

# Microfinance: Building Domestic Markets in Developing Countries

"Citi's biggest contribution, though, is its belief that microfinance can become a valid, profit making business. If it is right, the other big banks will also pile into the market – and so will investors."

"A Survey of Microfinance", *The Economist*, November 2005

BY ROBERT ANNIBALE

## Expanding Access To Financial Services

Long associated primarily with philanthropy, leading microfinance institutions are demonstrating that they are sustainable and scalable providers of financial services to poor and underserved communities, attracting the interest of a wider spectrum of investors – including banks, specialized funds and even technology billionaires.

Many date the beginning of the microfinance movement back to 1976, when Muhammad Yunus, founder of Grameen Bank in Bangladesh, started making small loans to the poor without any collateral – because no one else would. In 2006, Yunus was awarded with the Nobel Peace Prize for his innovation – expanding access to financial services to individuals and communities outside the reach of traditional financial institutions.

Microfinance institutions (MFIs) operate by means of a range of legal vehicles, including banks, non-bank financial institutions, NGOs, cooperatives, etc. Most MFIs micro-credit portfolios have excellent performance histories, usually outperforming local mainstream consumer portfolios.

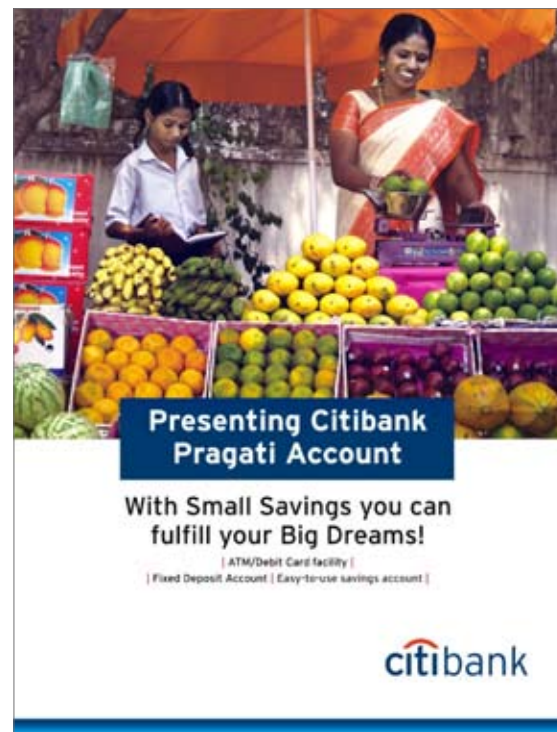
## Innovation Led By Citigroup

In his 2005 letter to Citigroup shareholders, Citigroup Chairman Chuck Prince highlighted the launch of the Citigroup Microfinance Group as an initiative to accelerate and expand the scale and scope of financial access in many countries. Building on Citigroup's 40-year history of philanthropic support to microfinance, the Citigroup Microfinance Group works with our businesses to develop commercial relationships with microfinance institutions, investors and networks as clients and partners.

The Citigroup Microfinance Group works across Citigroup's businesses, product groups and geographies to provide leading microfinance institutions and their clients with financing, capital markets, transaction services, hedging, savings, remittance and insurance products. One of the businesses that has led in supporting this initiative is Citigroup's Export Agency Finance Group (EAF), which works with all leading bilateral and multi-lateral development agencies and Citigroup's country businesses to structure creative financing for microfinance institutions. The largest program with such an agency was announced late last year – a \$100mm Citigroup global microfinance local currency medium-term facility with a risk participation by the Overseas Private Investment Corporation (OPIC). This program will support the expansion of local financing relationships by Citigroup branches with leading microfinance institutions around the world.

"Citigroup is well aware of the need to focus on building domestic markets in developing countries," says Elizabeth Littlefield, the chief executive of the Consultative Group to Assist the Poor, a consortium of development agencies affiliated with the World Bank. "That is absolutely the right thing to be doing."

Following the first local currency private placement for a microfinance institution in Mexico, Banamex and EAF launched an innovative capital markets structure, the first credit enhanced investment grade bond issued by a microfinance institution in Mexico in 2004, which was honored by the



editors of Latin Finance with their Structured Deal of the Year Award.

