Five Questions about Microfinance – Special Interview with Roland Dominicé, CEO, Symbiotics, Geneva, Switzerland – July 2, 2012

By Geoffrey *on July 2, 2012*

On the first Monday of each month Emerging Markets ESG publishes a special interview with an academic, expert or practitioner about a specific topic with relevance to environmental, social and/or governance (ESG) issues.

This month's interview, the fourth interview in the special interview series, is about microfinance and is with Roland Dominicé, CEO, Symbiotics, Geneva, Switzerland.

Symbiotics' mission is to contribute to job creation and the economic development of micro, small and medium-sized enterprises, particularly those active in areas related to food, homes, jobs and energy working in a sustainable manner. We achieve this goal by offering investments in partner microfinance and SME impact institutions to our clients. We provide three complementary and independent business proposals: research and advisory services, asset management services and brokerage and structuring services. Each activity is managed by a separate legal entity and staff. In addition, there is a corporate unit providing support to all three businesses. Since its launch in Geneva, Switzerland in 2004, Symbiotics has: positioned itself as a leader in microfinance investment services; offered financial intermediation services to over 25 investment funds specialized in microfinance, in addition to institutional investors and development banks; invested over one billion dollars in microfinance and the development of small and medium enterprises; visited and analyzed over 675 financial institutions, investing in over 150, in over 40 emerging countries; funded over 450,000 micro-, small and medium-sized enterprises, thereby indirectly supporting the access to capital and financial services to over two million low-income households; created Symbiotics Asset Management, an asset management company that has outperformed industry benchmarks since its launch in 2008; designed and developed Syminvest.com, the biggest online research and brokerage platform in the microfinance industry; and hired more than 76 experts in four continents, working in their offices in Cape Town, Geneva, Mexico City and Singapore.

Roland Dominicé is CEO of Symbiotics Group. Prior to co-founding Symbiotics, Roland worked for BlueOrchard Finance as their CFO for three years, as well as for PricewaterhouseCoopers in Geneva in management consulting, for McKesson in San Francisco in corporate finance, and for UBS Switzerland in institutional asset management. He holds a master's degree in International Relations from the Graduate Institute (IHEID) in Geneva and a master's degree in Social Sciences from the University of Chicago.

Emerging Markets ESG: How would you define microfinance?

Roland Dominicé: Microfinance can be defined as the provision of access to capital and financial services in low income economies. Microfinance is offered both to businesses and individuals in the form of credit, savings, remittances, payment services, insurance and other basic financial products. Microfinance is nevertheless primarily associated to micro-credit: lending small amounts of capital for the income generating activities of the economically active poor operating in informal sectors. More recently, the definition of micro-credit grew into a broader one of micro- and small enterprise (MSE) financing.

Micro- and small enterprises (MSEs) can be broadly defined as businesses with respectively five employees and up to 50 employees. Traditional banking activities rarely allow investment money to reach out into the lower segments of the market, primarily for cost and efficiency reasons, excluding the micro- and small entrepreneurial activities from accessing the capital they require to finance their growth. Today though, over 80% of the world's population, or more than five billion people, live with less than USD 10 a day, and more than half of them are employed by micro- and small enterprises. Their markets have thus seen the burgeoning of specialized financial institutions, or "microfinance institutions", aiming to fulfill their capital and financing needs, in particular in the context of fast growing emerging markets.

Emerging Markets ESG: What distinguishes microfinance from mainstream finance?

Roland Dominicé: Microfinance stands out from traditional mainstream finance by focusing on underserved markets, at the base of the social pyramid. Globalization has helped to create growth opportunities in both lower income markets and new geographical regions. Today, larger corporations and wealthier consumers in developed economies are no longer the epicenters of value creation. Sustained political and technological development across the globe has generated new forces in the global economic demand and supply. As a result, the future will be characterized by growth in emerging economies, job creation in their small enterprise markets and capital accumulation among their low income households. In turn this wealth creation generates virtuous cycles, increasing demand for improved standards of living and building the supply chain for goods and services of first necessity related better access to food, homes and energy. Microfinance can thus be viewed as a spontaneous consequence of much deeper macro-trends in the world economy and is fuelling this much needed democratization of access to capital and financial services to sustain these new enterprise and household aspirations.

