

Microfinance

Stanley Fischer
Vice Chairman, Citigroup

Asia Society and Women's World Banking
Annual Microfinance Conference

Women Leaders in Microfinance: Women Working for Women.
May 13, 2003

It is an honor and a pleasure to speak at this important meeting on microfinance – not only because the topic of microfinance is so important, but also because I used to work closely with Nancy Barry when we were both at the World Bank nearly fifteen years ago. I thought at the time that her leaving the World Bank was a loss for the Bank but a gain for the world of women's banking – and that was surely right. She has become a leader among an outstanding group of women – and men too – who are using their time and talent to help people, particularly women, build families, communities and societies.

The Goals of Microfinance

The chief goal of those involved in microfinance is to reduce poverty. That may seem like an overwhelming task, for nearly half the world's population world lives on less than \$2 a day, and about a billion people live on less than a dollar a day. But the task is *not* impossible for the best estimate is that global poverty has been declining over the past decades: not only has the poverty *rate* been declining, so also and encouragingly has the *absolute number* of those living at that level. As we contemplate the task of assisting in reducing global poverty, we need to emphasize both facts: not only that the extent of global poverty is massive and daunting, but also that there has been real progress in reducing it, for that makes the task just a little less daunting.

It is commonly stated that microfinance institutions reach over 50 million clients. Now this seems a far cry from the billion people living in dire poverty, or the additional two billion living in moderate poverty around the world. But it represents something special, for microfinance is a way of helping individuals take charge of their own lives, enabling them to use their own initiative to pursue possibilities that would not otherwise be open to them. And although 50 million clients sounds small against the mountain of a billion living in dire poverty, any mechanism that reaches 50 million people has the potential to make a major dent in poverty.

In the last five years there has been a growth in both the numbers of micro institutions serving poor communities and the numbers of individuals and families they have reached. The Consultative Group to Assist the Poor (CGAP), a multilateral donor organization focused solely on microfinance, and located in the World Bank, is a key center for

research on and the promotion of microfinance. CGAP reports for instance on a poverty assessment of SHARE, an institution with more than 80,000 borrowers in India. The assessment found that 60 percent of entering clients were below the national poverty line and that 72.5 percent lived on less than a dollar a day. The study shows that half those who entered the program in poverty and stayed in it for some time graduated from poverty during that period. This, together with related studies reported by CGAP,¹ provides encouraging evidence that microfinance can help individuals escape poverty.

Not only can microfinance help people emerge from poverty, it is also an effective strategy to reach other Millennium Development goals,² particularly those relating to promoting children's education, improving health outcomes for women and children, and empowering women. Improvements in these areas can be sustained only when households have increased earnings and greater control over financial resources.

No doubt many are skeptical about the reported research results, a skepticism that could be fueled by the undoubted commitment of those involved in the field to promoting it. But there are two fundamental reasons to believe that microfinance can be successful: first, the poor, like everyone else, want to improve their lives, and are willing to invest to do so; and second, access to finance is an important mechanism enabling them to invest. I believe in the potential role of microfinance, for I have seen it at work when I visited my native Zambia three years ago, and visited a remote village, where a small microcredit scheme had raised the well-being of those engaged in it – all of them women – in part by allowing them to buy equipment, in part by allowing them to travel further to expand the extent of their markets.

Microfinance *is* making a difference. And it does that not only by financing investments, but also by providing a saving vehicle for poor people. A key question is whether it is possible to do even more, to achieve even larger scale, to impact directly hundreds of millions of people rather than tens of millions. It is not clear whether the economics will permit that, or whether microfinance is rather destined to remain micro, not only in the scale of individual operations, but also in the overall scale on which it can operate relative to the size of the economy. There are, however, encouraging signs of sustainable growth, and of new innovations to enable scale to be reached.

I believe that an important part of the effort to expand its reach should be to support the development of more market-based, regulated financial institutions. There will continue to be a role for smaller microfinance institutions that are supported by charitable contributions and are non-profit in nature. But if microcredit is to have a macro impact on growth and development, we need many microcredit institutions to evolve in more market-oriented ways – so that they can tap the capital markets, increase their size and reach, and operate more efficiently. Moving into its third phase, CGAP argues that

¹ In CGAP's January 2003 *Focus Note*.

