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How microfinance funds can reduce child labour

Paul Severin

By channelling their assets into microfinance funds, investors can contribute to reducing child labour. This is the opinion held by Martin Cech, Senior Fund Manager with Erste Asset Management.

Microfinance funds invest in microfinance institutes, which grant loans to local recipients. Such microloans give people in developing and emerging countries a leg up in establishing an enterprise. Microfinance is therefore also an instrument that facilitates new perspectives and reduces poverty in the world. "This is often the reason for child labour," as Cech points out. At the same time, such funds offer investors the chance of a positive yield. Microloans at first reduce poverty and as a consequence, child labour. A study illustrates the fact that they are effective: "Our research shows that 85% of all microloans granted are used for business investments as opposed to consumer spending", explains Cech. And he adds: "According to a study by Dehejia and Gatti, access to the credit market can reduce child labour much more effectively than restrictions and direct bans". The fund manager points out that almost two thirds of the loan recipients are female. Alongside the loan scheme, children receive better education as well.

Martin Cech, Fund Manager ERSTE RESPONSIBLE MICROFINANCE

Measurability and transparency crucial for investors

To most investors in microfinance funds, the social yield plays by far the biggest role. This comes with challenges. On the one hand in terms of measurability, which often turns out rather difficult, given that no standardised criteria have been implemented. On the other hand, the demand for transparency among the investors is accordingly high. A monthly statement of the microfinance institutes, the countries, and companies in the portfolio as well as additional key ratios have long become standard. The finance models are not only suited to developing regions, but also to certain countries in Eastern and South-East Europe. This way, investors can not only support people and companies in Africa, Asia, or Latin America, but also, for example, in Bosnia-Herzegovina or Poland.

Idea has been awarded the Nobel Peace Prize

The idea of micro loans was born in 1976: In Jobra, Bangladesh, Muhammad Yunus, professor of economics, leant money to 42 basket weavers for them to be able to expand their businesses. The idea of granting loans to those who otherwise had no chance quickly became popular. In 1983, Yunus institutionalised the idea by establishing Grameen Bank, thus reaching millions of people from then onwards. Depending on the country, loans would range from USD 20 to several hundred US dollars. Countless micro loans have been granted in emerging and developing countries since then. “For the bottom-up support of economic and social development”, Yunus and the bank received the Nobel Peace Prize in 2006.

More information on this interesting topic can be found in the current version of our ESG-Letter:
ERSTE RESPONSIBLE RETURN – The ESG-Letter

Risk notes according to 2011 Austrian Investment Fund Act

The Austrian Financial Market Authority (FMA) hereby warns: In accordance with section 166, para. 1, point 3 of the 2011 Austrian Investment Fund Act, ERSTE RESPONSIBLE MICROFINANCE solely invests in alternative investments that might bear higher investment risks compared with traditional investments. These investments in particular may incur losses up to the total amount of the invested capital.

ERSTE RESPONSIBLE MICROFINANCE may make significant investments in investment funds (UCITS, UCI) pursuant to section 71 of the 2011 Austrian Investment Fund Act.

Paul Severin

Paul Severin has worked at Erste Asset Management since April 2008. Until 2012 he was responsible for the company’s product management; he has directed communications and PR activities since April 2012. From 1992 to 2008, he was director of equity fund management and deputy director for institutional funds at Pioneer Investments Austria in Vienna.

His career in the securities business began in 1992 at Constantia Privatbank as a portfolio manager and analyst. He worked as primary analyst at Creditanstalt Investmentbank in Vienna from 1994 to 1999.

He studied international business at Innsbruck University and Marquette University in Milwaukee, WI, USA. Before his university studies, he worked at Dornbirner Sparkasse in letters of credit and export financing.

Paul Severin is a member of the board at ÖVFA (Austrian Association for Financial Analysis and Asset Management) and a CEFA charter holder.