

# Increasing the impact of microfinance in Asia

Part III

Trends | Joining forces

## Microfinance moves into the mainstream

In the 30 years since its inception, the microfinance industry has received mixed reviews. There have been inspirational stories of households and even entire villages that have lifted themselves from the depths of poverty with the help of microcredit loans. However, there have also been disappointing accounts of the inability of microfinance institutions (MFIs) to sustain their operations or to reach the hundreds of millions of poor who still lack access to basic financial services.

The world of microfinance, including that in Asia, is undergoing a major shift. Once the realm of donor-supported, grassroots nonprofit organizations, the microfinance sector is forming partnerships with other stakeholders to create a broad-based approach to the provision of financial services to the poor. By joining forces with governments and commercial banks, the microfinance sector is gaining recognition as a key part of the world's mainstream financial system. This shift is enhancing the sector's ability to reach out to larger numbers of clients with increased efficiency.

The Asia Microfinance Forum, held in Beijing on March 21-24, reflected the movement of microfinance into the mainstream. The forum attracted over 280 participants from more than 20 countries and representing both large and small MFIs, central banks, commercial banks and private investors, as well as a significant number of microfinance experts, consultants, academics and practitioners. Organized by the Banking with the Poor (BWTP) Network and the Foundation for Development Cooperation (FDC), with lead sponsorship from the Citigroup Foundation, the forum focused on how partnerships between MFIs, governments and commercial financial institutions can create a better environment for microfinance services. Closer collaboration between stakeholders encourages innovations such as new product development and the use of information technology, and galvanizes resources for capacity building, including financial education training for MFI staff and their clients.

The forum showcased many examples of partnerships and innovations in Asia that are contributing to international best practice in the microfinance field. In the Philippines, a telecom company has transformed mobile phones into electronic wallets that allow lower-income Filipinos to handle remittances, donations, loan settlements, disbursement of salaries and payment of bills through simple text messaging. Hatton National Bank in Sri Lanka has formed a partnership with the postal service so that post offices can provide electronic banking services for microfinance clients in remote areas.

The forum also increased awareness among microfinance stakeholders of the strengths each brings to the table and the different perspectives that need to be taken into account. Central to discussions was the need for nonprofit organizations that provide microfinance services to conduct operations on a more business-like basis, and for commercial banks to recognize the expertise that MFIs bring to the table in working closely with very poor clients in inner-city slums or scattered across vast rural areas. With regard to the tensions between social mission and sustainability, there was general agreement at the Asia Microfinance Forum that the sector needs to achieve both these purposes. However, some Asian MFIs expressed concern that commercialization might lead to "mission drift"—a dilution of the commitment to poverty reduction. Commercial-style competition for resources could also disadvantage MFIs working in poor and more remote areas by diverting scarce resources to bigger MFIs that can show more stellar achievements in less challenging environments. In response, several participants at the forum pointed to the activities of some larger and more established MFIs to support smaller and less developed organizations, especially in countries where microfinance is not so advanced.

Other participants underlined the need for the private sector's role in microfinance to move beyond philanthropy and work with MFIs as partners to accom-



Robert Morse, head of corporate and investment banking, Citigroup Asia Pacific: "We support the microfinance industry through a combination of philanthropy and commercial initiatives."

moderate small-scale savings, lending and insurance coverage, and to overcome the limitations that conventional banks have regarding access to poor and remote areas.

"At Citigroup, we support the industry through a combination of philanthropy and commercial initiatives," says Robert Morse, CEO, corporate and investment banking, Citigroup Asia Pacific. "In addition to Citigroup Foundation grants worth nearly \$27 million that

increase the capacity of large numbers of MFIs around the world, Citigroup businesses have commercial relationships with many MFIs, microfinance networks and investors to develop products and services that promote greater financial inclusion."

