

A Billion to Gain?

A study on global financial institutions and microfinance

THE NEXT PHASE



March 2008



Agricultural labourer in Dominican Republic. Photo ING

A Billion to Gain?

Photo Cover

Group meeting of clients of the Samayapuram
branch of ASA Grama Vidiyal, India.

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Contents

Executive summary	7
Introduction	10
Part I General perspective	15
1. Microfinance strategy	15
A. Aims and motives	15
B. Organisational structure	16
2. Products	21
A. Retail microfinance products	21
B. Wholesale products	24
C. Non-financial involvement	33
3. Geographical focus	34
4. Plans for the future	36
5. Conclusion	38
Part II Overview per institution	43
1. AXA Group	44
2. Barclays	45
3. BNP Paribas	46
4. Citigroup	47
5. Commerzbank AG	48
6. Crédit Agricole SA	49
7. Deutsche Bank	51
8. ING Group	52
9. Morgan Stanley	53
10. Rabobank	54
11. Société Générale	55
12. Standard Chartered	56
13. BBVA	58
14. Credit Suisse	58
15. Grupo Santander	58
16. AIG	58
17. Allianz	59
Annex 1 General overview	60
Annex 2 Participating organisations	61
List of tables and figures	62
Quotes	62
Postlude by the author	63
Literature	64
Colophon	66

Executive summary

This study

Founded in October 2004, ING Microfinance Support previously commissioned the research for and publication of two reports. These reports systematically charted large global financial institutions' activities and future plans in microfinance.¹ This third edition in the 'A Billion to Gain?' series provides an update of the latest report and serves three main objectives:

- To update global financial institutions' activities and future plans regarding microfinance;
- To discover recent major developments and trends in global financial institutions' involvement in the microfinance sector;
- To reveal the impact of global banks' involvement in the development of the microfinance sector.

As far as the research could discover, 20 large global financial institutions are involved substantially in microfinance. The analysis incorporates microfinance-related data for 17 of these institutions. The second part of this report provides an update of each institution's activities.

Microfinance strategy

According to the first two 'A Billion to Gain?' reports, written in 2005 and 2006 respectively, an increasing number of large global financial institutions saw microfinance as a way of fulfilling their corporate responsibility. It was also considered a potential new market for expanding the business. The banks chose a dual strategy of corporate responsibility and business targets or potential profit.

This new report, 'A Billion to Gain? The Next Phase', shows that large banks are now paying far more attention to the motives, targets and organisational structure of their involvement in the microfinance market. Although corporate responsibility is still an important component in the strategy, banks have started to consider a closer link between their microfinance-oriented products and their 'normal' business. There is increasing commitment to and involvement in microfinance, greater variety in microfinance products, a closer focus on the market and, most importantly, banks are setting up teams of specialists dedicated fully to achieving their targets. The activities are no longer driven purely by corporate responsibility considerations. They must also be (at least) cost-effective.

Microfinance products

In order to meet potential microfinance clients' special demands, designing suitable retail and wholesale products, such as micro loans, micro saving products and equity stakes in MFIs demands great devotion. Each participating bank is involved in microfinance in a different way. Notwithstanding its scale and variety of products, there are a number of visible relevant trends in microfinance, originated by global banks. The most important recent developments are:

¹ In all three reports, 'international (commercial) banks' or 'global financial institutions' include both pure banks as well as financial institutions that offer banking, investment, insurance and/or asset management services with a worldwide presence and activities on national and global financial markets. As a matter of convenience, this report generally refers to all organisations as 'banks' or 'institutions'.

- By the end of 2007, the banks' total amount of outstanding wholesale loans to MFIs had risen substantially to between US\$ 1.1bn and US\$ 1.4bn (2006: 450 – 550 mln US\$). The sum of outstanding loans provided by global banks has at least doubled within the last two years;
- Local currency wholesale loans by global banks to the microfinance sector are increasingly important and more readily available. In addition, six out of seven microfinance funds arranged by participating banks and seven of the 12 largest microfinance funds indicate explicitly that they provide loans and debt securities not only in Euros and US Dollars but also in 'tradable' local currencies such as Russian Roubles and Indian Rupees;
- The total number of banks' equity stakes in MFIs has increased considerably to 22 (2006: 10). Almost half of the global banks included in this research have made an acquisition in one or more MFIs or in microfinance-oriented organisations;
- Micro (life) insurance is slowly penetrating the market. Several banks and (bank-) insurers in particular have declared that they will focus on developing and expanding this product in the future;
- Retail microfinance, such as individual micro loans, micro-insurance and the provision of current accounts, is (still) a relatively small part of banks' total business activities. Most retail-related activities or products have only increased slightly in recent years;
- Half of the banks are involved in providing technical assistance to MFIs. Four global banks provide explicitly systematic and structured technical assistance to the microfinance sector;
- Most banks have entered into partnerships with local and global microfinance organisations. The importance of partnership with microfinance organisations remains invaluable.

Geographical focus

Since the beginning of microfinance activities, global banks and the microfinance sector as a whole seemed to favour certain countries such as Bangladesh, Peru, Bolivia and India above others. Recent developments show that the microfinance strategies of global banks are taking on a global perspective. Additionally, an interesting evolution is the fact that global banks have recently become involved in microfinance in African countries, a significant contribution that was rarely seen before. This global perspective and recent contribution to African countries can be explained by the large financial institutions' worldwide presence, the arrival of some important new players on the market (in particular French banks) and the increase in scale in most of these institutions' microfinance products.

Future plans

All the banks included in this research declared explicitly that they have no intention of withdrawing their involvement in microfinance. On the contrary, greater numbers of activities have reached levels of sustainability and can generate profits. At this stage, however, the purely commercial returns of microfinance activities are not of the same magnitude as those of a 'normal' business investment. As matters stand, and surely in the near future, investors looking for short-term profit maximisation are probably better off in another sector. Yet the banks' future plans indicate that the microfinance sector will be supported and financed by the global banks. Most of the banks included stated explicitly that they will expand certain microfinance activities within the coming year. Even though there will be a quantitative increase in activities, the greatest qualitative increase – the variety of micro-

finance products – has probably already taken place. Presumably, global banks will not be developing many new sorts of microfinance products.

