

A Billion to Gain?

AN UPDATE

A study on global financial institutions and microfinance



November 2006



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Executive Summary

This study

Since the end of last year's International Year of Microcredit 2005, numerous global commercial banks and international financial institutions¹ have rapidly expanded their microfinance activities. While some banks have been in the business for several years, most international banks have been engaged in microfinance for only two or three years. The purpose of this paper is to provide an update of the February 2006 study on global commercial banks and microfinance entitled *A Billion to Gain?*. This paper serves two objectives:

- ◆ To provide an update of international banks' activities and future plans regarding microfinance²;
- ◆ To describe how international banks can contribute to providing financial services to the poor.

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In line with the second objective and to determine how international banks actually fulfil their role as microfinance service providers, the banks' commitment and involvement were examined in more detail. In microfinance, international banks are discovering a new market that is closely related to their core business. How will these banks enter this market? Do international banks serve the poor for corporate responsibility motives or is it a new way of exploring a future commercial activity? As concluded in *A Billion to Gain?* most assume a dual strategy, combining corporate social responsibility (CSR) with immediate or future business goals. It is argued that the phase in which a bank finds itself greatly influences whether strategies focus on social and developmental issues, or on commercial motives. Initially, banks are often committed to microfinance for CSR motives. At a later stage, when they see a business case, they tend to increase their activities and become more involved in microfinance for commercial reasons.

Commitment

Commitment is described as a bank's willingness to allocate resources to microfinance and to serve the market of the unbanked. It is argued that international banks have demonstrated their commitment to serving this market by making innovations in financial products for the benefit of the microfinance sector.

Also, if long-term investments in microfinance projects and long-term business are to be considered seriously, the highest levels of management must be fully committed. Furthermore, communication in annual reports and sustainability reports indicates that banks are committed to microfinance, although extensive communication does not necessarily imply actual involvement.

1 In this report, 'international (commercial) banks' or 'global commercial banks' includes both traditional banks as well as financial institutions that offer banking, insurance and asset management services with a worldwide presence and activities on national and global financial markets. As a matter of convenience, we use the term 'international banks' in this report.

2 An update of the activities of each bank included in the research can be found in the annex of this report.

Involvement and strategy

Involvement indicates to what extent banks have allocated significant resources to microfinance and their willingness to take risks. In addition, it refers to the scope of the various microfinance activities a bank has developed. When looking in depth at actual involvement, it is observed that each bank included in the research is involved in microfinance in a different way. In general, banks have a greater focus on serving Microfinance Institutions (MFIs) than on serving microentrepreneurs themselves. Some international banks, on the other hand, offer retail banking services, operating through the branch network of their local subsidiaries. In the initial phase, banks tend to offer wholesale or retail loans as part of their CSR programme. These activities often have an 'opportunity-driven' character: they are recognised by units in the bank as interesting opportunities but are not yet part of corporate strategy. A few banks have started to offer technical assistance to build capacity for MFIs, in most cases on a not-for-profit basis. As a next step, a bank may see an opportunity for a business case and then start following a dual strategy. In doing so, they make a more deliberate choice, one which is more integrated in the corporate strategy, determining how they can offer suitable products and services for both MFIs and their clients. This may range from securitisation programmes for MFI assets to exploring the market for microinsurance and remittances³. These are examples of products international banks can develop through their insurance companies or through their global presence. Other banks choose to develop the market of the self-employed, or focus on rural banking by taking equity stakes in MFIs. By choosing deliberately how to serve the market, international banks are gradually becoming more involved. This also implies greater investments in microfinance.

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Complementary role of international banks

International commercial banks that enter microfinance often have growth ambitions and are willing to invest in emerging economies or expand their local activities. *A Billion to Gain?* clearly demonstrated that international banks are entering a new world where they can learn from local commercial banks, MFIs and NGOs. To extend their services downward from the traditional clients, international banks should not apply the same business model they use for their traditional clients. They clearly have a 'complementary role'. In many cases, they work together and enter into partnerships with NGOs, development banks and other not-for-profit institutions to achieve synergy. In that way, they can develop innovative products for both MFIs and their clients. In addition, collaboration with local microfinance parties seems to contribute positively to their efficiency. All the banks interviewed have their own approach, incorporating the activities into their organisations.

Despite the significant increase in international banks' microfinance activities over the last year, they are still small players as providers of microfinancial services. Compared to their balance sheets, the sums involved are still very small. Nevertheless, the question is not whether international banks have a role to play, but how their role will develop over the coming years.

Introduction

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International banks have become engaged in microfinance and are not about to leave the stage. To date, international banks are modest players and only serve a few percent of the low-income and poor clients. However, they have become involved increasingly, particularly since 2005. International banks tend to provide their services in cooperation with microfinance institutions (MFIs) or through subsidiaries of their local commercial banks¹.

Background

This report is a follow-up to the report *A Billion to Gain?*, which studied the attitudes and activities of global commercial banks and microfinance, published in February 2006². The first report served as starting point for further reflection and investigation. This paper presents an update of international banks' activities and their future plans. First, it explores in more detail the reason and background of international banks' microfinance activities by examining their commitment and actual involvement in this area. The paper's second objective is to answer the question of how global commercial banks can contribute to increased outreach in providing financial services to the poor.

1 The term MFI refers to NGOs, non-bank financial institutions (NBFI) and commercial banks that specialise in microfinance, as well as separate microfinance programmes in full-service banks.

2 *A Billion to Gain?*, a study on global financial institutions and microfinance, ING Microfinance Support February 2006.

Definition

This study uses the broad definition of microfinance: including individuals in the financial system in developing countries who were not served previously by mainstream financial institutions. This covers a variety of definitions that international banks use themselves in line with their chosen strategy. For example, those that have taken equity stakes in MFIs talk about the development of financial markets. This refers either to the financial infrastructure in general or the development of the market of the self-employed. A bank that provides loans to MFIs by managing a number of microfinance investment funds talks about being an investment bank for social capital. Banks that combine domestic and overseas activities to include people in the financial system are more likely to refer to financial inclusion. In their inclusion efforts, banks tend to collaborate with MFIs rather than with other financial institutions³.

Methodology

Once international banks express their

3 In many developing countries, MFIs are part of the Alternative Financial Institutions (AFIs), which have both a financial and a developmental objective. AFIs include cooperatives, credit unions, rural and local banks, and state development or agricultural banks. Even though both AFIs and MFIs have a large number of low-income clients, MFIs focus more on providing credit to their poor customers, while other AFIs have the tendency to serve their clients through savings products. Given their size and age, MFIs account for a large share; 33% of the loan accounts and 18% of the total combined loan and savings accounts. See also CGAP (Consultative Group to Assist the Poor), 2004: 6,11

commitment to microfinance, they tend to become increasingly involved. A range of indicators was defined to measure international banks' commitment and involvement. Figure 1 shows these indicators and also how commitment and involvement are closely related to a bank's strategic orientation. How these banks perform on these commitment indicators is examined in the first chapter. The actual involvement of international banks is discussed in the second chapter in order to make conclusions with respect to the current and future role of commercial banks regarding increasing access to financial services for the unbanked.

Data was collected by means of a second interview with the representatives of eight banks based in Europe and the US. These banks included most of the banks that participated in the previous study⁴. Information and literature available in the public domain was also consulted.

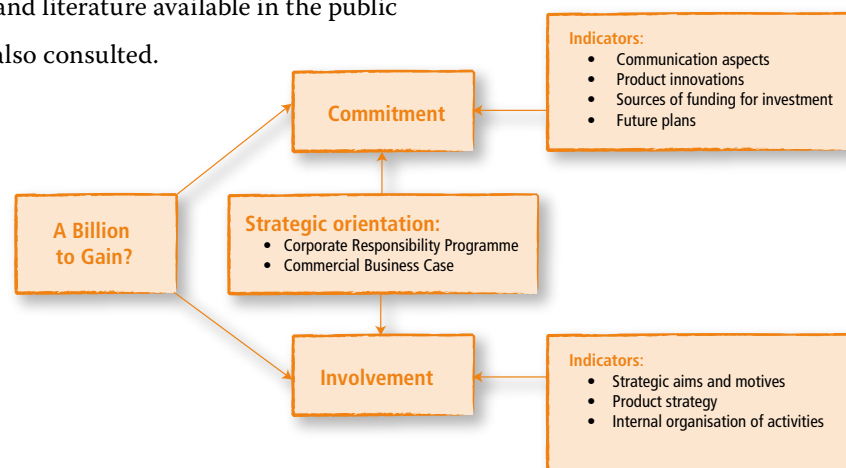


Figure 1: The relation between commitment, involvement and strategy of international banks in microfinance.

