

Microfinance Symposium – Geneva October 10 & 11 2005
Investing Private Capital in Micro & Small Business Finance

Why did I invest in microfinance?

Well... the first reaction is that it is a good investment in what can be perceived as a new asset class. The return is double the T-bills, it beats lending money to the US Government, it is un-correlated to the financial markets and therefore has an extremely low volatility while enjoying a 98% global reimbursement rate. Call it an “efficiency ratio”, and try to meet this in any loan at any commercial bank.

It is an ideal diversification for cash positions with monthly liquidity. Had you invested in the Blue Orchard Dexia micro credit Fund in year 2000 in US\$ you would now be enjoying a 35% capital appreciation. In Swiss francs, since 2002 it would come to an 8% capital appreciation. Try getting this kind of returns from your bank...

The true reason isn't as coldly materialistic as my introduction may lead you to believe. The true reason is that I firmly believe that micro-finance represents the best tool for bridging the gap between the rich and poor and for eradicating extreme poverty. It is simply unacceptable to have 4.5 billion people out of 6 billion residing at the very bottom of the economic pyramid.

In order to allow the United Nations to meet its Millennium development goals, we need to go beyond politics, beyond so called human rights embargoes, beyond walls and barbed wire and beyond idiotic wars. We must create very quickly a micro-revolution economic and agricultural by bringing small amounts of money to everyone in order to redefine the social structure by developing the entrepreneurial skills of the poorest, wherever this may be.

Ever since the days of my childhood in Khartoum, I have always had much difficulty in understanding the conditions in which so much of humanity had to live in and failed to believe that no solution existed to change and “cure” this state of things.

I wish to see a World where people, no matter how humble their economic state, are considered open to trade, to do business, to benefit from the pride that this may bring to any successful individual, no matter how modest what he or she does to attain this goal.

A World where poor people are considered business people and not charitable cases, entrepreneurs and not victims, value conscious consumers and not a burden to society.

A World where access to credit is a human right!

Why is it that when I try to convince some of my wealthy friends to invest in micro-finance, so many of them look at me as if I were still a hippy left over from the 60s'? Why is it that the only smart lending be that benefiting corporations and governments?

We need to be more interested in expanding the frontiers of our markets in order to allow the transformation of a mass of people vegetating in misery to access the proud status of micro-entrepreneurship and therefore create hope as a base for their and their children's future. Why is it that we underestimate the entrepreneurial capacity of the poor when we so much admire it with the Rich?

Why would I risk my money lending to the poor when the banks and capital markets have avoided it like the plague since the beginning of time? I do it because I have seen what incredible impact little amounts can do in just a year when lent to women in a Cambodian village. Small money, smart money goes around and ultimately allows a virtuous circle to take form, reaching many who until then were left with little hope, if any. Small money is smart money. It's big Money!!! Its reach and efficiency is now proven all over the world.

The Western world has spend USD 450 billion on loans to Africa over the past 40 years. For the sake of argument, could we, just for a moment, imagine that this massive amount represents USD 100 to 4.5 bio. people. That would surely have an impact on business activity and on the eradication of poverty.

Every government, corporation, politician, celebrity has joined the fight or at least is pretending to actively do so. It is great of course to write-off bad loans that most countries are unable to pay back anyway.

It is great to pledge billions of dollars in aid, but it is unlikely to make poverty history.

China turned to a market economy in 1979, India in 1982 and Vietnam saw its reform program put in place in 1986. These countries did not get richer by receiving aid, they got richer by making money. Look where they are today.

Funding individual and small enterprises in agriculture, industry and service is the engine of a sustainable development. Only financial markets have the resources to fund USD 300 bio. which is the estimated market demand for micro-credits. Today, we supply less than 2 % of that amount.

A world without poverty is possible if micro-finance becomes the priority. It is about getting money to the people, about pushing the limits of accessibility of capital to that very frontier which may be one of its most solid one, against what many a theory would have been applied until today.

If individuals like us take the first risk to participate in the funding of a company such as Blue Orchard, and if we also share the risk on the first ever issue of a micro-finance 7-year bond to allow the funding of leading MFI's around the world, then isn't it big time for leading institutions, commercial banks and big corporate entities to jump in?

That, Ladies and Gentlemen, surely would work.

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