² They are to (1) eradicate extreme poverty and hunger; (2) achieve universal primary education; (3) promote gender equality and empower women; (4) reduce child mortality; (5) improve maternal health; (6) combat HIV/AIDS, malaria, and other diseases; (7) ensure environmental sustainability; and (8) develop a global partnership for development.

microfinance will evolve to include a variety of financial institutions delivering a variety of products. In other words – and this would be a critical development – *microfinance should become the delivery of banking services to the poor*. And if that happens, many microfinance institutions will achieve sustainability and not have to rely on donor resources.

Citigroup's Experience in Microfinance

At this point I would like to become more concrete about what can be done in microfinance. To do that, I shall have to talk about Citigroup's efforts. As you may know, Citigroup and its predecessor companies have been involved in the field of microfinance for the better part of four decades. This engagement began with our philanthropic support to ACCION International for its work in Latin America in 1965 – and as ACCION's programs and methodologies evolved, we followed with support to develop appropriate tools to manage risk, management structures, and loan portfolios. We now provide a wide array of services to 145 microfinance partners in more than 50 countries including, of course, Women's World Banking, ACCION, Grameen, Finca, K-Rep, and others to expand their work in North and Latin America, Africa and Asia.

Let me give you a few examples of the work we have done and are doing in the field. I will begin with our philanthropic and technical assistance, and then describe some of the ways that we are providing financial services, such as cash management and lending, to microfinance institutions.

In India we have been supporting Women's Working Forum for a number of years, providing funds for on-lending and, of equal importance, providing Citibank volunteers to work on software development and marketing outreach. We are also jointly promoting our Citibank Management Development Program, an intensive management course for the branch managers of regional microfinance institutions. Citibank Kenya and WWB will be offering a module on quality and customer satisfaction in Nairobi this coming September.

Recognizing that MFIs may also seek further training, Citigroup is supporting the Microfinance Opportunities program to develop a financial education curriculum that will promote financial literacy among MFIs. Participants may include SEWA Bank in India, Equity Building Society in Kenya, Al Amana in Morocco and Pro Mujer in Peru/Bolivia.

While the bulk of our work is with more established organizations or intermediaries, we also sometimes work with new institutions. In 2002, for example, we made our first grants to support microfinance in West Africa, specifically in Gabon and Cote d'Ivoire. In Gabon we are supporting a program to train 100 farmers both in growing staple products and in financial literacy; and in Cote d'Ivoire we have been working with Opportunities Industrialization Centers to facilitate the start up of more than 750 micro-enterprises. And we are doing start-up work with microfundors in Central and Eastern Europe.

Local, local, local

Core to Citibank's operating philosophy as a business is to function as a very local bank in the communities in which we operate. In practice, this means that Citigroup has a clear interest in enhancing the economic vitality of the local communities where we have a presence. And because we have often been the first overseas bank to open branches in emerging countries around the world, we have tried to build close relationships with NGOs, local businesses, and governments right from the beginning – in China in 1902, in Argentina in 1914, in Indonesia in 1968, in Nigeria in 1984, in Russia in 1994 (following a brief stay in 1917).

Wherever we go, we seek to integrate ourselves into and strengthen the local economy. We have big, global corporate clients, and very local business clients. We hire locally. Of our more than 260,000 employees worldwide, more than 98% are local to the countries in which they work. And this is one of the key ways in which we strengthen the economies in which we operate – for not only does one frequently find former Citibankers as finance ministers and central bank governors, it is also often the case after a few years that the leading local financial institutions hire away people we have trained. Much as we would rather most of them stayed, we do recognize that this is good for the domestic economy.

Our operating approach is simple, but powerful in its implications: greater community level prosperity can build strong economies. And microfinance in turn can help strengthen communities.

Approach

So how exactly does Citigroup approach microfinance? There are four key elements to our strategy designed to continue to build and sustain this field:

1. Generally, *Citigroup works with microfinance intermediaries and networks to ensure that community-based partners have access to the best know-how.* We seek out the best and the most knowledgeable intermediaries and networks in order to expand the field. The intermediaries serving MFIs are critically important because they are an ongoing source of professional and technical advice and training as well as access to capital.
2. Secondly, *we work with leaders in the field to support the emergence of uniform standards, to increase efficiency and transparency.* This includes regulatory standards, accounting, financial statements, risk management, audit and control. This is an extremely important point. MFIs will not be able to attract funds from the capital markets or donors or investors if they do not run their affairs properly.