Further discussions at the forum reinforced the vital role played by government in creating a flourishing microfinance environment, but expressed caution about the over-regulation of MFI activities, pointing to

interest-rate caps, inappropriate subsidies and political interference that hinder MFI efficiency and expansion. "The microfinance industry has suffered from the tendency of its advocates to talk up its success and of its detractors to sell it short," says Beris Gwynne, executive director of FDC. "Only through rigorous information gathering and evaluation can we truly appreciate the potential of microfinance to reduce poverty and accelerate sustainable development." ■

## China increases support for microcredit programs

China's experience with microfinance can be traced back to the early days of the People's Republic of China, when rural credit cooperatives and state-owned banks loaned small sums to peasant farmers. From 1993 to 1996, microcredit services were mainly provided by around 300 organizations dependent on international grants and soft loans. However, China's goal of poverty alleviation in the 21st century mobilized the government to allocate funding for microcredit programs within government agencies and financial institutions. Since 2000, China's microcredit sector has been dominated by 30,000 rural credit cooperatives, the City Commercial Bank and the government in a system formalized by the People's Bank of China (PBoC). But these organizations are not financially sustainable and depend mainly on government subsidies or securities to launch and continue the programs. PBoC recently set up a special policy research team to study China's microfinance development and has taken major steps to support the sector, such as establishing training programs to help rural farmers identify profitable business ventures, and financial education programs to teach the poor about good credit practices. The



Yi Gang, assistant governor, PBoC, at the Asia Microfinance Forum.

government has allocated security funds to absorb some of the risk incurred by financial institutions to encourage more loans to the poor. While the government has increased financial support of microfinance activities, it has also pulled back its involvement, encouraging competition among microfinance organizations to improve efficiency and sustainability based on market practices. At the end of 2005, PBoC started trial-run projects in five provinces that allow financing by private investors.

"Microfinance for the poor is a significant part of poverty relief and is intrinsically important to establish an inclusive financial system in China," said Dr. Yi Gang, assistant governor, PBoC, in his opening address at the Asia Microfinance Forum. Professor Du Xiaoshan, deputy director, Rural Development Institute of Chinese Academy of Social Sciences, added: "The major success factors for the sustainable development of microfinance in China will be to create a legal environment and a policy framework that favor the development of all kinds of microfinance institutions, encourage fair and open competition, and minimize government dependence in microfinance operations." ■

Working Women's Forum | Escaping poverty's grip

## Supporting women entrepreneurs in India

For many of India's poor, entering a commercial bank is like stepping into a completely different universe. Complicated paperwork and bureaucratic procedures are understandably frustrating for those who have received little or no education. But that doesn't mean people living below the poverty line in India cannot benefit from the services offered by financial institutions. Common banking products such as savings accounts, insurance coverage and credit can spark economic opportunities that may help the poor better manage their families' finances and shake off poverty's tight grip.

Since 1978, Working Women's Forum (WWF) in India has been reaching out to the poorest women in India's rural villages and urban slums to provide access to tiny loans that are used as seed money for small entrepreneurial ventures. These women are part of a population segment typically overlooked by the formal financial services sector because most banks have not developed specific products, suitable credit-assessment models or new distribution methods for such potential customers.

However, over the past three decades, WWF has redesigned some of the traditional conventions and products offered by commercial banks to create an innovative microfinance model that addresses the unique conditions of the poor. The products are easy

and personalized to their specific credit, savings and insurance needs. To date, WWF has benefited 370,000 borrowers with more than 1.2 million loans worth \$27.3 million; it has achieved this with low operational costs and repayment rates that are impressively higher than the average commercial banking levels.

The success of microfinance institutions (MFIs) such as WWF has attracted increasing interest from large multinational banks such as Citigroup, which recognize the viability of well-managed MFIs and see an opportunity to partner with them to effectively reach out to a larger client base. In July 2004, Citigroup linked with WWF to provide microloans to WWF members. Under this business partnership, each play-

**Women in the lower economic spectrum are bankable and creditworthy**

er brings its own unique strengths to the table: WWF provides efficient frontline operations and on-the-ground expertise to work closely with loan recipients, analyzing clients' credit risk, making loan decisions and collecting repayment. For its part, Citigroup provides the financial backing for each loan, taking on the full credit risk and compensating WWF for its role in originating and servicing such loans. With such a powerful partnership, India's poorest women can now receive business loans from a trusted local MFI that are personally tailored to their specific situations and backed by the world's largest financial group.

"This commercial credit initiative with

Citibank is a positive reaffirmation of our long-held belief that women in the lower economic spectrum are bankable and creditworthy," says Dr. Jaya Arunachalam, WWF's founder and president. "Through this partnership with Citibank, we have opened new vistas in the customer-sensitive area of financial services for a segment with special needs. This intervention empowers these women and helps achieve a lasting impact on the reduction of poverty."