4 Three banks, which were included in the previous study, did not participate again, although their results have been included where possible.

Conclusions

In most cases, microfinance is initiated as part of banks' CSR policy. This explains to a large extent the commitment they express in serving the market of the unbanked. As a next step banks are starting to see a business case and long-term profits and gradually become more involved. Owing to their scale and expertise, international banks can stimulate innovations for microfinance and contribute to efficiency gains for microfinance operations. This could open the door to increasing the outreach of microfinance services around the world.

I Commitment

How committed are international banks regarding their engagement in microfinance? Are they really willing to serve low-income and poor client groups without any track record or collateral? Commitment can be defined as the willingness of international banks to allocate resources to microfinance and to serve market of the unbanked. In order to determine the banks' commitment, we examined the following indicators:

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- ◆ How international banks communicate their microfinance activities;
- ◆ Microfinance innovations resulting from international banks' competitive strength in providing financial services;
- ◆ Funding of microfinance investments and to what extent international banks consider these to be long-term or short-term;
- ◆ Whether international banks plan to stay in microfinance.

How do banks communicate their activities?

The way in which international banks communicate their microfinance activities reveals a certain commitment to microfinance by demonstrating their activities and future plans in this area. Furthermore, a major success factor for both international and domestic banks engaged in microfinance is commitment by the highest levels of management.¹ Citigroup's 2005 annual report is an example where the CEO Mr Chuck

Prince announced the launch of the Microfinance Group within its retail division as one of the five highlights in 2005².

International banks use various channels to communicate their microfinance activities. Citigroup's activities, for example, have high exposure in financial newspapers and professional magazines. Other banks that expose their microfinance activities relatively well in the media are ABN AMRO, Barclays and Grupo Santander. Exposure in the media is often related to new activities, deals or events, such as the launch of securitisation programmes or new cooperation structures with non-profit organisations. Communication in the media and in their annual reports illustrates a certain commitment by banks to be engaged in microfinance.

Figure 2 shows that, in 2005, the majority of the banks communicated microfinance as a topic in their sustainability report - a small paragraph in most cases. In some cases, activities were also communicated in the annual report as part of the banks' CSR programme. As the next section on involvement shows, banks talk not only about

2 Other CEOs of international banks that have expressed their commitment to microfinance include Josef Ackermann, CEO of Deutsche Bank (http://www.deutsche-bank.de/en/content/company/headlines_IL_4553.htm, August 31), as well as the CEO of the Rabobank (Sjauw-Koen-Fa and Vereijken, 2005:4) and Grupo Santander (http://www.swwb.org/Spanish/PDF/sp_innovation%20brief_santander_sept05.pdf, 14 September 2006).

1 See also Young et al 2005

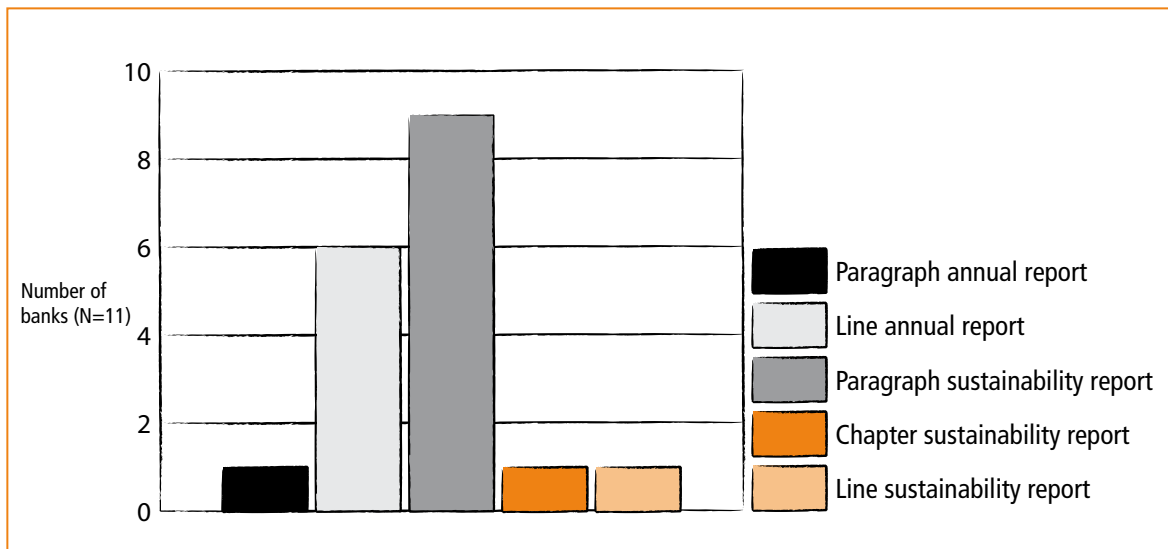


Figure 2: Communication in microfinance in annual report 2005.

microfinance and its relevance, but also take action in this regard.

Innovations that benefit the microfinance sector

Can international banks complement the activities of the microfinance parties operating locally? To what extent do international banks employ the competitive advantage of their expertise in providing financial services? Do they want to innovate for the benefit of microfinance? In the relatively few years that international banks have been active in the market, some of them have proven innovative in offering and adapting their services for the microfinance sector. Citibank, for example, has focused on special financial products that suit the needs of MFIs, while Rabobank and Commerzbank have targeted developing financial markets by taking equity stakes in

local banks. ING, Rabobank and Citibank are examples of banks that share their expertise and offer technical assistance with the aim of building capacity for MFIs.

Table 1 shows a variety of products that can be considered innovations for microfinance. International banks try to fund MFIs in LOCAL CURRENCY. Société Générale and ING offer wholesale loans to MFIs in local currencies through local subsidiaries in the countries where they are active. Deutsche Bank manages three microfinance funds and deposits foreign currency sums with local banks. The local bank subsequently disburses the loan to the MFI in the local currency. In case a branch office is present in the country, Deutsche Bank places the fund as a guarantee deposit with its branch. In this way, the currency risk is guaranteed by Deutsche Bank.

As a result of their global network, international banks have a competitive advantage as guarantor of the exchange rate risk in disbursing local currency loans. Other examples of banks that focus on local currency lending are the Rabobank Foundation and Citibank.

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HSBC and Citigroup are exploring the market of INTERNATIONAL MONEY TRANSFERS OR REMITTANCES. These banks have the additional advantage of a branch network in both the sending and receiving countries. Other banks have explored the MICROINSURANCE market through their insurance branch. This includes Citibank/Banamex and Rabobank through insurance company Interpolis, which currently

has a number of projects running in several Asian countries under the banner of non-profit organisation MIAN (Micro Insurance Association Netherlands). Moreover, ING Vysya offers life insurance in India to clients in rural areas.

To provide access to capital markets for local MFIs, Citigroup and Deutsche Bank have participated in SECURITISATION PROGRAMMES, whereby loans are taken from MFIs' balance sheets in exchange for bonds in local currency.

Banks that take minority EQUITY STAKES in local banks contribute to the development of the financial markets. An example in this regard is Rabobank, which has focused on increasing

Product	Bank	Countries
Loans in local currency	Citigroup, Deutsche Bank, ING, Rabobank Foundation, Société Générale	Worldwide
Remittances, international money transfers	Citigroup, HSBC	Ecuador, Philippines
Securitisation programmes	Citigroup, Deutsche Bank	Mexico, Bangladesh, Bulgaria
Leasing	Citigroup	Peru
Micro-insurance	Citigroup, ING Vysya, Rabobank	Mexico, Philippines, Sri Lanka, Nepal, India and Cambodia
Technical assistance to MFIs	ABN AMRO, Barclays, Citigroup, HSBC, ING, Rabobank	Worldwide
Equity stakes	Commerzbank, Rabobank, Standard Chartered	Southeast Europe, Tanzania, China, Pakistan, Nepal
Investment Funds for clients, for on-lending to MFIs	Deutsche Bank, ING	Worldwide, Eastern Europe, India

Table 1: Overview of innovations in products offered by international banks for microfinance.

its outreach as a food and agricultural bank in Tanzania by taking a 34% equity stake in the National Microfinance Bank. Another example is Commerzbank, which is looking to develop the markets of the self-employed in Southeast Europe by taking a 15-20% equity stake in the ProCredit Banks.

