



## Microfinance : Microcredit

### Thinking Outside the Philanthropy Box: The Banking Sector and Microfinance

**Citigroup has been involved with microfinance since the 1960s, but in recent years building and promoting inclusive financial services has gradually become something more than a philanthropic activity. In 2004 Citigroup created a separate business group to integrate microfinance into the banking and investment branches of the company.**



"There are significantly underserved communities that exist because banks and insurance companies have not gone deep enough and reached the majority of the population in many countries," says Bob Annibale, head of Citigroup Microfinance Group.

We asked Bob Annibale, head of the Citigroup Microfinance Group, how and why microfinance is assuming a greater role in the business operations of the world's largest financial institution.

#### **How has Citigroup's approach to microfinance changed in the last 3-5 years?**

One of the things we really looked at was how we could have a greater impact by actually using our businesses on a whole range of levels to provide financial services.

About two years ago, we launched a microfinance group that has the remit for Citigroup to establish relationships, particularly with microfinance institutions and others who are in this segment - investors, networks, etc. - as commercial partners and clients.

With such partners, we will also be able to learn more about how to expand outreach, diversify products, lower costs, and scale in serving the underserved and unbanked. Today, that is a big challenge in microfinance - the ability to do these things on scalable and replicable basis.

#### **But it's also something Citigroup now incorporates into its business operations, right?**

We want to be more inclusive in our business model, and so my work is based on that objective. When I do my reviews, I sit with the six CEOs of our global businesses; they are my immediate audience. We value the relationships with microfinance institutions and the end clients as just that, clients.

We are leveraging our businesses, geographic presence and expertise in serving them. In Citigroup's annual report last year, Chairman Chuck Prince said launching this as a business was one of the four or five key initiatives for Citigroup in 2005.

If you really want to have financial inclusion, it has to be part of your business model. What will make a difference is what we do commercially, in a sustainable way, and realistically with guidance from partnerships with very good institutions that can ensure a productive engagement with the segment.

**So, the "double-bottom line" - including both social responsibility and business objectives - is important in Citigroup's approach to microfinance?**

There are not many areas when you're doing finance where you always feel that you can associate what you are doing professionally as a banker with broader social objectives. The double-bottom line certainly helps engage people individually and institutionally.

But that is a short-lived buzz if you are not doing this on a sustainable basis. There are significantly underserved communities that exist because banks and insurance companies have not gone deep enough and reached the majority of the population in many countries.

But we also have to begin with humility, because the financial industry has not focused on this segment - the poor and underserved - for very long. There are those who have, such as the microfinance sector, and they have learned and innovated a great deal. We need to understand that the clients' needs are different.

Just as we know the products and delivery are different for our consumer versus our private bank clients versus our investment clients, the same goes here: people generally need savings, insurance or credit products of some kind, but what is appropriate, affordable, and how you deliver it may differ.

**Is this understanding of different needs something you get from local partners?**

Yes, I travel a great deal of the time meeting with microfinance institutions. For me, I most value the time I spend time in Mexico, India or Dhaka talking to local practitioners and organizations like BRAC, seeing who we are actually reaching and serving as partners or end customers.

When the average loan is 100 (US) dollars and 98 percent of clients are women in rural areas, you realize that it is a consumer product that actually touches the individual in many ways.

This helps develop your understanding of what is needed and

appropriate. How do I bring the cost down of delivering a simple savings product to someone? The analogy is to connect people to a national grid, but how do you connect them all without blowing a circuit? How do you give people access to products that they want and need, but appropriately and affordably, which is a big challenge.

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### **What are some of the exciting things going on in microfinance at the moment?**

There's a broadening of interests and contacts among social investors and commercial investors around this segment, which I think is important and new. But what amazes me still is the innovation that comes from the awareness of the many factors that you need to apply to someone to help make a difference.

Innovation has been key to the microfinance sector. I think the work that Grameen and BRAC are doing, for example, in their programs for the ultra-poor is demonstrating how very minimal, but focused support can help raise people to another level of economic activity - one that allows them to then access more mainstream development opportunities.

### **Yet there are still many people out there without access to financial services.**

There are hundreds of millions of people who are certainly underserved by the financial services sector - banks and insurers - but who are economically active and who would benefit from access to financial services. The microfinance sector has demonstrated how such individuals avail of a range of financial services - savings, credit and insurance.

There are important roles for all kinds of institutions to expand access to the underserved, including NGOs, non-bank financial institutions, credit unions and cooperatives, and banks.

How can you ignore the fact that the vast majority of people don't have a bank account or insurance? I don't get it! Coca Cola does not ignore 90 percent of a country and concentrate only on the top 30 percent in terms of wealth.

If you're Gucci, perhaps you can do that, but all of the major consumer entities realized long ago that to succeed, their business models could not exclude the vast majority of their communities. They had to come up with the appropriate product at a low-enough cost, with the right marketing, different distribution, etc.

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