Photo: Archive

The microfinance institutions support micro-entrepreneurs like Alfredo

Investing differently

EL SALVADOR Seeking refuge in Latin America

Apricot Wilson*

Volatility in China. Contagion in Emerging Markets. Brexit or BrexIn. Equity markets have never been for the faint-hearted and 2016 has certainly been no exception. After a prolonged period of relative calm, volatility has returned to markets and has done so with a bang.

Investors looking to avoid this may turn to bond markets, but with yields so low in European markets and US markets set for further rate hikes, this is not without its risks.

The truly cautious investor may look to their bank account as a safe place to store their savings. However, as negative interest rates on deposits become increasingly common, this looks less and less attractive.

One place investors are unlikely to have considered is El Salvador. El Salvador is more renowned for violence and crime than investment opportunities.

Poverty and civil war

It is one of the poorest countries in the Americas and until 1992 was engaged in a bitter civil war. Thirty six percent of the country's rural population lives in poverty.

Yet El Salvador is also a place where some small businesses are thriving. The Luxembourg Microfinance and Development Fund (LMDF), a Luxembourg based SICAV, invests in such countries and allows Luxembourg based investors to do likewise.

To do so it works with various microfinance institutions including Padecomsmcrédito, an organization based in El Salvador which supports micro-entrepreneurs like Alfredo. From a large workshop, Alfredo runs a flourishing carpentry business making all sorts of useful furniture.

Having sought initial advice from a friend, he originally set up the small workshop which has been slowly expanding thanks to micro-loans provided by Pade-

Photo: Christian Muller

Microfinance is one of various ways for people to get out of poverty

comsmcrédito and the LMDF. Business is now thriving, and Alfredo has been able to employ other people from his community. He aims to keep growing the business to create a better life for himself, his son and his elderly parents.

From the calm of Luxembourg, it may not be easy to see how it is possible to invest in micro-entrepreneurs like Alfredo, yet increasingly investors are looking to do so via funds like the LMDF.

To some extent this can be explained by the unpalatable investment environment that we currently see in more conventional markets. Although El Salvador, Haiti, East Timor, Honduras, Niger, and the other countries in which microfinance funds invest certainly have their own individual geopolitical risks, aggregating the investments into a portfolio helps to mitigate these country specific threats.

Moreover, these markets, and in particular the micro-entrepreneurs within them, are not well integrated into global markets and are therefore not exposed to the same risk factors, notably from China, as conventional emerging market investments.

This enables funds like LMDF to earn relatively stable returns in the realm of 2% without the volatility currently associated with global equity markets. The risk is further mitigated by support from the Luxembourg government, which offers a degree of risk protection, in order to support the development aims of the fund.

Yet it is certainly not purely the practical advantages that attract investors to microfinance. Following the financial crisis, there has been an increasing realisation that investments can be used to effect change. Led by the millennial generation, investors are looking to ensure that their portfolio has a positive impact. Funds such as LMDF help investors in this quest.

Social and financial returns

The Fund aims to achieve both social and financial returns and prioritises positive impact as one of its aims. The ripple effect that an investment in microfinance can bring about is one way to do this. Alfredo's business is, for instance, employing other people in the community, bringing much needed funds to a very poor area and bringing in money which enables his family to lead a better life.

Other people in Alfredo's area may also learn from his example helping to lift many more people out of poverty…And, of course, these small businesses are not just in El Salvador. Microfinance investments will also be helping Nai Net in Cambodia, Tatiana in Ecuador, Hadda in Morocco…

Microfinance can contribute to many of the Sustainable Development Goals, the development agenda launched in 2015 to follow on from the progress made towards achieving the Millennium Development Goals.

The goals range from Good Health and Well-Being to No Poverty; Decent Work and Economic Growth to Industry, Innovation and Infrastructure. Each of these goals can be impacted by microfinance, micro-entrepreneurs, the jobs they provide and the ripple effects they have on their community.

In these troubled financial times, it is important to take a different approach to investing. Instead of thinking about conventional asset classes like bonds and equities, think of alternatives. Instead of thinking purely about financial gains, think about social ones too.

** Apricot Wilson is Assistant Investment Manager at the Luxembourg Microfinance and Development Fund*