Deutsche Bank partners with various financial institutions and SOCIALLY-RESPONSIBLE INVESTORS in their Global Commercial Microfinance fund. ING gives its clients the option of investing in the Green Finance fund, which allocates part of its funds to microfinance. Since September 2006, ING Bank in the Netherlands offers its clients the possibility of investing in microfinance through the Oikocredit Fund, one of the largest private investment funds for microfinance.

By offering these innovations in financial products, banks contribute directly or indirectly to increasing access to a variety of new financial services for the previously unbanked.

The importance of partnership

As a result of international banks' proven competitive disadvantage in engaging in retail microfinance, most international banks have entered into partnerships with non-profit organisations, NGOs and international microfinance networks (see also Table 2).

In most cases, neither party was used previously to doing business together, but many of these partnerships have been successful in terms of allocating activities to the field in which each party has its own competitive advantage.

Concluding, banks demonstrate their commitment by using their competitive advantage in their innovations for the microfinance sector. This can lead to a wider range of options for further extending microfinancial services. By increasing access to financial markets and by offering technical assistance to build capacity, international banks can achieve greater efficiency and cost reductions for MFIs. In turn, this will eventually benefit the end users.

Bank	Partner
ING	Oikocredit, Women's World Banking (WWB), UNCDF and Opportunity International
ABN AMRO	Accion, ShoreCap
Citigroup	Accion, WWB
Rabobank	Terrafina
Société Générale	ADIE, Planet Finance
Deutsche Bank	WWB

Table 2: Examples of partnerships (not exhaustive).

Funding investments in microfinance

In general, microfinance projects for international banks do not generate short-term profits. For profit-oriented organisations, their commitment is demonstrated therefore through their willingness to invest in microfinance activities. The expected return varies with the goal: when financed through the expense account, engagement in microfinance generally results in only costs. Some banks have greater ambitions and are satisfied when programmes break even. Clients that invest in microfinance through special funds offered by international banks expect a certain return. In addition, clients' deposits used for on-lending to MFIs are constrained as a result of internal risk. Internal risk policies impede banks from investing in certain countries, which means that not all MFIs can be funded by international banks. For example, one bank that intended to fund an established MFI in Nicaragua was unable to do so as a result of country risk limits.

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Figure 3 shows that more than two-thirds of the programmes are financed from expense accounts. Please note that ING, Citigroup and Rabobank have two ongoing microfinance programmes so that this example includes 14 microfinance programmes. Some banks, such as Rabobank and Barclays, have financed their programmes using retained earnings from domestic retail banking activities. Two programmes are using deposits from clients or other third parties: ING Wholesale/Green Finance and the three microfi-

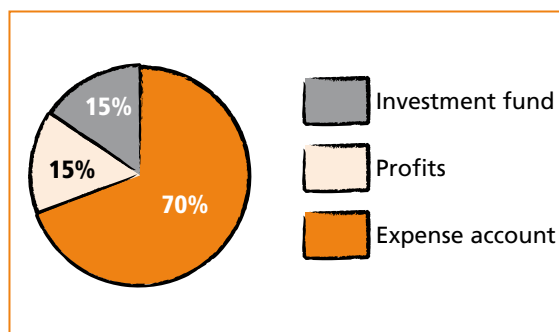


Figure 3: Funding activities of 14 microfinance programmes.

nance funds managed by Deutsche Bank.

Corporate governance structures can also effect how banks follow up on their microfinance activities. If shareholder pressures force a bank to focus on short-term profitability, this can result in less commitment from upper level management for sustainable growth in microfinance projects. Yet this factor does not seem to be significant as almost all international banks consider investment in microfinance to be long-term projects without an expected immediate return. This reflects a certain degree of commitment.

Future plans

When banks were asked about their future plans, they indicated, without exception, that they have no intention of withdrawing from their activities. This means that the majority of the banks will continue or expand their microfinance activities. Table 3 shows some new activities that international banks are exploring at the moment. The fact that banks have started to explore new activities and have shown their ambition to

Field of interest	Bank
Product Development	Citigroup
Market Development by taking equity stakes	Deutsche Bank, Société Générale
Offering technical assistance	Deutsche Bank

Table 3: Future plans.

innovate less than a year after publication of the initial study *A Billion to Gain?* shows that there is considerable momentum and that microfinance operations will be continued and developed further.

Conclusions on commitment

Taking into account the various perspectives that demonstrate commitment to microfinance, it can be concluded that all the banks inter-

viewed, regardless of their aims and motives, are committed to microfinance. International banks have shown that they are serious towards microfinance. They have a long-term view, commitment from the highest management levels to stay in business and the willingness to be innovative in offering financial products to the previously unbanked. In addition, banks consider their investment in microfinance to be long-term (see also Figure 6 on page 25).

II Involvement

International banks have demonstrated their commitment to microfinance, but how does this impact their actual involvement? Involvement indicates to what extent an international bank has allocated significant resources and is prepared to take risks. In addition it refers to the scope of the various microfinance activities a bank has developed. Involvement is also closely related to the strategy banks apply regarding microfinance.

- 18 Relevant perspectives related to international banks' strategies in this regard are aims and motives, products, geographical focus and future plans¹. Another indicator that illustrates the involvement in microfinance is the internal organisation of the activities. This chapter explains in more detail how aims and motives, products and the internal organisation affect international banks' involvement in microfinance.

Strategic aims and motives: opportunity or deliberate choice?

By expanding their activities, international banks are gradually becoming more involved in microfinance. One of the principal conclusions of *A Billion to Gain?* was international banks' dual motive for their microfinance activities. Certain representatives speak more in terms of different phases of international banks' involvement in microfinance projects. Starting primarily from a CSR perspective in the initial phase, microfinance projects can develop into commercially-viable

initiatives. Investment in product development does not necessarily have to be profitable initially, but can be applied in more countries after a successful pilot. Another example is one whereby it becomes interesting for banks to take a minority equity stake in successful MFIs. If international banks see a business opportunity, they will be ready to invest more and thus become involved increasingly.

Citigroup, for example, is currently piloting remittances, microinsurance and leasing products in respectively Mexico, Bolivia and Peru. Also, Deutsche Bank has, since 1998, been managing a US\$4m fund that provides loans to MFIs on concessionary terms. In 2005, together with 13 institutional investors, it started a new fund on commercial terms with assets amounting to US\$80m, which will be committed within two years. Standard Chartered Bank engaged in microfinance on a commercially-viable basis, announced last month that it would commit US\$500m to microfinance².

Under the current conditions, microfinance is not a major business case for international banks in nominal terms. It is not unlikely, however, that microfinance activities will become commercially more interesting within the next five years.

1 As phrased in *A Billion to Gain?* page 20

2 At the Clinton Global Initiative (CGI), Standard Chartered Bank announced that it would invest US\$500m in microfinance by committing US\$100m annually for 5 years. See also <http://microcapital.org/cblog/index.php?/archives/386-Standard-Chartered-to-Establish-500-Million-Microfinance-Facility.html>

Product perspective

The involvement of international banks in micro-finance activities is not influenced exclusively by aims and motives. It is interesting to note how this translates into the products international banks choose to offer MFIs and end users. This choice also reflects an institution's strategic positioning regarding microfinance.

The products offered by international banks can be divided into financial, non-financial, wholesale and retail products³ (see next section for more details). Relatively speaking, providing wholesale and retail loans has more of an opportunity-driven character. This means that units in the bank recognise that providing these loans represents an opportunity, be it not necessarily part of corporate strategy. Most banks provide wholesale loans to MFIs, often a first step for banks in their pioneering phase. In this initial phase, banks take less risk and their aim is more aimed at advancing their CSR policy. Banks that are engaged in retail activities have a local subsidiary, which is explained in some cases by historical and geographical reasons. An example is Banco Santander in Chile and Société Générale in various countries in Africa.