Conclusion

Most of the banks included in this research have managed the early phase of defining and implementing their microfinance strategy successfully and are currently entering the next phase of involvement. This report shows that the global banks are paying far more attention to microfinance than ever before. All banks included in this report have entered the microfinance market with a long-term perspective. At this point, global financial institutions have increased their wholesale products dedicated to microfinance significantly. However, few global banks are involved actively in providing large-scale retail microfinance.

The current role of global financial institutions in microfinance is that of an effective provider of financial services to (local) microfinance institutions or microfinance-oriented organisations. As such, the wide variety of wholesale products provided by global banks and the accompanying financial know-how can significantly contribute to the development and impact of microfinance. Moreover, the relationship between MFIs and global financial institutions could result in a more professional and innovative environment where new aspects in the microfinance sector can be developed and executed.

Consequently, the impact of global financial institutions lies in increased funding, improved financial structures, innovation power for new products (e.g. micro-insurance, remittances) and delivery channels and systems for MFIs.

“Original partnerships in financial services will enable us to reach more unbanked people. Ventures between banks and post offices, lotteries, pharmacies and cement outlets are just a few of the fantastic examples we have seen around the world. Reach for the extra mile and find the unexpected partner to walk with you towards sustainability.”

*Her Royal Highness Princess Máxima of the Netherlands
Member of the UN Advisors Group on
Inclusive Financial Sectors*

Introduction

Microfinance investments and microfinance-oriented activities by large international banks in particular are a central topic in many development issues. The substantially greater involvement by international banks in microfinance shows that these activities make sense. This is true not only from the perspective of social responsibility, but also from a sustainable and commercial point of view. Increasing numbers of (large) financial institutions are starting to consider microfinance products as a normal line of business within their company. This report presents an update of global commercial banks' current activities in microfinance.

10

Background

As a sponsor of the UN Year of Microfinance 2005 and represented by ING Microfinance Support, ING initiated qualitative research into the current activities, lessons-learned and future plans of global commercial financial institutions with regard to microfinance. The results were published in the report 'A Billion to Gain?', which was presented at a seminar in Amsterdam in February 2006. The first update appeared in November 2006, 'A Billion to Gain? An Update.' Both reports were greatly appreciated by numerous microfinance parties, as well as by the participating organisations.

The main objective of this third report, 'A Billion to Gain? The Next Phase', is to update and deepen the results of the previous reports. This report will focus especially on a quantitative analysis. In order to produce an unbiased document, this research was prepared in cooperation with the Erasmus University Rotterdam in the Netherlands. Charles van Marrewijk, Professor of International Economics at the department of Economics at Erasmus University Rotterdam and Director of the Institute for Housing and Urban Development Studies, was especially involved in developing this report.

The research presents an analysis of the 'next phase' of the involvement of global commercial banks in microfinance. It focuses mainly on the

microfinance activities of 17 large international financial institutions.

Definition

As cited on the website of the Asian Development Bank, 'microfinance' is the provision of a broad range of financial services such as deposits, loans, payment services, money transfers, and insurance to poor and low-income households and their microenterprises.² Microfinance concentrates mainly on provisioning people around the world who previously were (mostly) not served by mainstream financial services. These people are also referred to as the un(der)banked or un(der)served. The definition of 'microfinance' we use in this report covers any (non-)financial product to customers whose access to financial services or traditional banking services is impeded by an underprivileged position in the community. Any use of the term 'microfinance' by banks that fell within this broad definition was accepted.

Although microfinance exists in every part of the world, this study relates specifically to 'developing' and 'emerging' countries. Estimating the exact total number of microfinance clients worldwide is hard. As of 31 December 2006, The Microcredit Summit Campaign, a network of microfinance institutions (MFIs), counted 3,316 MFIs, which reached more than 133 million households.³ The estimated microfinance demand is at least half a billion households.⁴ The unbanked population is enormous and meeting its unique needs demands a diversity of financial products and services. This report categorises all related products, services and activities under the collective term 'microfinance'.

2 <http://www.adb.org/Documents/Policies/Microfinance/microfinance0100.asp> (12/12/07).

3 Daley-Harris, S. (2007) 'State of the Microcredit Summit Campaign Report 2007.' Microcredit Summit Campaign, Washington.

4 Vossen, M. (2007) 'Microkrediet, hoe het werkelijk werkt'. Vice Versa, the Netherlands, August 2007.

Methodology

The research for the first two reports of 'A Billion to Gain' was executed in the period October-December 2005 and in July-September 2006. It was conducted mainly by way of literature research and (telephone) interviews with the main individuals responsible for microfinance at the international financial institutions. The approach in this third report follows up on these contacts. The research for this paper was executed in the period September-December 2007. In addition to the interviews, it includes literature research based on material provided by the institutions as well as on that available in the public domain. As compared to the first two reports, this third research draws additional attention to a quantitative-statistical research methodology. Notwithstanding the importance of qualitative data in developmental issues such as microfinance, a special effort was made to obtain more quantitative banking business-related information. The result is a more comprehensive and convenient synopsis of microfinance activities by the international banks described in this study.

The organisations included in the research represent a selection of the world's largest global commercial banks and insurers involved in the microfinance sector. During the selection, the emphasis was on those banks that were known to be active in microfinance through media exposure or microfinance experts. In contrast to other reports on microfinance, this research focuses on specialised data that could be useful to microfinance institutions and global financial institutions committed to microfinance. The report does not point to basic microfinance characteristics and examples. The list of participating institutions includes private banks, investment banks, asset management banks, insurers, or a combination of several of these fields. To make it easier to read, this report refers mostly to all organisations as 'banks' or 'institutions'.

