

CASE STUDY

Published November 2021

BlueOrchard Microfinance Fund: Scaling Loans by Funding Local Institutions

Delivering a just rural transition by supporting the expansion of the Microfinance Institutions providing credit to micro-entrepreneurs, MSMEs and smallholder farmers



supported by



Scaling through Funding Microfinance Institutions by BlueOrchard

Commercial returns from funding the microcredit providers financing agricultural transition

Location

Over 50 emerging and frontier markets worldwide

Context

Microfinance institutions (MFIs) contribute to sustainable development by providing access to capital in underserved markets to micro, small and medium enterprises and low- and middle-income households. They can be run by government, development finance institutions, or private sector providers.

Challenge

Microfinance fills an important niche in agricultural financing, offering micro-loans to producers in need. However, the small ticket size of these loans, combined with the high transaction costs associated with serving rural areas, generally makes it challenging to earn commercial returns from direct lending to smallholders and small to medium-sized enterprises. Though numerous MFIs exist to serve local markets across emerging economies, scaling microfinance has proved challenging. MFIs often lack sufficient cash flow to invest in expansion, and so require external financial support to grow operations. But the rigorous and time-intensive due diligence required before direct investment in microcredit institutions means providing this support to MFIs is deemed too costly and time-intensive by most classes of private sector investors.

Solution

The BlueOrchard Microfinance Fund (BOMF) was founded in 1998 as the first private and fully commercial microfinance investment fund in the world.

Since its inception, it has invested in MFIs in emerging and frontier markets. To provide microfinance capacity while also overcoming the prohibitively high transaction costs of directly lending to smallholders, BOMF finances microfinance institutions.

This approach sees BOMF invest directly in MFIs, with capital used in expanding their outreach, improving the quality and appropriateness of their financial services, and encouraging the development of new products such as savings, insurance and payment services.



The microfinance arm of LOLC Group in Sri Lanka is one such institution funded by BOMF (loan repaid in 2019). LOLC provides individual and group loans for microentrepreneurs in Sri Lanka's agricultural districts, combining funding with advisory and technical support. Since it began borrowing from BlueOrchard in 2011, LOLC has expanded its outreach, improved the quality of its financial services, and developed new products offering integrated agricultural solutions, including machinery, implements, fertilizer and crop care.

“ [The BlueOrchard Microfinance Fund] allows investors to obtain stable and attractive financial returns while fostering financial inclusion. ”

[BlueOrchard Microfinance Fund Investment Strategy](#)



Impact

As of September 2021, 32 million microentrepreneurs have received vital business development capital from MFIs funded by BOMF. BOMF has delivered a favorable financial returns to investors since its inception.*

The Fund is an example of how dedicated bulk financing to MFIs (rather than to individual microentrepreneurs) can lead to scaling of both impact and returns.

“ The fund mobilizes capital at scale for markets where the need is greatest, making a substantial contribution to achieving the Sustainable Development Goals (SDGs). ”

[Philipp Mueller, BlueOrchard CEO](#)

*All investments involve risk. Note specifically that past performance is not an indication of future results.