At the same time, Rabobank, Commerzbank and Standard Chartered Bank have taken minority equity stakes in local banks. Although the possi-

bility of taking an equity stake in a local bank is, in many cases, an opportunity that the bank seizes, this type of involvement is a deliberate choice and more linked to a bank's corporate strategy. In general, it involves greater risk and the aim is directed more at expanding into new markets and in the end is more commercially-driven.

Non-financial products such as grants and technical assistance are examples of non-financial products that international banks choose to offer deliberately, in most cases with a corporate social responsibility character. An exception is Rabobank, which offers technical assistance on both commercial and not-for-profit terms.

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Figure 4: Product strategies.

Products

Apart from illustrating a strategic choice, the variety of products offered and the sums involved also indicate to what degree a bank is involved. This is detailed in the following sections. In order to compare the activities, some products were examined in greater detail, namely: wholesale loans to MFIs, retail products, equity stakes in local banks and technical assistance.

3 See *A Billion to Gain?*, Table 2, p.24

Wholesale loans to MFIs

Ten of the eleven banks included in the research disburse wholesale loans to MFIs. It is estimated that, by the end of 2006, banks will have disbursed together wholesale loans between US\$450m and US\$550m. It is estimated that this amounts to an increase of more than US\$100m as compared to 2005⁴. The sums and the involvement in US\$m diverge widely, as does the geographical dispersion. Some banks concentrate on a few countries or a region, for example Commerzbank in Southeast Europe, while Deutsche Bank and Citibank support MFIs around the world. There is a certain degree of concentration in India, where five banks provide wholesale loans to MFIs⁵ Figure 5 shows the number of banks that disburse loans within a certain range and is based on estimates. During 2006, a number of banks increased their loan portfolio and moved up a level.

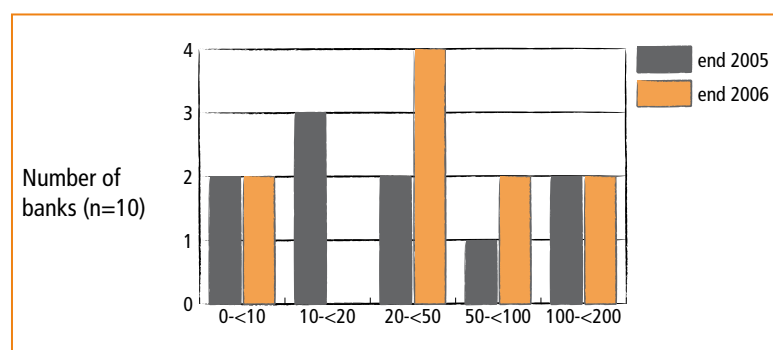


Figure 5: Wholesale loans to MFIs.

4 Not all the banks interviewed disclosed the exact number of wholesale loans disbursed to MFIs.

5 The Reserve Bank of India (RBI) requires all Commercial Banks, Regional Rural Banks (RRB) and cooperatives to allocate 40% of their total advances to the priority sector (agriculture, small and microenterprises, housing loans and microfinance loans).

As far as the number of clients reached is concerned, an average microloan of US\$319⁶ allows some 1.5 million to 2 million microloans to be disbursed for these sums. It is, however, very difficult to determine exactly how many people are reached by loans from international banks. This is partly due to the fact that, in some cases, banks have a bias towards extending loans with a higher average size. This is especially the case for commercial banks, which are involved in retail finance through their local subsidiaries. On the other hand, international banks disburse loans to a wide range of MFIs in different countries, which in turn lend smaller amounts on average to their clients.

Retail products

Banks offering retail products to low-income clients usually do so because they have local

presence through a subsidiary. As services are offered to clients directly, it is easier to determine the number of people reached. Table 5 shows huge differences between the number of clients, products and sums involved for each bank. Please note that the

figures report on a combination of figures for both 2005 and 2006, and that they are estimates.

ABSA, the largest South African retail bank and a subsidiary of Barclays, is committed to serving

Bank	Local Bank	Country	Products	Amount involved (in US\$m)	Number of people reached
ABN AMRO	Real Microcrédito	Brazil	Credit	6	8,800
ING	ING Vysya	India	Credit	74	112,000
			Savings	2.7	
Citigroup	Banamex	Mexico	Insurance	-	600,000
			Savings		40,000
Barclays	ABSA	South Africa	Credit	190	
			Savings		4,037,000
Banco Santander	Santander Banefe	Chile	Credit, savings	125	68,000

Table 4: Overview of retail products offered through local subsidiaries.

the mass market. Please note that the US\$190m refers to microloans, where most of the 4 million customers have a savings account with the bank⁷.

Equity stakes

Over the last year, some banks started taking equity stakes in MFIs and local banks, in some cases to strengthen their corporate identity. Commerzbank, for example, which has traditionally served the self-employed market in Germany, aims to support the development of a small and medium enterprise sector (SME sector) in Central and Eastern Europe. Additionally,

Rabobank, a Dutch cooperative bank that serves the food and agricultural sector, is addressing this sector in developing countries. The bank chooses deliberately to expand in countries with a large agricultural sector in politically-stable countries and has a preference for cooperative structures. More of these equity transactions are expected in the future.

Technical assistance

MFIs have a great need for technical support and capacity building, which international banks can supply. This is the case especially in areas such as

⁷ In South Africa, microloans are used merely for consumption purposes, see Brocades Zaalberg, 2006:43

International Bank	Local Bank	Country	% stake	Sum involved
Commerzbank	ProCredit Holding	South Eastern Europe	10-15%	US\$25m (estimate)
Rabobank	NMB Bank	Tanzania	34%	US\$20m
	URCB Huangzou	China	14.9%	US\$25m
Standard Chartered	Khuskali Bank	Pakistan	-	US\$0.83m
	RMDC Nepal	Nepal	-	-

Table 5: Equity stakes.

IT and communications technology, marketing, remittances and domestic payments. Banks such as ING and Rabobank are involved in providing technical assistance to MFIs by using their own staff to assist MFIs. In 2006, ING increased the number of its technical assistance missions as compared to 2005. Rabobank provides technical assistance and management advice through RIAS (Rabobank International Advisory Services) to help improve the expertise and management quality of financial organisations. RIAS is focusing increasingly on the institutions in which Rabobank has taken an equity stake through its Development Programme (RDP). On average, ten employees, mostly from the Rabobank, are involved in technical assistance. On a more modest scale, the Rabobank Foundation provides technical assistance to MFIs on a not-for-profit basis.

How organised	Bank/Programme
Staff department or Foundation	ING Microfinance Support, Rabobank Development Programme, Barclays Deutsche Bank, Rabobank Foundation, Citigroup Foundation
Integrated in regular banking activities	Commerzbank, Société Générale, ABN AMRO, ING Wholesale Green Finance, Citigroup Microfinance Group
Operations through local subsidiaries	ABN AMRO, ING Vysya, Grupo Santander, Citibank, Barclays

Table 6: Organisation of microfinance activities.

Other banks that provide technical assistance are ABN AMRO and Citigroup Foundation. Banco Santander, ABN AMRO and Barclays provide technical assistance to microentrepreneurs

through their respective subsidiaries in Chile, Brazil and Ghana.

Internal organisation of activities

The way in which banks integrate their microfinance activities in their organisational structure also demonstrates the degree to which a bank is involved in microfinance. In the pioneering phase, microfinance is often part of the banks' CSR programme and organised in a staff department. At a later stage, banks may choose to integrate the activities in the business line: when activities start to become successful in terms of outreach, high repayment rates and profitability they may move up the business line and become an increasingly important niche market for a commercial bank. Citibank, for example, initiated its activities in the Citigroup Foundation. In 2004, the bank

decided to accommodate their larger, more risky and commercially-viable projects in a separate business unit, the Citigroup Microfinance Group.

Table 6 shows how the international banks included in the research have organised their activities differently.

Many banks have channelled their activities through various departments.

The ING Group, for example, provides wholesale and retail loans through ING Vysya, wholesale loans through ING Wholesale Green Finance and technical assistance and an awareness programme

through ING Microfinance Support. Other banks, such as ABN AMRO, Société Générale and Commerzbank have one or more coordinating person(s) within the bank's international department.