According to the results of this research, 20 large global financial institutions are involved substantially in the microfinance sector. *Table 1*

shows that ten of these large global financial institutions are listed amongst the top-20 global financial institutions as measured by market value as of 30 June 2007. Twelve banks were willing to cooperate actively in this research. Most of these banks (8) were contacted previously for the earlier 'A Billion to Gain?' reports.⁵ The report contains four 'new' banks that were glad to provide us with detailed figures on their microfinance activities.⁶ A (follow-up) interview and an extra literature study were performed to update and complete the information required. Five large banks, rendered in bold and in italics in *Table 1*, are involved in microfinance but their data was collected through desk research only.⁷ Three banks active in microfinance could not provide any official information; ABN AMRO and Fortis found themselves in a transitional stage (takeover) and HSBC was completely restructuring its microfinance activities.

As mentioned in the first two 'A Billion to Gain?' reports, the reports present a preliminary outline. The emphasis is on understanding what a group of pioneering international financial institutions is developing, doing and planning to do in the field of microfinance. Some international banks approached and mentioned in this table did not participate in this study. This is probably because they have no microfinance activities. This could not be verified, however, as in most cases these banks did not provide an explanation for their refusal.⁸ Overall, this report is believed to provide a representative overview of the microfinance involvements undertaken by large global financial institutions.

5 Barclays, Citigroup, Commerzbank, Deutsche Bank, ING Group, Rabobank, Société Générale and Standard Chartered.

6 Crédit Agricole, Morgan Stanley, AXA and BNP Paribas.

7 AIG, Allianz, BBVA, Crédit Suisse and Grupo Santander.

8 ING Microfinance Support. 'A Billion to Gain' February 2006 and 'A Billion to Gain? An update.' November 2006.

Table 1: Top global financial institutions by market value

Top 20 Global financial institutions (by market value in EUR billion as of June 30 2007) ⁹			
1 Citigroup Inc.	186.1	16 Barclays	67.6
2 Bank of America Corp.	161.4	17 AXA Group	66.9
3 HSBC Holdings	157.5	18 Goldman Sachs	66.3
4 <i>American Intl. Group- AIG</i>	134.8	19 Morgan Stanley	66.1
5 JPMorgan Chase	124.2	20 Intesa Sanpaolo Ord.	65.5
6 UBS	93.6
7 Royal Bank of Scotland	88.9	BBVA	64.6
8 Mitsubishi UFJ Financial	87.7	<i>Crédit Suisse</i>	64.1
9 Wells Fargo	87.3	Société Générale	63.5
10 <i>Grupo Santander</i>	85.6	Deutsche Bank	55.9
11 BNP Paribas	82.4	Crédit Agricole	49.7
12 <i>Allianz</i>	78.5	Standard Chartered	22.6 ¹⁰
13 ING Group	72.3	Commerzbank	15.9
14 Wachovia Corp.	72.2	Rabobank Group	Not listed
15 Unicredito	69.1		

Legend:**Bold:** Active in microfinance, data collected through interviews and literature study**Bold-italic:** Active in microfinance, data collected through literature study

Roman: No microfinance activities as far as could be assessed

“Loan and saving schemes, especially designed for people with very few resources, have proven to be a powerful stepping-stone to start the way out of poverty. Yet even today the large majority has no access to financial services, so we need all hands on deck. Therefore, I welcome the fast growing enthusiasm of global financial institutions for micro-finance. The efforts of public and private providers should reinforce each other, in order to bring a ‘pro-poor market-place’ nearer.”

Bert Koenders,

Minister for Development Cooperation, The Netherlands

⁹ ING profile – August 2007.

¹⁰ www.myglobalcareer.com (12-12-07).



Clients of Opportunity International Bank in Ghana. Photo OI Ghana



Client of OMRO in Romania. Photo Oikocredit

Part I General perspective

'A Billion to Gain? – The Next Phase' consists of two parts. This first part presents a brief and preliminary overview of current developments regarding the position of major global financial institutions within the microfinance sector and represents the researcher's personal analysis. In contrast, the second part of the report offers a survey of the microfinance activities of each bank. The statements in part two were all obtained with mutual consent with the corresponding institutions.¹¹ Every aspect of the strategies of the banks consulted contains a description of their organisation of microfinance activities and their microfinance products, a look at the products' evolution, a geographical focus and a glance at their plans for the future. The next four chapters offer an analytical overview of all microfinance activities and developments undertaken by the world's largest global financial institutions.

1. Microfinance strategy

As seen in the previous two reports, most international banks seem to follow a dual strategy as regards to the aims and motives for their involvement in microfinance. The majority of banks have looked for a balance between their corporate citizenship vision and their business targets. Recent developments show a slight shift in the banks' approaches towards microfinance. An increasing number of banks have implemented a microfinance business unit or have chosen to integrate their microfinance activities into their 'normal' commercial activities. Many global banks' microfinance strategy tends slightly towards the part of the dual strategy that focuses on the more or less immediate business targets.

A. Aims and motives

On the one hand, the banks' aim is to use microfinance for complying with the corporate citizenship vision. The term applies to the companies' active participation in addressing societal issues. The overall aim of the micro-

finance movement is to reduce poverty by 'building financial systems that work for the poor majority'. As most governments, large development organisations and the general public consider microfinance to be a positive and praiseworthy cause, the involvement of banks enhances their reputation with key stakeholders such as employees, investors, customers and governments. Moreover, helping low income groups to gain better access to financial services is an activity that is close to banks' core business and competences, thus making microfinance a logical area for them on which to focus.¹²

12 ING Microfinance Support: 'A Billion to Gain?' February 2006.

"For me, microfinance is the key to including millions of new people in the official economy. It is also the prime opportunity for banks and other financial institutions to reach out to this large group of potential new clients. To enter the next level of sophistication and maturity, microfinance institutions need regulation and controls, and must be further professionalised and strengthened. Governments and central banks must also respond by addressing credit agencies, borrowers' protection and other regulatory issues and applying the lessons learned in the mature financial world."

