

MICROFINANCE

Ethical Position Paper



What is Microfinance?

Microfinance is the provision of loans, financial services and education to low-income clients who are unable to access them through the mainstream banking system. The basic premise of Microfinance is that it will reduce poverty by providing opportunities for people otherwise ignored by the current banking system. By giving them the opportunity to borrow funds to improve their capacity to produce income, Microfinance creates microenterprises – very small businesses. The hope is that through these businesses communities can work together to increase their standard of living. Microfinance is a bottom up approach to eradicating poverty.

Due to the administration costs associated with loans and the risks of default, low-income people have extremely limited access to loans and financial services that most of us are familiar with. Microfinance attempts to utilize a special funding framework to increase the viability of lending to these potential clients. Funding is often conducted through lending groups where the responsibility for repaying the loan is distributed over a group of people. Such a system reduces the risk of lending and thus keeps the interest rate at more manageable levels, a vital ingredient in making low-income loans a possibility.

One of the pioneers of Microfinance is Muhammed Yunus who won the Nobel Peace Prize in 2006 for his contribution to it. His company, Grameen Bank, based in Bangladesh, has been pioneering this form of lending for over 30 years. Since its inception Microfinance has grown rapidly across the world, and it now attracts the likes of major banks and investment banks all over the world.

Christian Super sees Microfinance as a unique opportunity to invest in the livelihood of the less fortunate people in our world. Through supporting communities through Microfinance Christian Super is doing its part in reducing poverty across the globe.

Why we invest in Microfinance?

Investing in Microfinance is Christian Super's expression of the biblical imperative to care for the poor. The Bible is littered with verses that express this idea. Luke 4:18 says, "The Spirit of the Lord is on me, because he has anointed me to preach good news to the poor. He has sent me to proclaim freedom for the prisoners and recovery of sight for the blind, to release the oppressed" (see also Isaiah 41:17). If we are to be like Jesus then we must adopt his attitude, one of standing up for the rights and livelihood of the poor and oppressed. Microfinance is one way that as Christians we can invest in reducing poverty across the globe.

Further to the biblical reasons for our involvement we also see Microfinance as a strong inclusion in the investment portfolio. The unique nature of Microfinance – reaching grass roots communities that are not so tied to global economic conditions – means that it provides diversification across our investments to enhance the long term growth of our members' funds.

Challenges for Microfinance

We recognize that Microfinance is not a clear cut issue. There is much debate surrounding the economic and social benefits that Microfinance has on poverty stricken communities, particularly regarding high interest rates and the dependence on borrowed funds that can occur. However, we believe that through careful implementation and prudent lending policies it can be a large step towards a solution to poverty and an excellent positive investment opportunity for our members' funds.

One of the common criticisms of Microfinance is the high level interest rates charged by Microfinance institutions. While high in comparison to our banking system, it must be kept in mind that conditions in these economies are very different. The rates charged by Microfinance institutions are unavoidable given its nature. Because of the small size of loans, there are significant administration costs involved for Microfinance institutions, and this pushes interest rates higher than would be found in western economies. Our research has found that compared to less scrupulous lenders that work in poorer regions these interest rates are significantly lower (around 30% per annum compared to upwards of 30% per month from loan sharks). Microfinance is also a much safer way for borrowers to attain funds and gives them an opportunity to earn an income.

As with any service, Microfinance can be done well or poorly. When dealing with people largely uneducated in the area of banking it is incredibly important that it is done in a way that does not exploit or create dependence from clients who are unfamiliar with the trap that credit can cause. Christian Super has implemented processes to ensure that it chooses organisations that have a track record of best practice in these areas and look out for the livelihood of their clients.

What is Christian Super doing?

Our Microfinance investment is currently conducted through MicroVest, an organization whose values we are comfortable with, and who are acutely aware of the potential pitfalls of Microfinance lending. MicroVest, on our behalf, takes action to ensure that lending is conducted in an appropriate way. This includes ensuring wherever possible that the Microfinance institutions in which Christian Super invests avoid creating financial dependence amongst their clients and ensuring that the loans are used to establish income-producing activities, rather than funding consumption or debt spirals. Christian Super is constantly on the lookout for more positive investment opportunities that have both the societal benefits and good prospects for growing our member's funds in an ethical and responsible way, and intends to add another Microfinance manager to our portfolio soon.

*"The Spirit of the Lord is on me,
because he has anointed me to preach
good news to the poor. He has sent me
to proclaim freedom for the prisoners
and recovery of sight for the blind, to
release the oppressed" Luke 4:18*



Contact details

- P** 1300 360 907 (local call cost)
- F** 1300 367 828 (local call cost)
- E** helpdesk@christiansuper.com.au
- M** Christian Super
PO Box 3035
Rhodes NSW 2138 AUSTRALIA
- W** www.christiansuper.com.au

Christian Super

ABN 66 628 776 348
SFN 1242 009 45 SPIN CHR0001AU

Trustee

Christian Super Pty Limited
AFSL No. 244117 ABN 68 065 040 619
RSE License No. L0000918
RSE Registration No. R1004137

GENERAL ADVICE DISCLAIMER

This fact sheet does not take into account the personal objectives, financial situation or needs of any person. You should consider the appropriateness of the information having regard to your own objectives, financial situation and needs and obtain professional financial advice prior to making any decision.

FINANCIAL PLANNING

It is strongly recommended that you seek professional financial planning advice from a licensed financial adviser. Christian Super can connect you with a Financial Planner for financial advice consistent with Christian principles. Please call Christian Super on 1300 360 907.