The number of people involved in microfinance is another indicator of involvement. At head office level, the majority of the banks (6) have less than 5 people directly responsible full-time for microfinance activities, where only 2 banks have more than 10 people involved. Furthermore, a distinction has to be made between those involved directly and indirectly. In technical assistance projects, knowledge of other people within the organisation is also used, for example when providing technical assistance to MFIs. Banks such as Société Générale, ABN AMRO, Banco Santander, ING and Citigroup all have microfinance activities that run through their local subsidiaries in developing countries. This means that people in the local branch networks are also involved. It is difficult therefore to determine the exact number of people involved.

Conclusions on involvement

Involvement has been examined from various perspectives. First, it is not easy to draw conclusions on qualitative data. Indicators cannot be quantified as sums are not publicised in all cases. Nevertheless, it is possible to create a rough ranking as to actual involvement.

Figure 6 on page 25 shows that when the variety of products and the sums involved are taken into consideration, it can be concluded that Citigroup and Rabobank are more involved in terms of the variety of products they offer and the sums and number of people involved. The two banks have clearly separated their corporate social responsibility from their commercial activities. At the same time, ING and ABN AMRO, whose activities are part mainly of their corporate responsibility programme, have a large number of different activities.

In general, when international banks' focus is not exclusively on corporate social responsibility and the commercial perspective gains importance, it appears that international banks are more involved in microfinance.

Conclusions

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This follow-up study to *A Billion to Gain?* is intended foremost as an update of international banks' activities and future plans regarding microfinance. Since the recent engagement of a number of international banks in microfinance, the expansion of these activities has gained considerable momentum. This study focuses mainly on how international banks can contribute to increasing access to financial services to the poor. International banks clearly perform a complementary role to local parties, in this case commercial banks and other MFIs, and choose to cooperate and not compete with them at the retail level. This paper assesses further what role international banks have in delivering products and services to MFIs and their clients by analysing in more detail their commitment and involvement regarding microfinance.

Commitment

All banks included in the research demonstrate serious commitment to microfinance. International banks are searching for their added value in offering financial services to the poor. Some international banks provide loans in local currency while other banks pilot with products such as remittances and microinsurance. International banks fund the majority of their activities from the expense account and have entered microfinance with a long-term focus. With diverse and rapidly increasing activities, international banks are signalling that they plan to stay in microfinance.

Involvement

Involvement in microfinance is closely related to the international banks' strategies. In the initial phase, international banks enter microfinance for corporate social responsibility reasons. They often see an opportunity in funding MFIs with loans, when possible in local currency, or in providing retail banking services through their local subsidiaries. With the enormous potential of the market of the unbanked, a number of international banks are starting to see a business case and are gradually becoming more involved by offering more products and services. There are various examples of banks that have taken equity stakes in local banks and places on the board. At this point, banks are deliberately choosing to allocate more funds to microfinance. In this way, microfinance is becoming a niche market, with the potential of long-term profit. This also increases the probability that they will reach out to more people.

International banks realise that microfinance is not the same as their traditional business. However, they often see microfinance as an opportunity for increasing their business in emerging markets. International banks have clearly recognised their added value to this market. When choosing their strategy, they often combine both social and commercial drivers.

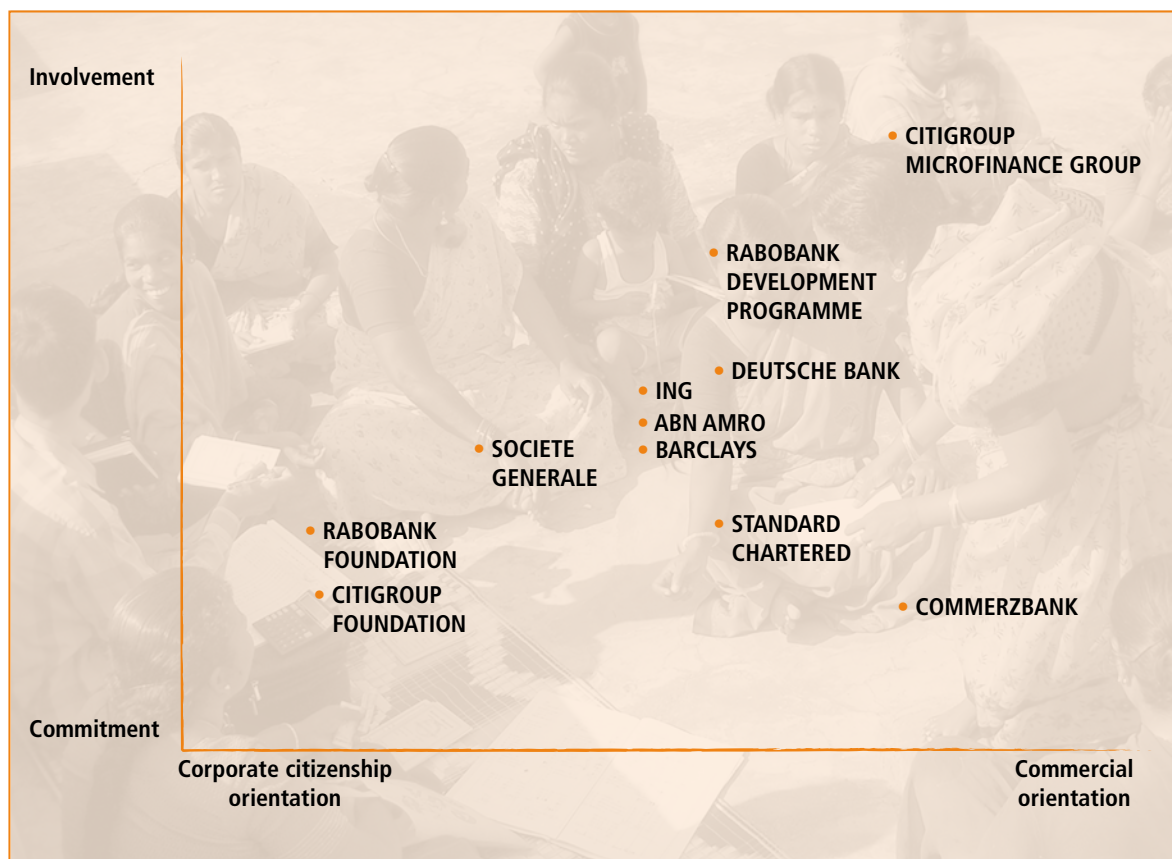


Figure 6: Involvement and commitment related to strategic orientation.

With a billion unbanked people to gain within the next decade, international banks can seriously contribute to an increase in scale in microfinance and make it more efficient. If the banks' focus remains purely on CSR, it is unlikely that sufficient assets will be allocated. This also decreases the likelihood that serious numbers of people will be included in the financial system. Yet by

allowing a commercial focus, the use of their strengths and ongoing cooperation with different partners, they can diversify and increase products and services to and from MFIs. This would mean that international banks can contribute to increasing the outreach target of 175 million of the world's poorest families in 2015, as set by the Microfinance Summit Campaign.

Annex 1

Update of microfinance activities by international banks included in this study

ABN AMRO NV

Head office: Amsterdam, Netherlands

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General

Microfinance activities are an integral part of ABN AMRO's sustainability strategy. The activities are included in the bank's regular banking activities and not set aside in a separate charity vehicle. ABN AMRO is currently active in two countries. In Brazil, it provides credit and technical assistance to microentrepreneurs via its subsidiary Banco Real. In India, the bank provides wholesale loans to local MFIs.

Geographical focus

Brazil, India

Product focus

Credit, technical assistance

Wholesale

The MFIs to which ABN AMRO lends funds in India provide credit to solidarity groups of women in rural India. Currently, the total amount of loans disbursed is US\$32m. The number of MFIs has increased from 16 to 25 and the loan sum has more than doubled in the last year.

Retail

Real Microcrédito is a joint venture of ABN AMRO (80%) and Accion (20%). Operations started in 2002. It currently has a total amount of US\$6m outstanding to 8,800 microentrepreneurs with an average loan sum of US\$808. Clients include both individuals and solidarity groups.