11 Microfinance data of AIG, Allianz, BBVA, Crédit Suisse and Grupo Santander were collected through desk research only.

On the other hand, in comparison to the last two reports, international banks are increasingly involved in microfinance as a means of achieving their business targets. More banks are entering the microfinance market or are increasing their involvement because they see sustainable profit and growth opportunities. CGAP estimates that there are up to three billion potential clients in the microfinance market.¹³ According to M. Vossen, the estimated microfinance demand is at least half a billion households, with some five to six people per household.¹⁴ A CGAP survey identified over 225 commercial banks and other formal financial institutions that are engaged in microfinance.¹⁵ These banks and institutions are mostly established locally. Obviously not all these institutions entered the microfinance market for their corporate citizenship focus alone. For some, microfinance must have looked (highly) profitable. Several reports can prove the sustainability and profitability of many microfinance-related activities.

13 Christen, Rosenberg and Jayadeva, *Financial Institutions with a 'Double Bottom Line'*, 2004.

14 Vossen, M. (2007) *'Microkrediet, hoe het werkelijk werkt'*. Vice Versa, the Netherlands, August 2007.

15 Isern, Ritchie, Crenn and Brown, *'Review of Commercial Bank and Other Formal Financial Institutions Participation in Microfinance.'* 2003.

B. Organisational structure

For this latest report, updated data of the microfinance activities and structure of global financial institutions were gathered. A summary of the organisational structures is presented in *Table 2*. A noteworthy fact is that more than half of these microfinance 'departments' were established or restructured considerably in the 'United Nations Year of Microfinance 2005' or the following years. Some of these banks were already active in microfinance before the establishment of a 'microfinance department'. Since 2005, microfinance has received much publicity and attention. With some exceptions, all 'structured' microfinance activities by large global financial institutions have been set up within the last 10 years. The origin of microfinance, however, is generally dated as early as the 1970s. Dr. Muhammad Yunus, founder of Grameen Bank Bangladesh and 2006 Nobel Peace Prize winner made a great contribution to the popularity and tremendous increase in microfinance activities. The UN Year of Microfinance and the accompanying media attention can be seen as one of the events that gave the greatest impulse to the global establishment and growth of the microfinance market. Global financial institutions investing in microfinance-oriented activities have contributed significantly. The activities presented in this report show the long-term, devoted involvement of 17 large global financial institutions in the microfinance market.

"Global financial institutions and microfinance: a promising marriage!? For BNP Paribas, microfinance is a natural field of social awareness. It is an unconventional business as the aim is to cover costs, to serve unconventional customers, mainly NGOs, in emerging countries where we are present. We support microfinance because we believe that we can boost economic development and help to achieve its social mission. We do not consider it as a promising marriage but more as a partnership with numerous promises."

François Debiesse
Director Private Bank, BNP Paribas

Figure 1:
Level of Contribution towards microfinance



One remarkable phenomenon is the fact that increasing numbers of banks are starting to place their microfinance activities in normal business units. These units use a range of accompanying specialists and are beginning to see their microfinance activities as part of the bank’s total business services. *Figure 1* and *Table 2* distinguish between strategies of the banks’ microfinance activities. This classification represents the banks’ approach to microfinance.

- Corporate Social Responsibility**
 CSR is generally seen as the business contribution to sustainable development and is understood mainly as focusing on how to integrate economic, environmental, and social imperatives.¹⁶ The overall aim is to reduce poverty by ‘building financial systems that work for the poor majority’.¹⁷
- Dual strategy**
 These banks look for a balance between a corporate citizenship policy (or CSR) and their commercial business targets. This approach is characterised by covering the costs, large social impact and a ‘healthy’ growth in total assets.

- Dual strategy business unit**
 This approach is similar to the second one, but differs because these microfinance ‘departments’ are more focused on their business targets. They achieve social goals through commercial means. A well-established central team is set up that develops and coordinates all microfinance activities. The activity’s sustainability and profitability rises with the degree of importance. Microfinance is seen as a dedicated, mostly separate business unit within the bank.
- Normal business with social impact**
 This is the highest degree of microfinance commercialisation. Profit and growth are important factors in the policy. Microfinance products are approached as a normal business service. The products are fully commercial and supported by the normal businesses. In addition, they have significantly more social impact than the ‘normal’ business services.

“We believe that the work of microfinance institutions is quite complementary to the banking business of financial intermediation. The simplest way to make a systematic change is to develop relationships with in-country banks, which are fundamental sources of local capital. These relationships are not limited to finance alone but can also be developed by transferring banking expertise to these emerging institutions.”

Asad Mahmood
 Managing Director Global Social Investment Funds,
 Deutsche Bank

16 www.ic.gc.ca (24-12-07).

17 ING Microfinance Support: ‘A Billion to Gain?’ February 2006.

Table 2: Organisational structure of microfinance

Bank	Microfinance structure	Year of establishment ¹⁸
AXA Group	AXA Sustainable Development	2005
Barclays	Financial Inclusion Team	2005
	ABSA Micro Enterprise Finance Unit	2007
BNP Paribas	Microfi	2006
Citigroup	Citigroup Microfinance Group	2005
Commerzbank	<i>No separate department, part of Corporate Banking</i>	2000
Crédit Agricole	Coordination centre and meeting point for all 39 regional banks	2008
Deutsche Bank	Community Development Finance Group	1997
ING Group	ING Microfinance Support	2004
	Green Finance Microfinance	2005
	ING Vysya Bank/Vysya Life	2002
Morgan Stanley	Microfinance Institutions Group	2006/7
Rabobank	Rabo Financial Institutions Development	2005
	Rabobank Foundation	1973
Société Générale	<i>No separate department, part of Retail Banking outside France</i>	2000
Standard Chartered	Microfinance Financial Inclusion Group	2004

18 In spite of the fact that all 'structured' microfinance activities have been set up within the last 10 years, does not mean that these bank were not involved in 'development aid' before. Large contribution were made in the past.

