autonomy, not to be confused with a humanitarian approach. The objective of the providers remains to earn money. Local microfinance institutions do not make things easy for their small customers: interest rates on microloans reach 20 to 30% on average. "The smaller the loan the higher the interest rate," says Roland Dominicé. The more a micro-bank is inclusive and seeks to fund smaller companies in more remote areas, the higher the fixed cost of the loan is in relative terms for the borrower. However, lending institutions are required to never take more than half of the net margin of their client as reimbursement. "But with small amounts, even if it is necessary to pay 40% interest to receive a loan, a micro-entrepreneur in the South can expand his business, buy equipment, and achieve in the end a much higher return on investment", emphasizes Roland Dominicé. "It is not uncommon to see margins of over 100% in microenterprises, especially in the initial stages of such funded activity, and it is in this framework that we must judge the interest rates charged." As for the credit risk, it is very low, with default rates not exceeding 2.5%-3%. However, this alone does not explain interest rates of that order. High interest rates are appropriate in a high-growth economic model, not least because the micro-entrepreneur will receive financial education and assistance towards entrepreneurial autonomy.

This credit model would no longer work in Western economies seeing low growth and sometimes deflation; it therefore offers a significant capital allocation opportunity for European investors who do not know where to turn to find long-term value creation.

There are 111 investment funds specializing in microfinance worldwide, investing 10 billion dollars in this market and growing 10-20% annually. "Among these investors, 40% are institutional," says the CEO. About a quarter of those assets, 2.5 billion is managed from Switzerland, making it a leader in microfinance investments. Yet the market is developing such that, private microfinance investors are surpassing the initial public investors, according to Symbiotics management. Swiss pension funds are slowly opening up to this type of investment, which posts an attractive risk/return ratio: over 10 years, the SMX, the microfinance index created by Symbiotics and which aggregates the main bond funds invested in microfinance worldwide, has an average yield of 4%, with a volatility of 0.6%. In comparison, JP Morgan's overall bond index slightly outperformed the SMX, but with a volatility of about 3%.

This year, Symbiotics has an ambitious goal: to double its assets under management in the next three years. In addition, the company became a mature investment company, emerging in more sophisticated investment instruments, by expanding its palette to include private equity (unlisted companies), listed shares and bonds, and high-yield bonds. Yet it is staying focused on emerging and frontier markets and preserving its sustainable and socially responsible approach. Its objective: to enable investors to also target companies that are at a more advanced stage of development and are included in the microfinance economic chain.

Symbiotics dominates in attracting talent through its corporate culture. "The people who join us are generally motivated to participate in this activity because microfinance gives a meaning to their work that they may not have found in traditional financial institutions," says Vincent Dufresne.