

# How do we ensure that loans are granted responsibly?

## I-AM VISION MICROFINANCE - Interview with fund manager Birgit Havlik

*The I-AM Vision Microfinance and I-AM Vision Microfinance Local Currency funds are invested in a large number of emerging and developing countries. On what basis does I-AM decide in favour of or against a country?*

There are a number of criteria that are checked before an investment is made. The fund management of the I-AM Vision Microfinance Fund pays particular attention to the existence of structures such as a regulatory authority or a central credit bureau in the countries. An existing high level of over-indebtedness among the population or an oversupply of credit and microfinance institutions are indicators that speak against a disbursement.

*How exactly does the cooperation with the local microfinance institutions work? How can Impact Asset Management ensure that the loans are granted responsibly?*

The careful selection of microfinance institutions (MFIs) is part of our investment process. We also work with Symbiotics, a research company specialising in social impact investments, which provides us with additional ESG data and research on microfinance institutions. Symbiotics SA, based in Geneva, was founded in 2004 and has around 176 employees spread across 10 locations worldwide who regularly monitor microfinance institutions on site.

In order to receive disbursements from us, microfinance institutions must fulfil a wide range of criteria in the areas of social orientation and customer protection in addition to financial stability. For example, it is crucial that the loan officers provide customers with comprehensive advice. The conditions must be transparently presented and explained to the customer. Traditional microfinance institutions also offer non-financial services, such as financial education courses for customers. We also attach great importance to the fact that they are regulated financial institutions. Our funds make disbursements almost exclusively - 95 per cent of the institutions are subject to supervision - to regulated financial institutions.

*How can it be ensured that borrowers as end customers do not fall into a debt trap, as some critics claim?*

Microfinancing is primarily about supporting end customers who are already economically active. In order to obtain an initial loan, customers must provide proof of having been in business for a year, for example. This enables the loan officer to calculate which loan amount is appropriate for the customer with their existing income. Microloans are, as the name suggests, micro or small loans with relatively small volumes and terms. The terms can be between a few weeks and a year. Particularly at the beginning of the lending process, care is taken to ensure that the loans can be repaid with little effort. Only when loans have been repaid can a further loan be paid out if necessary. This prevents over-indebtedness and paying off old loan debts with new loans. Microloans close a gap in the financial system of emerging and developing countries.

This is because people with limited financial resources often have no access to financial services such as a bank account or loans. However, people who run their own business need to invest in order to expand their business and break out of the vicious circle of poverty. The long-term success of the idea of helping people to help themselves can be seen impressively in Europe. The savings banks, Volksbanken and Raiffeisenbanken were founded on this basis around 200 years ago.

*What happens if a customer is unable to repay the loan taken out?*

Thanks to the close contact with the end customer, the loan officer of an MFI is quickly informed in the event of a financial emergency and develops a customised restructuring plan.



Pictures from left to right: Fund manager Birgit Havlik in talks on site with representatives of the local microfinance institutions.

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Such scenarios have recently occurred, particularly during the coronavirus pandemic, when many customers lost their sources of income. The microfinance sector overcame this major challenge through constructive and intensive cooperation with the development banks and MFIs on the ground. Overall, the MFIs in our funds have a high repayment rate of 96 to 98 per cent.

*Have you ever been in a situation where you had to leave a market again?*

Yes, of course. By continuously and rigorously monitoring the countries in which we invest, we can track how the markets are developing. In Cambodia, for example, we have not granted any new loans since 2021. The market is now overbanked and the MFIs are competing with non-sustainable commercial providers.

I-AM has therefore decided not to make any new disbursements and to let existing loans run until maturity. We have thus gradually reduced our exposure in this country without jeopardising current loans to small businesses.

*Can you give us a specific example of a market in which you are currently invested?*

One example is Mongolia, where we undertook a due diligence trip this year. There, the I-AM Vision Microfinance Funds are invested in three banks and one microfinance institution. At the beginning of the trip, we met with the top management of the banks to find out more about current developments and challenges in the country and the respective bank. The areas that the banks are currently trying to drive forward are sustainability and digitalisation. In the area of digitalisation, for example, this means that customers can submit loan applications online, with lower loan amounts. The digital transformation also supports loan officers with the digital recording of documents. However, there are still personal customer advisors: There are still employees present in banks who help customers operate ATMs and also get in touch directly when advice is needed.

By visiting the end customers, we were able to get an idea of the small entrepreneurs supported and their business. These ranged from one-person companies to SMEs with up to 30 employees and covered a broad spectrum of sectors.

The companies were able to successfully establish themselves with the help of the microloans and report good cooperation with the financial institutions.

A very good example of successful business development is a printing company that has been in existence for 20 years. We first visited the company, which is based in the city of Darkhan, in 2013 when we began financing the project. Now, around 10 years later, we were able to see the progress for ourselves: the printer we financed back then has been replaced by a state-of-the-art laser printer and a 3D printer, which complement the business model. Thanks to the microloans, the print shop was able to modernise and expand its business and extend its product range. This has resulted in a significant increase in turnover. The remaining loan and interest payments can be easily serviced from the income. The company was even able to purchase the company headquarters and therefore no longer has to pay rent.

*The I-AM Vision Microfinance and the I-AM Vision Microfinance Local Currency contribute to several UN Sustainable Development Goals. One SDG that is significantly promoted is Goal 5 - gender equality. Can you illustrate this using the example of Mongolia?*

A key concern of the banks we work with is the advancement of women. For example, companies that are managed by women or whose workforce is more than 50 per cent female receive low-interest loans. In Mongolia, we also work with Khan Bank, the country's largest private bank. In collaboration with Symbiotics, the bank has launched a social bond that focuses even more specifically on gender equality. The financial instrument aims to achieve a social impact by focusing on job creation and financing programmes that primarily benefit female borrowers and women-led SMEs.

This innovative approach was recognised at Environmental Finance's Sustainable Debt Awards 2024 for its work in the Innovation Bond Structure (Social Bond) for pioneering the first gender-focused bond in Mongolia. Further information can be found [here](#).



Pictures from left to right: On-site visit to a print shop and the 'Savana' soap label in Mongolia 2024, fund manager Birgit Havlik.