Number of FTEs focused on MF ¹⁹	Strategy
4	Dual strategy
3	Dual strategy business unit
10 in the head office & ±150 in the field	Normal business with social impact
3 in central team and one or more responsible in each MF subsidiary	Dual strategy
10 in London 6 in New York	Dual strategy business unit
1 relationship manager, board and audit committee members in all equity stakes (6)	Normal business with social impact
5 at group level	Dual strategy
8	Dual strategy business unit
4	Dual strategy
1	Dual strategy business unit
2 (for wholesale loans), several for retail (140 branches)	Normal business with social impact
6 London 6 New York	Normal business with social impact
20 at group level, 20 expatriates and 2 board members in all equity stakes (6)	Dual strategy business unit
8	Dual strategy
1 relationship manager	Dual strategy
A microfinance team in 4 countries	Dual strategy

¹⁹ FTEs = full-time equivalents.

Increasing numbers of banks and even development organisations are changing from a charitable approach to one that takes into account clear business targets. Even though microfinance, as mentioned in its definition, will (should) always have a social impact (financial inclusion), ever more parties are commercialising large parts of their activities. The last two reports stated that most banks are shifting from a pure corporate responsibility focus that was based mainly on donations to a 'dual strategy' approach to microfinance. Some banks have now moved on to a next phase: a 'dual strategy business unit' focus. Four banks even consider their microfinance activities as 'normal business with social impact'. Well-organised teams, the involvement of specialists and a significant increase in microfinance activities by global banks show that the microfinance products have an important long-term impact on the banks' (development) strategies.

The activities by investment bank Morgan Stanley are a good example of this evolution. Even though two large microfinance-oriented debt funds and a (Charity) Foundation had been set up previously, the establishment of Morgan Stanley's Microfinance Institutions Group in 2007 caused major changes to the bank's microfinance policy. A group of 12 fulltime-equivalents (FTEs) based in London and New York has been created to provide

international capital market solutions to financial intermediaries. This business unit will also set up other microfinance funds. In addition, Morgan Stanley is planning to make a direct equity investment in an MFI in Southeast Asia.

An interesting conclusion and footnote to this first paragraph was formulated by the Netherlands Platform for Microfinance: "In the face of increasing integration of microfinance into the overall financial sector, there is a need to ensure that the original microfinance mission is not neglected as a result of too much emphasis on financial results and higher returns from MFIs. Donors or investors should continue to encourage competition between MFIs, as there is a need to keep on reducing costs, increasing efficiency and expanding the product range. Results obtained by successful MFIs have demonstrated that it is possible to achieve financial self-sustainability while reaching the very poor with financial services, even in sparsely populated areas."²⁰

International financial institutions should never eliminate or forget the aim of microfinance: provisioning people around the world who were not served previously by mainstream financial services. Using the term 'microfinance products' or 'financial inclusion' should always result therefore in a certain degree of social impact (financial inclusion perspective), no matter the degree of commercial focus. The correct application of the term 'microfinance' product or activity is highly desirable.

"Global financial institutions and microfinance: a promising marriage!? The courtship of microfinance by global financial institutions comprises the provision of wholesale products and financial know-how to microfinance institutions. This is a great starting point for broader involvement in financial inclusion. However, global institutions have been reluctant to "propose" by offering direct financial services to the world's low-income majority. Big box retailers such as Wal-Mart and Tesco may beat them to the market."

Elisabeth Rhyne
Senior Vice President, ACCION International

²⁰ Netherlands Platform for Microfinance: 'Microfinance Current trends and challenges.' October 2004. www.microfinance.nl

2. Products

The ‘unbanked’ population is enormous and meeting their unique needs demands a range of financial products and services. Almost every bank uses a set of products to fulfil the demand of those who do not have appropriate access to ‘normal’ financial services and products. Even though the commitment and involvement is in no way identical for all banks, most of these efforts contribute significantly to the micro-finance aims described in the definition used in the introduction. These products can be distinguished along two lines: wholesale versus retail and financial products versus non-financial products. These products and activities will be presented in more detail in this second paragraph.

have stated that they will focus on developing and expanding this product in the future.

Five banks are involved directly in providing **INDIVIDUAL MICRO LOANS** and **SAVINGS ACCOUNTS** to the un(der)banked. These activities all occurred through the banks’ own local retail network. *Table 4* summarises the banks’ direct retail microfinance activities. Santander, with US\$ 125m in outstanding individual micro loans, can be seen as the leader in the direct provision of micro loans. As *Table 4* shows, South Africa’s largest retail bank ABSA, owned by Barclays, is by far the most widespread: their Flexi Banking Services provide saving accounts, transmission accounts and insurance and reach some 3.6 million low-income people. Of this target group, 1.2 million have a monthly income less than ZAR682,

Table 3: Microfinance products

Activities	Financial products	Non-financial products
A. Retail	<ul style="list-style-type: none"> Individual (group) loans Provision of current/saving accounts Insurance Remittances 	<ul style="list-style-type: none"> Business services and technical assistance (TA)
B. Wholesale	<ul style="list-style-type: none"> Loans to MFIs Funds & investments in funds Guarantees Equity stake 	<ul style="list-style-type: none"> Business services and technical assistance Partnership

A. Retail microfinance products

For most banks included in this report, retail microfinance activities were and still are a very small part of their total business activities. Wholesale-oriented microfinance activities (paragraph B) are far more prominent in the banks’ strategies than retail microfinance. This having been said, most retail-related activities or products grew slightly in recent years. Unfortunately, despite this increase, there were no spectacular developments in the banks’ retail microfinance. It should be noted also that micro-insurance is starting to appear on the market. Several banks and (bank-) insurers in particular

or US\$ 100. These include especially the people in South Africa who did not have proper access to financial products. Saving accounts can secure their remaining money, and micro loans with ‘acceptable interest rates’ could help them to start up a small business.