To foster this work, Citigroup has made a three-year commitment to the Market Information Exchange, popularly known as MIX. The purpose of MIX is to address one of the key challenges to the continued growth of the microfinance industry: the lack of reliable, comparable and publicly available information on the financial strength and performance of Microfinance Institutions (MFIs). Donors, investors, lenders, depositors must have access to data that can support and encourage their decisions to supply capital. Such data is also critical to improving and stimulating MFI performance

3. *Third, we seek to support MFIs to achieve greater scale, outreach and financial self-sustainability.* Just to be clear, this means that we define microfinance not by the size of the institution, but by the size of the loans and other financial services provided to customers. Only if MFIs achieve greater scale can they grow enough to make a significant impact on poverty reduction – and at the same time, only then are we likely to be able to work with them on a market basis. It is for these reasons that we are particularly interested in MFIs that either are or intend to become, regulated financial institutions. Our provision of financial services to these organizations will support their entry into the capital markets so they can expand.

For example, we just joined the newly formed Council of Microfinance Equity Funds to address issues related to providing equity to regulated microfinance institutions. Over the coming months, the Council will address the issues of equity capital in microfinance arising out of the growing number of MFIs that are operating as commercial, regulated financial entities and that require equity capital to support their growth.

4. *And finally, we try to use our strengths to help establish deep, multi-faceted relationships with microfinance institutions and networks.* We believe that we can be much more effective if we establish true partnerships with MFIs and use as many of our capabilities as possible in the relationship. Our senior executives are on boards, advisory committee and loan committees of many of our microfinance partners. We also provide both grants and technical assistance. We actively encourage our employees to share their banking and management knowledge with MFIs around the world and particularly encourage their engagement with those organizations to which our Foundation has given grants.

Microfinance as a Business Opportunity

But, not less important, we also believe that MFIs are a business opportunity. It is important for microfinance to be viewed in this way, not least because this is the only way the industry can become large enough to make a true global impact.

Indeed we are beginning to see the emergence of microfinance as a business opportunity. Global financial institutions such as Citigroup are now providing specialized

underwriting services, wholesale credit facilities and other financial instruments that are currently most helpful in developing the microfinance field.

In July 2002, Citigroup's bank in Mexico, Banamex handled the sale of a "first-of-its-kind" 100 million-peso bond (US\$10 million) for Compartamos, a 13-year provider of microcredit. A Standard & Poors mxA+ rating backs this bond issue, the first bond issue to be guaranteed strictly by the MFI's financial strength rather than by its loan portfolio. This is truly a breakthrough.

As another example, Citibank-Peru issued a US\$6 million bond on behalf of Mibanco. This bond issuance will help Mibanco obtain medium-term stable funding sources from the local Peruvian market, and is the latest step in what has been an ongoing business relationship with Mibanco – Citibank-Peru has offered Mibanco a range of local cash management, asset-based financing, and guarantee and trust services.

In 2001, through a partnership with USAID and the Access to Microfinance and Improved Implementation of Policy Reform Program, Citibank developed a \$6 million facility in Jordan. This facility enables Jordan's USAID-supported MFIs to obtain low-interest loans from commercial banks. Citibank acts as the escrow agent, and also issues guarantees to the commercial banks providing the credit to the microfinance groups.

Let me repeat that the notion of microfinance institutions as business partners is an important one. For that is the way to ensure that the role of microfinance institutions grows, and that is an important route to helping raise the living standards of the poor around the world. And if from our own viewpoint, the more they grow, the more business we will be able to do with them, that is merely another illustration that Adam Smith was right, and that market interactions typically benefit both sides.

Conclusion

Let me end where I started. Microfinance has proved that it can help individuals, particularly women, improve their families' living standards through their own work. The challenge, and it is also a question, is greatly to increase the scale on which microfinance operates. The only way to discover whether that can be done is to try to do it. Progress is being made thanks in large part to many of the people here, and the many others who work with you, and we at Citigroup will continue to work with all of you to that end.

Thank you.