In September 2005, Citigroup/Banamex concluded the second tranche of this \$50 million local currency structured bond for Financiera Compartamos, Mexico's leading microfinance initiative, with more than 600,000 clients, mostly self-employed rural women. (Compartamos, "lets share" in Spanish, is Latin America's biggest provider of microfinance.) The issue, structured with a partial credit enhancement from the IFC (World Bank), was more than three times oversubscribed by Mexican institutional investors, opening a tremendous investor base for future growth at a significantly reduced cost to the issuer. The five-year investment grade bond was designed to support the rapid growth in micro-loans by Compartamos. This deal established an important capital markets benchmark for the microfinance sector globally. Banamex also provides cash management to Compartamos and



Seguros Banamex developed and currently provides life insurance to over 500,000 of Compartamos' clients that have never been insured before.

Other financing transactions in developing countries include a ten-year facility to ProCredit Holdings (a Frankfurt based network of 19 microfinance banks), as well as arranging the first local currency loan syndication done in Romania to any borrower for ProCredit. Microfinance institutions are increasingly working with Citigroup's Global Transaction Services (GTS) and Treasury businesses as our relationship with the sector deepens. Citigroup's Global Wealth Management business is now the banker to a number of the leading microfinance investment funds and networks, and it is working with Citigroup Alternative Investments on developing investment opportunities for clients interested in co-investing with Citigroup in the microfinance sector.

Citigroup has been developing new partnerships to expand its ability to offer clients safe, fast and lower cost remittances services, such as the partnership between Citibank (in the U.S.) and Banco Solidario (in Ecuador). "Remittances are more than a transfer, they link families who are often our customers," states Bob Annibale, global director of Citigroup's Microfinance Group.

### **An Enormous Need, A Tremendous Opportunity**

Citigroup's efforts have attracted attention, as seen in the November 2005 issue of *The Economist*: "The most ambitious big

bank in... (microfinance) is Citigroup. It does not deal with individual microfinance customers, but has already established relationships with microfinance institutions in 20 countries and thinks the number could soon grow to 30."

Citigroup Microfinance was also honored by the *Financial Times* (FT) with the FT Sustainable Deal of the Year Award in June 2006. Following the first tranche of this deal, the FT editors wrote that Citigroup microfinance team's involvement "...helps Mexico's economic policymakers fulfill one of their most pressing goals – to bring financial services to the nation's poor."

In 2006, The Asset, CFO Asia and IFR Asia, three of Asia's leading financial magazines, honored a Citigroup arranged, with FMO (Netherlands) and KfW (Germany), microfinance transaction for BRAC. This landmark deal brought the global financial markets to the doorsteps of nearly 1.2 million households in Bangladesh. CFO Asia named the six-year US\$180 million equivalent program as "one of its outstanding deals for 2006," as it was the world's first AAA rated local currency securitization of microcredit receivables and marks the first time a capital markets deal from Bangladesh has picked up such accolades from the financial media.

BRAC is the world's largest national NGO, with over five million borrowers (mostly women). About 65% of its loans are for the extremely poor who borrow from US\$50 to US\$100. "The recognition from the financial media for this transaction is most

appreciated by BRAC and our partners. (It has) set a benchmark for the microcredit securitization market that will undoubtedly be replicated in the future to help more microentrepreneurs realize their dreams," says Annibale.

In 2006, Citigroup's Credit Risk Policies were expanded to include a wide range of microfinance institutions and a Microfinance Assessment and Debt Rating Model was introduced. These actions have accelerated and enabled Citigroup's Corporate and Investment Banking businesses to work with many more microfinance institutions as clients and partners.

Citigroup's Global Consumer Bank in India recently launched an innovative micro-savings product called Citibank Pragati ("progress" in Hindi) which was highlighted on the front page of the *Financial Times* as leveraging technology to expand access to savings to the unbanked. It utilizes a biometric ATM, that can identify customers not only by a card and pin, but also by their fingerprints, and it displays and speaks to customers in up to six languages, and these ATMs are located in microfinance partner institutions offices. The Consumer Bank is also providing financing to individual microfinance borrowers by working with leading microfinance institutions as originators and servicers of such loans.

"There's an enormous need and a tremendous opportunity to provide services to people – credit, but also insurance and savings," concludes Annibale, "I hope one day we'll reach as clients many of today's unbanked people."

The Microfinance Group works with and across geographies, businesses and product groups, with all risk, products and revenue remaining in the respective businesses. If you would like to discuss opportunities with microfinance, please contact Bob Annibale at [robert.annibale@citigroup.com](mailto:robert.annibale@citigroup.com) or in London on 44-20-7986-6380.