Barclays’ Susu investment programme in Ghana is a good example of an effective and successful retail microfinance project by a global financial institution. Developed to work with traditional individual savings collectors, known as Susu collectors, this microbanking initiative was supported initially by a donation of GBP 150,000

22

(US\$ 273,000) from the Barclays Financial Inclusion Team. Susu collectors collect a fixed amount of money from a client for 31 days, keeps it secure, and then pay back 30 days, keeping a fee of one day. By the end of 2007, 500 collectors, extending the outreach to a quarter of a million traders, were provided with Barclays' saving accounts and supported by financial educators. By the end of 2007, Barclays provided a further GBP 150,000 (US\$ 273,000) in micro loans to finance the small investments of the individual clients. All these activities are organised through Barclays' retail network in Ghana. Notwithstanding the fact that the commercial benefits are small for Barclays, the programme meets effectively the conditions for financial inclusion. In the future, some of these traders or collectors may become potential clients for the bank, thereby making it more lucrative.

The activities of ING Vysya in India are similar. ING Vysya provides micro loans to 'Self Help Groups'. By October 2007, US\$ 8.1m (€ 5.74m) in loans had been distributed to almost 6000 of these groups. As mentioned in *Table 4*, four of the banks are active in **MICRO-INSURANCE**, a relatively new product in the microfinance sector. Access to loans and insurance fulfils an important development policy function. It creates the prerequisite for many families to establish and safeguard their existence. However, people with very little money can rarely afford insurance, i.e. basic insurance cover against the most important risks against payment of a minimal premium. Providing insurance to poor people in developing countries on a broad professional basis is a huge challenge for the insurance industry.²¹ Major administrative expenses, minor scattered benefits and often a fearful political and environmental situation make it perilous investment territory. Moreover, finding a suitable balance between the annual

Table 4: Retail microfinance involvement

Bank	Local network	People reached	Retail products
Allianz	Bajaj Allianz India	100,000 clients	Life insurance
	Allianz Indonesia	18,500 clients	Life insurance
	Allianz Egypt	30,000 clients	Death and disability insurance
Barclays	Susu collector programme (Ghana)	500 Susu collectors, (reaching out to 250,000 traders)	Savings accounts for the collectors and individual loans for their clients (US\$270,000)
	ABSA (South Africa)	3,600,000 clients (< US\$300 monthly income)	Micro loans, saving accounts and some microinsurance
Citigroup	Citi's insurance company Seguros Banamex (Mexico)	1,000,000 policies to 750,000 microcredit clients	Life insurance
ING Vysya	ING Vysya Retail (India)	5,692 Self Help Groups	Micro loans (US\$8.4m) and saving accounts
		170,000 insured persons	Microinsurance
Santander	Santander Banefe (Chile)	68,000 micro-entrepreneurs	Micro loans (US\$125m) Individual financial assistance

insurance premium and the corresponding claims is extremely difficult. Despite the high risks and accompanying difficulties, some global financial institutions are actively involved in developing and implementing this microfinance product. Notwithstanding the efforts, micro-insurance is still in its introductory phase and mostly in the form of micro-insurance credit-life policies. Other micro-insurance products (provided by global financial institutions) such as health or business insurance are hard to find.

The Allianz' micro-insurance programme in India is an interesting example. Allianz is providing almost 100,000 micro-insurance credit-life policies in partnership with Bajaj Allianz. The micro life insurance product in southern India charges a premium of US\$ 0.87 per year and pays US\$ 370 in the event of an accidental or natural death. A similar project is running in Indonesia and Egypt.²²

Although Rabobank is not involved directly in micro-insurance, it does address it. In order to support the rural population, Rabobank Foundation is cooperating with Micro Insurance Association Netherlands (MIAN), established in 2004, and supports local organisations in setting up micro-insurance systems. MIAN is principally active in India, Sri Lanka, Nepal, Cambodia and the Philippines.²³

According to data from The Microfinance Gateway, there are at least 11 micro-insurance companies, 43 microfinance institutions, 15 insurance companies and 3 reinsurance companies around the world that are directly or indirectly involved in providing micro-insurance services to low-income people. In addition, 14 organisations are providing technical assistance to the sector. The best-known global financial institutions, cited as micro-insurance service providers, are Allianz, AIG, AXA, ICICI, Munich Re and Swiss Re. At least 6 million low-income people have received a

micro-insurance through an MFI micro-insurance programme. In the list of insurance companies, ICICI Prudential reached by far the most people. ICICI Prudential (India) offers rural insurance and weather insurance to more than 650,000 people.²⁴ These figures show that micro-insurance is becoming a noteworthy issue in the world of microfinance. More institutions are getting involved, more conferences are being organised on the subject and, most importantly, more low-income 'poor' are gaining access to insurance products.

Last but not least, HSBC, Citigroup and Commerzbank (through its acquisitions in ProCredit) are exploring the market of international (micro) money transfers or **REMITTANCES**. Exact detailed data was hard to find, although there are a number of examples. In 2005, Citigroup and Banco Solidario in Ecuador launched a remittance programme that resulted in an enormous reduction in transaction cost for both senders and beneficiaries. In addition, in July 2007, BRAC, the world's largest national NGO with over 5 million borrowers and 100,000 employees, signed a remittance distribution agreement with Citi Bangladesh. This is one of the first such arrangements with microfinance institutions. Under the agreement, BRAC will open up access to remote corners of the country and facilitate the transfer of workers remittances through Citi from all over the world.²⁵ HSBC offers a second example of microfinance remittances. HSBC and Opportunity International UK, the international microfinance body, are running a project known as the Opportunity Card to help Philippine migrant workers send the money they earn abroad back to their families in the Philippines more cheaply. Under the remittance scheme, which is funded by a € 530,000 (US\$ 682,000) grant from the European Commission, Philippine workers will be able to send money back home through an HSBC website while designated family members will be given access to the money through any Cirrus-enabled

22 www.allianz.com (28/10/07).