Other activities

In Brazil, Real Microcrédito also provides technical assistance to microentrepreneurs. In India, the bank provides financial advisory services to MFIs. Together with a number of development banks such as FMO, Asian Development Bank and Shore Bank, ABN AMRO has invested US\$2.5m in ShoreCap, part of Shore Cap International, a global investor in microfinance.

In the United States, ABN AMRO is involved in a Community Development and Assistance programme through its subsidiary LaSalle Bank.

Sources: update of information available from ABN AMRO Bank

[http://www.novib.nl/Media/Download/microfinance/245847%20infoblad%20\(abn%20amro\).pdf](http://www.novib.nl/Media/Download/microfinance/245847%20infoblad%20(abn%20amro).pdf), 8 Oct. 2006.

Barclays

Head office: London, United Kingdom

General

Microfinance is part of Barclays' financial inclusion programme. The programme's aim is to provide sustainable solutions in tackling financial exclusion by working with a variety of financial intermediaries used by the unbanked.

Geographical focus

Africa

Products focus

Deposits and lending

Wholesale

In December 2005, Barclays launched its Microbanking programme in Ghana. In the first phase, Barclays has developed a solution to create an account for Susu collectors¹ to deposit their funds. They also provide the collectors with loans, which they can lend on to their customers. Barclays is committing 2.4 billion cedis, (US\$275,000) to fund the project. Barclays is extending Microbanking to over 300 Susu collectors by the end of 2006 and to other intermediaries such as credit unions.

Other activities

Until recently, the bank's financial inclusion efforts have been focused mainly on the UK, where up to 2.8 million people do not have a bank account. As of 31 December

1 In Ghana, 4000 Susu collectors personally gather income of their clients, market traders and other microentrepreneurs and return it at the end of the month, minus one day's pay. In exchange, the Susu collectors provide greater security for their clients' money than they could otherwise achieve. Though each individual client's income is too small for 'high street' banking, the Susu activities collectively amount to a US\$137m economy.

2005, Barclays had opened 379,000 basic bank accounts specifically designed for those consumers on low income and benefits. In the area of affordable credit, Barclays has provided US\$4m in support over the past three years to the community finance sector (such as credit unions) to help promote an alternative to high cost doorstep lenders.

Retail

In 2005, Barclays acquired a 60% stake in ABSA, South Africa's largest retail bank. ABSA provides financial services to 4.3 million low-income clients in South Africa. In total, the bank has ZAR1.4 billion (US\$190m) in outstanding loans. So-called FlexiBanking Services consist of savings, credit, insurance and related products that address the financial needs of the customer base with a monthly income between roughly US\$140 and US\$600. Microloans disbursed consist of both consumer loans and loans for microentrepreneurial purposes.

Other activities

ABSA invests in new technology such as financial services via mobile telephones to service its clients. The bank also uses moving sales vehicles to reach people in urban and remote areas where it has no branch offices. ABSA also cooperates with and provides wholesale loans to South African MFIs for on-lending to their clients.

Plans for the future

Barclays and ABSA intend to expand its microfinance activities over the coming years.

Sources: authors' interviews with Peter Kelly and Sonja Van Vliet; Barclays Corporate Responsibility Report 2005.

Citigroup

Head office: New York, United States of America

General

28 Citigroup Microfinance Group works across Citigroup businesses to develop commercial relationships with microfinance institutions, networks and investors around the globe in order to expand access to financial services for the unbanked and underbanked. The Citigroup Foundation, which seeks to strengthen and support the microfinance sector overall through global philanthropic initiatives, with the goal of helping the poor increase their income, build assets and establish financial security for themselves and their families.

In 2005, Citigroup formally incorporated microfinance in its commercial and country franchises, with the Citigroup Microfinance Group, reporting to the business CEOs. Leveraging the company's global presence, Citigroup is active locally in many countries where it works together with local partners and existing institutions, among them NGOs, cooperatives and other government agencies and non-profit institutions.

Geographical focus

Global, active in more than 20 countries

Product focus

Credit, savings, insurances, remittances, capital markets, securitisation programmes

Wholesale

Citigroup has developed specific risk management tools and policies. It has helped MFIs access capital markets, with cash management solutions and exchange rate hedging. In 2005, Citigroup arranged a \$50mm global facility to

provide Grameen Foundation USA with credit guarantees to enable Grameen's partner MFIs to borrow in local currency from banks or capital markets. This facility is backed by Grameen donor guarantors.

Citigroup announced in September 2006, a global \$100mm medium term local currency financing facility for microfinance institutions with risk participation from OPIC (US), which will support a wide range of microfinance institutions. Also, in September 2006, Citigroup was sole arranger of the first private sector local currency (USD 54 million) loan for ProCredit Romania. In 2004 and 2005, Citigroup/Banamex concluded the first investment grade \$50 million peso-denominated structured bond program in two tranches for Financiera Compartamos, Mexico's leading MFI with more than 500,000 clients.

Retail

In India, Citigroup's subsidiary Citibank offers microloans to over 27,000 individuals, where it takes full credit risk under a loan agency agreement with local MFIs. In Mexico, under its own brand name Banamex, insurances are offered to 600,000 clients and savings products to some 40,000 microfinance clients. In 2005, Citibank Peru completed a pilot microfinance leasing transaction.

In 2005, Citigroup and Banco Solidario in Ecuador launched a remittance programme which resulted in an enormous reduction in transaction costs for both senders and beneficiaries. In India, it is piloting with biometric ATMs for illiterate people.

Citigroup Foundation

Other activities

Citigroup's Microfinance Group works with the bank's business, product and country organizations to provide MFIs with access to local capital markets and various financial products.

In July 2006, Citigroup participated, as a co-lead manager and investor, in the \$180mm 6 year AAA rated local currency securitization of BRAC, a Bangladesh MFI, through its local Citibank branch. This was the first such local currency securitization of micro-loans averaging \$100. Under this program, an equivalent of \$15 million in taka will be disbursed every six months from a special purpose trust, which purchases receivables from BRAC and issues certificates to investors representing beneficial interest in such receivables.

In India, Citibank plans to launch a savings program with MFIs, using biometric ATMs that will make it easier for a wider range of clients to open their first savings account.

Plans for the future

Citigroup continues to develop and review the provision of financial services such as remittances, savings and micro insurance for the low income clients, working with partner MFIs. Citigroup also works closely with micro-finance networks, investors and funds as clients, and is expected to launch a microfinance local currency fund for investors that will provide a mechanism for co-investing with Citigroup in the sector.

Geographical focus

Global, active in about 50 countries

Product focus

Grants, technical assistance

Main activities

As one of the leading private sector supporters of microfinance, the Citigroup Foundation has provided nearly \$26.9 million in funding to MFIs and MFI networks worldwide over the past five years. This support helps microfinance organizations provide technical assistance, promote standards, introduce product innovations and influence positive change in local country regulatory frameworks. In the period 2002-2005, Citigroup made a \$5.3 million grant to support Microfinance Opportunities/Freedom from Hunger's financial education curriculum – From Poverty to Prosperity. As part of Citigroup's support for the 2005 International Year of Microcredit, Citigroup collaborated with the UN Capital Development Fund and students from various universities in the United States to launch The Global Microentrepreneurship Awards (GMA) programme. The Citigroup Foundation supported the GMA programme with \$825,000 in grants. The Citigroup Foundation supports a number of organisations that provide microcredit in the US. For example, a \$750,000 grant was made to ACCION USA, which strives to bridge the credit gap among low- and moderate-income (LMI) individuals. Through our funding, ACCION USA plans to implement a national expansion strategy.

Commerzbank AG

Head office: Frankfurt am Main, Germany

General

Commerzbank, traditionally serving micro, small and medium-sized enterprises, is involved in microfinance by investing in local microfinance banks in Central and Eastern Europe. It has taken minority equity stakes in ProCredit Banks and funds these banks through wholesale loans.