Encouraged by the success of this and similar partnerships, Citigroup has created a corporate division specifically to seek out similar relationships with the best MFIs around the world. Robert Annibale, global director of the Citigroup Microfinance Group, says: "If MFIs are going to become significant providers of

financial services to the poor and underserved, then they also need wider access to financial markets, and institutions like Citigroup need to interact with them on a commercial basis. Together, we can make a huge impact on increasing access to vital financial services."

Established in 2005, the Citigroup Microfinance Group works commercially with selected MFIs, microfinance networks and investors, as partners and clients. Its activities include hedging foreign exchange risks, transaction banking and raising financing from local capital markets. Citigroup also works with MFIs to design appropriate banking products, including savings, insurance and remittance services, and to explore the application of relevant banking technologies to MFI operations. ■



Dr. Jaya Arunachalam, founder and president of Working Women's Forum in India.

Managing finances | Learning the basics

## Financial education for the poor: From savings to debt management

Most people in China learn how to manage their finances very informally, says Bai Chengyu, secretary general of the China Association for Microfinance. "The learning is generally passed down to them by members of their families," Bai explains. "I have never heard of any organizations in China offering financial education training before, but I believe that providing a systematic approach would be very valuable."

Bai is one of 24 experienced microfinance practitioners who attended the first Financial Education for the Poor workshop in Beijing on March 20-21 to learn about a brand-new curriculum that will teach people key financial concepts such as budgeting, savings, debt management, use of bank services and financial negotiations. This innovative curriculum was conceived and designed

by Microfinance Opportunities and Freedom from Hunger, with initial support from the Citigroup Foundation. Its objective is to educate millions of poor people around the world on important financial concepts that will help them make more informed financial decisions and improve their standard of living.

With a \$3.9 million grant from the Citigroup Foundation, over the next three years the curriculum will be shared with more than 60 microfinance organizations worldwide that will then pass the training on to at least two million people. Organizations such as Bai's with a network of 95 local microfinance institutions (MFIs) as well as training organizations will have the opportunity to nominate staff members to become master trainers. These trainers will then lead local efforts to introduce the curriculum to microfinance clients and oth-

er members of low-income households. They will learn how to save and budget their money, what financial services may be most appropriate for their needs and how to manage their debt. "Neither the clients nor their loan officers have ever received formal financial education training," Bai says. "They will certainly benefit from the training."

Robert Morse, chief executive officer, corporate and investment banking, Citigroup Asia Pacific, says: "We are very pleased to be funding this innovative program because it will bring a new level of knowledge and skills to microfinance clients. This initiative also demonstrates the role that long-term multistakeholder partnerships can have in creating sustainable and high-impact approaches to help reduce poverty."

Adds Monique Cohen, president, Microfinance Opportunities: "Low-income populations in developing countries all want to increase their incomes, build their assets and protect against risk. Our curriculum can help them better manage their very scarce capital and thus achieve these important life goals and improve their well-being. Moreover, for MFIs, an informed customer makes for a better bottom line."

Kathleen Stack, vice president of Freedom from Hunger, says: "One of the most important attributes of the curriculum is its ability to be adapted to lo-

cal markets and concerns." This means making sure the learning modules that cover budgeting, savings, debt management, bank services and financial negotiation all work for different market segments, urban and rural, women and men. It also means adapting the material to the learner's stage in life. "The needs of newlyweds are very different from those of the elderly, who can no longer work but lack access to social security," Stack adds.

"Varying literacy levels is another challenge that was taken into consideration in the design of the curriculum," Stack says. "Training for the illiterate calls for creative approaches, such as storytelling and the use of visual aids."

Evelyn Teodora N. Leviste of Catholic Relief Services in Jakarta also attended the workshop. "Our clients are small rural banks, and we provide them with microfinance technical assistance," she says. "This curriculum will greatly benefit both rural banks and nongovernmental organizations. We plan to develop working groups to adapt the curriculum to the country context, and then it will be included in the training programs that are already in use."

The Financial Education for the Poor curriculum will continue to expand as new modules on consumer protection, risk management, insurance and remittances are developed. ■



A Citigroup-funded curriculum teaches microentrepreneurs key financial concepts.

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