23 www.rabobank.nl (15/10/07); Vossen, M. (2007). 'Microkrediet, hoe het werkelijk werkt'. Vice Versa, the Netherlands, August 2007.

24 www.microfinancegateway.org

25 <http://www.mfnetwork.org/home.html> (10/10/07).

(MasterCard) ATM network.²⁶

Even though this data looks promising, direct retail microfinance activities by global financial institutions remain minor in comparison to wholesale. There are many reasons for this. The most reasonable explanations are the complexity, cost- and time-intensity, low profitability and cultural diversity of retail microfinance products. In this context, banks often prefer to become indirectly involved in the sector by financing through wholesale-oriented businesses. Throughout the years, the provision of direct retail microfinance by the global financial institutions interviewed in this research increased slightly with no remarkable evolution. In general, however, the impact of these microfinance products should not be underestimated. Even though the amount of money involved is limited, a large number of people have been reached and have become (more) financially included.

B. Wholesale products

In contrast to retail microfinance, almost all banks included in this report are in some way involved in microfinance-related wholesale products. This includes providing wholesale loans to MFIs, equity stakes in MFIs, or arranging or investing in microfinance funds. Microfinance-related wholesale products set up by global financial institutions have definitely passed their introductory stage and are developing into a relatively large business. The most interesting developments are providing wholesale loans and investing in the equity stakes of MFIs. Both products have undergone important growth. More banks are willing to invest and significantly more money is being contributed to the sector. Nowadays almost half of the banks included in this research have made an acquisition in one or more MFIs or in a microfinance-oriented organisation. In addition, microfinance

investment funds arranged by banks have grown and are becoming structurally more sophisticated. In wholesale products, local currency financing is starting to hold centre stage. Notwithstanding the substantial degree of involvement and commitment by banks in wholesale products for the microfinance sector, they are still miniscule as compared to the total amount of money and effort invested in the financial industry as a whole. This is the most important reason why the increase is extremely relative.

By far the largest contribution by global financial institutions to the microfinance sector is through wholesale products and in particular the provision of **WHOLESALE LOANS** to MFIs or microfinance-oriented institutions. As shown in *Table 2* of the organisational structure of microfinance activities by banks, almost all banks have (at least) a dual strategy policy. This means that wholesale loans to MFIs are approached as a social and commercial investment. The level of commercialisation of the loans differs per bank, however. This is discussed in *Table 2*. Note that some banks finance or invest in their partner banks at an adapted (lower) interest rate. The sum of all authorised wholesale loans to MFIs provided by the (participating) global banks is estimated to be in the range of US\$ 1.1bn to US\$ 1.4bn. If we also include the assets of the microfinance funds (AXA, Deutsche Bank and Morgan Stanley) and the investments in funds (ING, Crédit Agricole and Deutsche Bank), we may approach US\$ 2bn in wholesale loans. The researchers of 'A Billion to Gain? An Update' estimate that the banks together had disbursed wholesale loans between US\$ 450m and US\$ 550m by the end of 2006. An estimate of the wholesale loans to MFIs in 2005 was at least US\$ 100m below the figures in 2006. Even though all data

26 HSBC News Archive 2005: 'Opportunity Card helps tackle poverty in the Philippines.' (11/05/05). | More detailed information on the HSBC Opportunity card can be found on: <https://www.hsbcmt.com/app/oic/help.do;jsessionid=232967344B9BDB29E3428271ABDB8451#q12>

are estimates, we can say with a high degree of certainty that the total amount of wholesale loans has at least doubled within the last two years. Since all large global banks are included in the research, these figures might approach the total sum of wholesale loans to MFIs (provided by large global banks).

In addition to the list in *Table 5*, Barclays, Crédit Agricole, Crédit Suisse and Commerzbank provide wholesale loans to MFIs indirectly through their acquisitions. Exact sums for these outstanding loans were not available publicly.

Table 5: Wholesale loans to MFIs

Bank	Outstanding loans in US\$m	# of MFIs reached	# of countries reached	Local currency financing
Standard Chartered	200 (authorisation of US\$500m)	41	13 (Africa and Asia)	Yes
Société Générale	108 (€80m) (authorisation of US\$136m)	33	14 (Africa and C&EE Europe)	Yes
BNP Paribas	101 (€75m) (authorisation of US\$135m)	22	11 (Africa, Latin America and Southeast Asia)	Yes
ING Group	84	21	2 (Russia and India)	Yes
BBVA	authorisation of US\$260m (€200m) ²⁷	4	2 (target Latin America)	-
Rabobank	10	- (reaching 3 million people)	35 (Global)	11 different (local) currencies

²⁷ The BBVA board authorised a total of US\$260m (€200m) to the investment in wholesale loans to MFIs. The exact number of outstanding loans is unknown.

“Global financial institutions and microfinance: a promising marriage!? While they are definitely not married yet, there is certainly some flirting going on. The global financial institutions have yet to prove that microfinance is considered a promising marriage partner. It could lead to a lasting marriage if there is true commitment not only to financial performance, but also to social impact. We therefore need a common set of values to ensure a successful partnership from which millions of entrepreneurs would benefit.”

Tor G. Gull
 Managing Director Oikocredit International

A second wholesale involvement related to microfinance is the establishment of or investment in **MICROFINANCE FUNDS**. A number of institutions offer investment opportunities in microfinance to private and institutional investors by issuing MFI funds. By the end of 2007, Mix Market distinguished almost 100 listed funds that invest in microfinance. Apart from the seven funds listed in *Table 6*, there are large funds that are not linked directly to an international financial institution. Deutsche Bank, and 'newcomer' in the microfinance market Morgan Stanley, are active prominently in arranging microfinance funds. AXA has a microfinance fund too. In some cases, the funds are partially guaranteed by multilateral financial institutions (such as World Bank, IFC) or national development agencies (see *Table 7*).

