

Microfinance

Stanley Fischer¹
Vice Chairman, Citigroup Inc.

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It is an honor and a pleasure to have been asked to speak at the opening session of this conference, not only because the topic of microfinance is important, but also because I used to work closely with Nancy Barry when we were both at the World Bank over a decade 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 I am happy to have been right on at least that forecast.

I would like to thank Nancy and Women's World Banking for organizing this event, as well as Christina Barrineau, who leads this particular effort [what is "this particular effort" – the conference?] for WWB. Citigroup is pleased to have a strong and growing relationship with WWB, and to support WWB's work to strengthen its affiliates globally, including the building of performance standards, transparency and benchmarking. We also support Friends of WWB, which provides loans to microfinance institutions. And we are also a member of the Global Network for Banking Innovation in Microfinance, which we joined because we want to support the important work that is the focus of this conference – peer exchange and learning, generating new business ideas and deals, as well as the transfer of expertise.

The Goals of Microfinance

The chief goal of those involved in microfinance is to reduce poverty. While considerable progress has been made in reducing global poverty in recent decades, that progress has been very unevenly distributed geographically – and the extent of the poverty that remains is so massive as to demand a response from all those who can contribute.

There is no question that microfinance can help individuals lift themselves out of poverty. There are countless individual cases where this has happened. I saw some examples when I visited my native Zambia less than two 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.

The provision of microcredit undoubtedly benefits the estimated 25 to 40 million people that it reaches today. On a human scale, that is no small achievement. The real challenge would be to achieve scale, to impact hundreds of millions of people rather than tens of

¹ I am grateful to my colleagues Pam Flaherty and Chip Raymond for their assistance.

millions. However it is not clear whether the economics will permit that, or whether microcredit 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.

We need to push ahead to see how much can be achieved – and this is an effort in which Citigroup has tried to help. We believe that part of the effort should be to support the evolution of more microcredit institutions to become 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 truly make a difference at the aggregate level.

Citigroup's Experience in Microfinance

As you may know, Citigroup and its predecessor companies have been involved in the field of microfinance for the better part of the past two decades. This engagement began with our philanthropic support to ACCION International for its work in Latin America back in 1965 – and as ACCION's programs and methodologies evolved, we followed with support to develop appropriate tools for ACCION and others to manage risk, management structures, and loan portfolios. And since the early 90's we have provided a wide array of services to microfinance organizations around the world including ACCION, Grameen, Finca, K-Rep, Women's World Banking, 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 this 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 provide both funding and technical advice to Women's Working Forum. The funding we give is for on-lending to WWF clients requesting larger loans, and also to provide life, health, accident and disability insurance to WWF members. Our grant award also provides for new facilities to train representatives from throughout South Asia.

In November of 2001, based on technical assistance requests from our partners, Citigroup launched the Citibank Management Development Program. Based in Manila, the program provides the branch managers of regional microfinance institutions with an intensive management course.

The feedback from participating partners has been overwhelmingly positive, and we envision this program as part of a package of training modules targeted specifically to MFIs. The quality/customer satisfaction training will now be offered to GNBI members. This is our first example of success transfer and a good example of the role of networks

and Citigroup's role. It is appropriate that Nina Aguas, Citibank's consumer bank head in the Philippines, will be talking about this topic later in the conference, since the Philippines consumer bank this year won our emerging markets award for quality and customer satisfaction.

While the bulk of our work is with more established organizations or intermediaries, we also sometimes work with new institutions. We have supported the creation of the Microcredit Business Development Project for Women in Turkey. In Korea, in 2001, we helped our partner, Joyful Union, through the regulatory process to become the country's first microfinance institution. And we have helped to capitalize loan funds for microfinance organizations in Morocco and Algeria – Al-Amana in Morocco and Agence de Development Social in Algeria.

Embedded Bank Strategy

Core to Citibank's operating philosophy as a business is what we call our "Embedded Bank Strategy". What this means is that we have a global perspective, but we try to function as a 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 been careful 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.

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 nearly 270,000 employees worldwide, more than 90% are local to the countries in which they work.

It's a very simple formula, 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: organizational strength, developing standards, scaling up, and broad-based relationships.

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. Women's World Banking, ACCION and Grameen Trust are all examples.

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. As with all other financial institutions, they need to be run with efficiency, transparency and professionalism. In this regard, we should note that not all MFIs need to meet these standards; smaller microcredit institutions, including small charitable ones, may not be able to meet these standards – but then neither should they be able to attract funds from the capital markets.
3. Third, we seek to support MFIs to achieve greater scale, outreach and financial self-sustainability. Only then 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.
4. And finally, we try to use our strengths to 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 committees 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.

But, no less important, we also believe that MFIs are a business opportunity. We provide a broad range of services to MFIs including bridge loans, deposit services, financial advisory, underwriting and other banking services – just as we do for commercial banks. In short, we try to bring all our strengths to our microfinance relationships.

In time, it is possible that the field will grow to demand more sophisticated products, e.g. specialized underwriting services, wholesale credit facilities, and securitization. We also anticipate and hope that many of the microfinance customers will eventually become customers of our consumer banks – and that would be part of the development process.

Microfinance as a Business Opportunity

It is important for microfinance to be viewed as a business opportunity, not least because this is the only way the industry can become large enough to make a true global impact – if that can be done while microfinance remains micro.

It is too early in the evolution of microfinance for us to contemplate a retail banking role, but we are actively engaged today in both philanthropic and wholesale banking roles.

Our philanthropic role is of very long standing and entirely appropriate to the early stages of a new form of community building.

But we are already seeing the emergence of microfinance as a business opportunity. Global financial institutions such as Citigroup are ideally suited for providing specialized underwriting services, wholesale credit facilities and other financial instruments that are currently most helpful in developing the microfinance field. And we at Citigroup have utilized our strengths to the mutual benefit of our partner MFIs and ourselves.

For instance, in 1999, Citigroup established a partnership with the Overseas Private Investment Corporation (OPIC) to create a \$200 million credit facility designed to bring investments and jobs to 22 countries in Central America and the Caribbean. Included in this credit facility is a \$10 million subfacility specifically available for local microfinance organizations in this region.

As another example, Citibank-Peru has obtained the mandate to issue 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 is the first of its kind in the world – it 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.

We regularly provide letters of credit to worldwide microfinance networks. In 2001, we issued a total of \$4.5 million in letters of credit to microfinance organizations such as ACCION International and FINCA.

We hope that eventually microfinance institutions throughout the world will be viewed more and more as business partners with excellent commercial potential in the future. The more microfinance institutions grow and are successful, the more business we will be able to do with them. And the more they will be able to do to raise the living standards of the poor around the world.

Conclusion

Let me end where I started. We believe that 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 to greatly increase the scale on which microfinance operates. The only way to discover whether that can be done is to try to do it. We at Citigroup intend to work with all of you to that end.

Thank you.