Geographical focus

30 Central and Southeast Europe

Product Focus

Equity/debt financing, remittances, capital markets advisory, treasury

Wholesale

Since 2000, Commerzbank has held 15-20% equity stakes (together with the European Bank for Reconstruction and Development (EBRD), KfW/DEG, IFC) in the ProCredit Banks of Kosovo, Serbia, Bulgaria, Albania, Romania, Bosnia-Herzegovina and a small stake in ProCredit Bank Georgia. The ProCredit Banks have a

nationwide branch network and focus on providing primarily business loans to small, micro and medium-sized enterprises (SMEs) as well as loans to the agricultural sector. The average loan size is about US\$6000, depending on the country. In Bulgaria, the bank reaches about 95,000 people and in Serbia some 170,000. The banks work on a non-subsidised, fully commercial basis, assisted by the German consulting firm IPC and linked to the German-based ProCredit Holding (formerly IMI, Internationale Mikroinvestitionen) as the majority shareholder. Commerzbank's involvement is aimed at supporting the development of an SME sector in the respective countries as well as servicing its German clients with activities in Central and Southeast Europe.

Plans for the future

The ProCredit Banks are growing very rapidly. They are proof of a successful, tried-and-tested public-private partnership in microfinance. Commerzbank is strongly committed to the continuity of the ProCredit Banks' operations.

Deutsche Bank AG

Head office: Frankfurt am Main, Germany

General

Deutsche Bank provides credit to MFIs by managing three microfinance funds. The three funds support MFIs in different phases of their development. Microfinance activities are part of the Community Development Finance Group, which is also involved in healthcare, education and housing projects for those with low income in the United States and in developing countries.

Geographical focus

Global

Product Focus

Credit, securitisation programmes

Wholesale

Deutsche Bank started the DB Microcredit Development Fund in 1998 (assets US\$4m), which provides credit to 40 MFIs in 23 countries. Loan sizes vary from US\$50,000 to US\$250,000) at concessional interest rates (usually 1-3%). By providing subordinated debt that serves as collateral for bank loans, it facilitates the formation of durable relationships between microfinance organisations and local domestic banks. This allows MFIs to graduate to commercial sustainability.

In 2005, Deutsche Bank launched two other funds. The DB Microfinance Start-Up Fund (assets US\$1m) supports commercially-viable MFIs in the earliest phase of their development by complementing private equity stakeholders with loans. Loan sizes vary from US\$25,000 to US\$100,000.

The Global Commercial Microfinance Consortium's assets currently amount to more than US\$80m, which will be committed to MFIs at the end of 2006 and will be disbursed within two years. Coordinated and managed by Deutsche Bank, the fund is a partnership between 13 institutional investors and three leading development agencies and venture philanthropists. The commercial institutional investors are protected through 40% equity and a guarantee tranche provided mainly by development agencies. The fund makes available long-term funding in local currency for established MFIs worldwide at commercial rates. Products offered include co-lending with local commercial banks, loan guarantees, partially subordinated loans, letters of credit and credit default swaps. Loan sizes vary from US\$250,000 to US\$4m.

Other activities

In May 2006, Deutsche Bank participated in asset securitisation equivalent to US\$60m of the ProCredit Bank in Bulgaria. The Deutsche Bank America Foundation, aimed at community development, provided a grant of US\$40,000, payable over two years, to develop the micro-finance sector in Argentina.

Future plans

Deutsche Bank is considering offering technical assistance to MFIs. Before the end of 2006, the bank intends to launch two new microfinance funds. In addition, the bank plans to engage in microfinance equity funds.

Grupo Santander

Head office: Madrid, Spain

General

Grupo Santander has been active in microfinance in Chile through Santander Banefe since 1993. It provides retail banking services in Chile, to microentrepreneurs of varying size. Besides financial services, the bank also provides assistance to microentrepreneurs to teach them basic financial skills. Recently, the bank also launched BanCrecer, a microfinance bank in Venezuela, which started operations in July 2006.

Other activities

The bank also offers microentrepreneurs technical assistance including commercial management, administration and accounting. It organises a contest “Premio Nacional Santander a la Mujer de la Microempresa”, in which the best “female microentrepreneur” in Chile is elected.

Another programme is “A roof for Chile”, where 1000 microloans are disbursed to the poor, thereby having a positive impact on their living conditions.

Future plans

Santander Banefe continues to serve the market of the unbanked in Chile. It plans to increase its potential client group by serving smaller microentrepreneurs with credits of US\$200 in cooperation with public and private parties.

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Geographical Focus

Latin America

Product focus

Credit, savings, mortgages, insurance and domestic money transfers

Retail

The microfinance activities in Chile are part of the financial services to the SME sector. To serve this group, the bank has performed extended market research and geared its banking services to serve the microentrepreneurs. The bank currently serves 68,000 clients with US\$125m outstanding in loans under the Santander Banefe brand. It has about 100 branch offices. The model that credit officers use for microentrepreneurs differs to the one used for their other clients in that it includes regular visits and intensive monitoring of cash flow within the enterprises.

HSBC

Head office: London, United Kingdom

General

Since 2004, HSBC has been piloting a number microfinance projects around the world. These projects vary from wholesale lending and credit lines to project support, cash management and foreign exchange handling. HSBC's approach to microfinance has a commercial focus, aimed at financially-viable projects. The bank prefers to work with other parties to build expertise quickly in the short to medium term. It plans to integrate microfinance activities with local business capabilities rather than as a separate business line.

Geographical Focus

Brazil, India, Mexico, the Philippines and Russia

Products focus

Credit, remittances

Wholesale

In India, HSBC provides wholesale loans to seven MFIs, which in turn provide microfinance to over 70,000 poor households in both rural and urban India. Over US\$5.5m in credit facilities have been approved. In Mexico, HSBC

works closely with Compartamos, one of Mexico's largest MFIs. On the transaction side, HSBC allows Compartamos' clients to receive their loans and make payments in HSBC branches. HSBC has 1,400 branches in Mexico, compared with Compartamos's 60 offices. In Brazil, the bank is investigating new opportunities after terminating the cooperation with the Inter-American Development Bank to provide wholesale funding to Banco da Familia. In Russia, the bank structured a US\$20m loan guarantee fund on behalf of Opportunity International. This will be used to secure letter of credit facilities to enable Opportunity International's MFI partners in various countries to obtain local currency funding.

Other activities

Opportunity International United Kingdom and HSBC are piloting the Opportunity Card to help Philippine migrant workers more cheaply send the money they earn abroad back to their families in the Philippines. Apart from its remittances project in the Philippines, HSBC is planning to work locally with three MFIs, providing them with wholesale loans.

ING Group NV

Head office: Amsterdam, Netherlands

General

ING supports microfinance by promoting awareness amongst its employees and clients as well as by stimulating research and seminars focused on microfinance. In addition, ING makes its expertise in banking and insurance available to the microfinance sector.

Microfinance also offers ING new market opportunities with respect to investment, wholesale and retail banking.

34 ING Wholesale Green Finance issues loans to microfinance institutions. In India, ING Vysya's local offices in the rural areas issue microcredit and savings products to individuals and ING Vysya provides wholesale credit to microfinance institutions in India.

Geographical Focus

India, global

Product Focus

Credit, savings, technical assistance

Wholesale activities

ING Vysya Bank, an Indian bank in which ING Group has a majority stake and management control, provides wholesale loans to MFIs in India. The total value of the loans outstanding is US\$10.7m with 77,000 clients reached. ING Wholesale Green Finance started funding MFIs at the end of 2004. In the beginning of 2006, the total portfolio was US\$16.5m in outstanding loans with six MFIs in Eastern Europe and India (through ING Vysya).

Retail activities

In 2005, ING Vysya Bank supplied small loans of less than US\$12,500 to nearly 43,000 clients through Self Help Groups (SHGs) and to nearly 69,000 individual clients. The bank has US\$3.64m outstanding via SHGs and US\$71m outstanding to individuals. Furthermore, ING Vysya attracts deposits from SHGs (US\$2.7m).

ING Vysya Life focuses on micro-insurance products for the rural community (farmers, self-employed people, contract and day labourers). In 2005 some 47,000 persons from these groups were covered.

Since September 2006, ING Bank in the Netherlands offers its clients the possibility of investing in the 'Oikocredit Nederland Fonds', and thus the possibility of participating in a specialised microfinance fund.

Other activities

ING has set up ING Microfinance Support, a programme based in the Netherlands and aimed at raising awareness about microfinance, which gives the Group's Dutch employees the opportunity to participate in microfinance efforts. Three thousand employees have joined the special Network and may choose to be active in awareness-raising activities for microfinance. Employees also support microfinance by providing technical assistance to MFIs or by investing in Microcredit funds. ING has had an alliance with its main partner Oikocredit since 2004. ING also partners with Opportunity International, Women's World Banking and the UN Capital Development Fund (UNCDF).