From this perspective, microfinance is not *per se* seeking profit maximization but rather using it as a development tool: positively impacting small enterprises and low income households by including them in the virtuous cycle of growth and investment which their economies are experiencing today. By keeping this focus on the end client, microfinance institutions seek shared value creation amongst their various stakeholders, in a balanced and sustainable manner.

Emerging Markets ESG: What is the nexus between microfinance and sustainable development?

Roland Dominicé: Modern investors understand the social power of capital gains and the value of investing in the real economy. They ultimately aim to guarantee their own long term sustainability by seeking shared value creation and thus, in a symbiotic way, benefit from helping others access capital. Whether pension funds or individual retirees, investors are increasingly aware of the positive potential of taking a sustainable approach to investments and thus strive to play a more active role in the way that their capital is allocated. Responsible investors, even small ones, understand the power and influence of their choice, just as individual citizens grasp the power of their votes in a democracy. By proactively choosing tangible and rational asset themes which maximize the capacity to create long term shared gains, they assume the responsibility of their financial power and by choosing profit as a means rather than an end, they contribute to restoring the social function of finance.

The sustainability component of the microfinance industry is essential both for its investors and its practitioners. Symbiotics typically assesses each of its target investees, microfinance institutions, not only through a credit rating and financial valuation, but also through a sustainability rating, assessing the social responsibility of its operations.

Emerging Markets ESG: Mobile phone banking has been heralded as an innovative inclusive banking solution. However, pilot programs in Haiti and Kenya have revealed numerous challenges. Has Symbiotics financed any mobile banking programs? If so, what has your experience shown?

Roland Dominicé: The vast majority of microfinance institutions with which Symbiotics works with currently operate mobile banking solutions or are seeking to implement them. We ourselves do not invest directly in mobile banking operators or developers, but certainly encourage our microfinance institution clients to rapidly embrace this technology. Mobile banking greatly increases the outreach capacity of microfinance; by using a technology – mobile phones – which often has a much wider coverage in low income population than banking accounts, it allows for accelerated growth and efficiency for microfinance institutions.

Of course, many challenges remain to be solved in this new development for the industry. The most important one is probably the capacity for central banks and regulators to legislate appropriately and control their domestic and cross-border electronic money flows in order to ensure good client protection mechanisms.

Emerging Markets ESG: You are the author of the recently published book, *Microfinance Investments*. Could you briefly describe one case study of a successful microfinance investment in Africa and one in South America?

Roland Dominicé: There are many examples of such success cases, in South America, in Africa, and elsewhere.

The most obvious one that comes to mind is that of BancoSol in Bolivia, which to a large extent has been the reference example of commercial microfinance for the past two decades. Today, BancoSol has grown into one of the largest commercial banks in Bolivia, with more than 250,000 active borrowers, with average credits just above USD 2,000, and 475,000 active savings accounts with average balances of about USD 1,000. Its network has grown into 175 branches and service points, employing over 2,000 staff. Over 45% of the micro-credit clientele are women. The bank also has developed an SME banking activity, accounting for about 10% of its portfolio, and is known for its low income housing financing, accounting for over a quarter of its portfolio. In addition, to savings and loans, it offers today among other innovations: domestic and international money transfers, micro-insurance products (including life and health insurance), debit cards, ATMs, mobile banking, internet banking, utility payments, tax payments, letters of credit, as well as financial services to Bolivian immigrants in Spain and the United States. From a financial perspective, the bank's loan portfolio constitutes 80% of its assets, which have grown to USD 725 million, with a financial profitability that they have been able to maintain at between 25 and 30% over the past years.

In Africa, a reference institution would be Equity Bank in Kenya, which today accounts for over half of all bank account in Kenya, with more than 7 million clients. Equity Bank is also one of the rare micro-banks in Africa, and worldwide, to be listed on a stock exchange, and is regularly distinguished for sustainability awards.