Under these partnerships, MFIs are entitled to ask ING for technical assistance. Up to October 2006, 24 projects were executed in the Netherlands and in

various emerging markets including Ghana, India, Kenya, Malawi, Mexico, Montenegro, Mozambique, Nicaragua, Philippines, Russia, Serbia and Sierra Leone. ING Advisors are made available to work in an MFI for a period of 4-8 weeks on average. Most projects are in product management and marketing, financial and risk management, MIS, Audit, IT and Operations. Finally, in October 2006 ING launched a Microinsurance Award Competition for Indian MFIs.

Plans for the future

ING plans to increase both its retail activities in India and its wholesale activities in various countries. In 2007, ING Microfinance Support will continue its awareness-raising and network activities and expand its technical assistance, aiming for 30 projects annually.

Rabobank Group

Head office: Utrecht, the Netherlands

General

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Microfinance activities are part of the Rabobank Development Programme. This programme has three tiers: Rabobank Foundation, Rabobank Financial Institutions Development (RFID) and Rabo International Advisory Services (RIAS). The programmes are more or less complementary. Rabobank Foundation supports co-operative MFIs with loans, guarantees and technical assistance in the development stage and aim to serve the client group at the base of the pyramid. RFID takes equity stakes in local, mostly rural banks while RIAS provides technical assistance to banks in developing countries with regard to cooperative development and agricultural chain development.

Geographical Focus

Global

Products Focus

Credit, savings, insurance, equity financing and technical assistance

Wholesale

Rabobank's strategy is to expand in emerging markets with a relatively stable political climate where agriculture is the major economic activity. Rabobank Financial Institutions Development (RFID) takes minority equity stakes in local, rural banks with a nationwide branch network covering rural areas. It provides (part of) the local management team.

RFID has taken an equity stake of 34% in the National Microfinance Bank in Tanzania, equivalent to US\$20m.

In Zambia, Rabobank is a favourite candidate for taking an equity stake of 49% in ZNCB/Zanaco, one of the major national banks.

In China, RFID is involved in two projects. In Zhejiang province, Rabobank provides technical assistance in modernising the cooperative banking system. The second project is a joint investment with IFC (International Finance Corporation, part of the World bank) of 14.9% (US\$20m) in the United Rural Cooperative Bank of Hangzhou (URCB). In Mozambique, Rabobank is setting up a new rural bank from scratch.

Other activities

Rabobank International Advisory Services (RIAS) provides management advice and technical assistance in rural banking and other financial institutions worldwide on commercial terms.

Future plans

Under the RFID, investment in rural banks will be expanded. The bank plans a 40% participation in the Banco Regional in Paraguay. RIAS aims to double its technical assistance projects within three years. Successful projects may eventually be transferred to Rabobank International. In Peru, Rabobank is intensifying its cooperation with the Cajas Rural.

Rabobank Foundation

Geographical Focus

Africa, Latin America and Asia

Wholesale

Rabobank Foundation provides loans to beginning cooperative MFIs in their local currency. It currently has a portfolio of some US\$12m in outstanding loans. It focuses on supporting member-based cooperative institutions. Over the years, it has supported 315 MFIs, which reach 3.2 million people¹. Rabobank Foundation's funds are obtained in part from local Rabobanks, which allocate one percentage of their net profits to the Foundation, and in part from Rabobank Nederland, the central bank of the Rabobank Group, which doubles the contributions from the banks.

Other activities

The Rabobank Foundation provides grants, local currency financing and technical assistance to MFIs and member-based organisations worldwide. Technical assistance for a target organisation is free of charge in most cases and advisors are recruited within the Rabobank organisation. There are about 20 missions a year for an average three-week period.

Plans for the future

The Rabobank Foundation will continue the strong growth seen in the past few years. It aims at more cooperation with Rabobank Financial Institutions Development (RFID).

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¹ Rabobank Foundation is not the only organisation to provide resources to the MFIs mentioned.

Sources: authors' interview with C. Ruys, F. Bakx, A. Kuijpers;

Sjauw-Koen-Fa and Vereijken 2005, Rabobank Foundation, Jaarverslag 2005;

[http://www.novib.nl/Media/Download/microfinance/245847%20infoblad%20\(Rabobank\).pdf](http://www.novib.nl/Media/Download/microfinance/245847%20infoblad%20(Rabobank).pdf) (11 Aug 2006);

http://www.rabobankgroup.nl/asp/persbericht/magazine_hidden_persbericht.asp?node_. (14 Aug 2006).

Société Générale

Head office: Paris, France

General

Société Générale is active in wholesale lending to MFIs in countries where the bank is already present. It provides loans to local MFIs on commercial terms.

Geographical focus

Africa, Middle East and Eastern Europe

Product focus

38 Credit, equity stakes

Wholesale

Société Générale provides credit on commercial terms to MFIs in Jordan, Lebanon, Morocco, Tunisia, Burkina Faso, Ghana, Madagascar, Senegal, Benin, Cameroon, Russia and Romania via its local branch network. Loans are disbursed in local currency. The activities are coordinated from the head office in Paris. Currently, Société Générale has some US\$100m in outstanding loans.

At the moment, the bank is taking minority equity stakes varying from 10% to 20% in 3 MFIs in African countries with little financial infrastructure. Société Générale participates in the creation of new MFI networks together with NGOs that are active locally.

Other activities

In July 2005, Société Générale supported the creation of MicroCred, (a PlaNet Bank project) by participating in its capital with an investment of US\$3.75m (18%). MicroCred will be creating or investing in 15 MFIs over five years through the international network of PlaNet Finance.

In France, Société Générale recently entered into an agreement with ADIE, an organisation that supports the creation of small enterprises by the unemployed, providing them with long-term credit at concessional rates. Apart from France, ADIE is also active in the French Overseas Territories such as New Caledonia, Réunion and Mayotte.

In Chad, Société Générale has assisted in providing computers and infrastructure for a local MFI.

Plans for the future

Société Générale will continue and increase its microfinance operations in the countries where it is active. At the end of 2006, agreements will have been reached with respect to the equity participations in three African MFIs.

Standard Chartered PLC

Head office: London, United Kingdom

General

Since 2004, Standard Chartered Bank has been involved mainly in wholesale lending to MFIs. In Nepal, it lends directly to small farmers for purchasing inputs for growing tobacco. The bank has pilots in four Asian countries and three countries in Africa.

Geographical focus

India, Nepal, Bangladesh, Pakistan, Ghana, Tanzania, Kenya and Uganda

Products focus

Credit, equity stakes

Wholesale

In India, Standard Chartered provides wholesale loans to a number of MFIs. In Bangladesh, the bank offers short-term loans and guarantee products to leading MFIs in Bangladesh. SCB also offers products to MFIs in Pakistan and Africa. By the end of 2006, the bank is looking for the total sum of loans provided to have grown to US\$50m as compared to US\$24m in 2005.

Other activities

In Nepal, Standard Chartered has an equity stake in the Rural Microfinance Development Centre, an apex MFI. In Pakistan, the bank has a US\$830,000 stake in Khuskali Bank, a pure microfinance bank which has disbursed more than 100,000 microloans.

Plans for the future

In September 2006, Standard Chartered announced the establishment of a US\$500m microfinance facility in Asia and Africa. It is estimated that this facility will benefit 4 million people who are currently excluded from participation in the financial sector over a five-year period.

Annex 2

Participating organisations

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Focus banks	Persons interviewed
ABN AMRO NV	Not Interviewed
Barclays Bank	Peter Kelly
ABSA	Sonja van Vliet
Citigroup	Robert Annibale
	Leslie Meek
Commerzbank AG	Eckard von Leesen
Deutsche Bank AG	Asad Mahmood
Grupo Santander	Alejandro Cuevas
HSBC Group	Not Interviewed
ING Group NV	Gera Voorrips
	Nuno Spier van Zwicht
Rabobank Group	Frank Bakx
	Charles Ruys
	Arnold Kuijpers
Société Générale	Pascale Lacombrade
Standard Chartered PLC	Not interviewed

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