Deutsche Bank arranges and manages four microfinance funds, amounting to some US\$ 170m in

total assets. Morgan Stanley arranged and placed the transactions in BOLD 2006 & 2007, two large microfinance funds. Blue Orchard services and sponsors these two transactions. Morgan Stanley's Microfinance Institutions Group's commitment is impressive. Together, the two funds have provided the equivalent of US\$ 210m in seven currencies to 33 MFIs in 15 countries around the world. The overview of Morgan Stanley as well as Deutsche Bank and AXA in the second part of this report presents a more detailed survey of these funds. A noteworthy fact is that the two funds implemented last, the DB German Fund for Microfinance and BOLD 2007, were rated by Fitch, respectively S&P. This may demonstrate the professionalised character of funds and could add credibility to the microfinance industry. All funds in *Table 6 and 7* and in particular BOLD 2006/2007 are complex financial products and extremely well organised.

Table 6: Microfinance funds arranged by participating banks

Bank	Name fund	Total assets US\$m	# of MFIs reached	# of countries reached	Local currency financing
AXA	AXA World Funds	23	-	-	No (US\$)
Deutsche Bank	DB Microcredit Development Fund	5	50	27	Yes
	DB Start Up Fund	1.5 (DB invested US\$0.5m)	8	-	Yes
	Global Commercial Microfinance	80.6 (DB invested US\$1m)	40 deals	21	Yes
	DB German Fund for Microfinance	83.3 (DB invested US\$5.5m)	-	15	Yes
Morgan Stanley	BOLD 2006	100	21	13	5 different (local) currencies
	BOLD 2007	110	20	12	6 different (local) currencies

In addition to establishing a dedicated fund, Deutsche Bank decided to invest in its own funds. Over the years, the bank has invested some US\$ 8m in its funds. Another US\$ 50m was invested in the *European Fund for Southeast Europe*. Crédit Agricole Asset Management has been able to actively participate in setting up the Danone Community Fund and additionally invested US\$ 30m. A final example is the ING's commitment to Oikocredit. By December 2007, ING has invested US\$ 6.1m in Oikocredit NL Funds. *Table 7* presents a list of the 12 largest micro-finance investment funds, cited by Mix Market.²⁸ In addition to the funds of Deutsche Bank, AXA and Morgan Stanley, these microfinance funds invest at least US\$ 1.1bn in the microfinance sector out of the estimated total of € 2m by private sector investments in microfinance.²⁹ By the end of 2007, more than 900 active MFI investments (loans/debt securities and equity investment) were executed through the funds listed in *Table 6 and 7*. Most of these funds were funded only by private investors (>80%). The banks included in this report together invested some US\$ 100m directly in microfinance funds. Note that the funds invest either directly in MFIs or (partially) in other microfinance funds.

A comparison between the figures listed in *Table 7* and a similar table mentioned in ING Microfinance Support's first report ('A Billion to Gain?') provides striking results.³⁰ The seven funds, which are cited in both reports, have been growing strongly in assets allocated to MF investments. Within three years, five out of seven funds have more than doubled their assets allocated to MF investments. Even more remarkable is the total growth rate of 1285% (2005-2008) for the responsAbility Global MF Fund. A striking issue in this fund analysis is that seven out of the 16 largest microfinance investment funds mentioned by Mix Market are officially incorporated in the Netherlands.

30 The microfinance investment funds listed in 'A Billion to Gain?' were measured at the beginning of 2005.

"As microfinance becomes integrated into domestic financial markets, more and more international banks are also taking a keen interest, propelled by the success and high profile of microfinance, by their own employee and investor client interest and by corporate social responsibility. These banks' most powerful role has been in financing micro-finance institutions that are not yet able to take deposits, through wholesale lending and other types of investments such as structured financing, hedging, and private equity. While domestic banks and other domestic institutions will continue to be the main provider of actual retail services, international banks can bring a wealth of experience to helping build those domestic financial markets so that they can become ever more efficient and deep, serving ever more poor clients with the whole range of essential deposit, credit, insurance and money transfer services they need."

Elizabeth Littlefield
CGAP CEO

28 www.mixmarket.org (17/12/07).

29 Reille, Xavier and Ousa Sananikone (2007) 'Microfinance Investment Vehicles', CGAP Brief April 2007.

Table 7: Other important microfinance investment funds ³¹

Name fund	Fund assets allocated to MF investments, in US\$m	Total fund assets in US\$m	# of active MFI investments	Currency used	Inception year	Type of fund
European Fund for Southeast Europe (EFSE)	308	557 (31/12/07)	50	US\$ - € - LC ³²	2005	Private and Public investor
Oikocredit	232	467 (31/12/07)	390	US\$ - € - LC	1975	Private investor
ResponsAbility Global MF Fund ³³	158	180 (30/11/07)	132	US\$ - € - LC	2003	Private investor
ResponsAbility MF Leaders Fund	118	131 (31/10/07)	44	US\$	2006	Private investor
Dexia Microcredit Fund	107	161 (06/02/07)	105	US\$ - €	1998	Private and public investor
BlueOrchard MF Securities 1	81	86 (01/05/05)	14	US\$	2004	Private investor
SNS Institutional MF Fund	55	220 (30/10/07)	26	US\$, €, LC	2007	Private and public investor
Catalyst MF Investors (CMI)	50	50 (09/10/07)	7	-	2005	Private investor
ASN Novib Fund	46	65 (31/12/06)	25	US\$, €	1998	Private investor
Triodos-Doen Foundation	45	56 (31/12/06)	74	US\$, €, LC	1994	Private investor
Triodos Fair Share Fund	41	54 (31/12/07)	43	US\$, €, LC	2002	Private investor
Hivos-Triodos Fund (HTF)	37	40 (31/12/06)	37	US\$, €, LC	1994	Private investor

31 www.mixmarket.org (07/02/08).

32 LC = local currency.

33 In conjunction with other business partners, **Crédit Suisse** founded the company ResponsAbility in 2003 and launched the responsAbility Global Microfinance Fund.

This paragraph points out the distinction between hard currency and **LOCAL CURRENCY** wholesale loans. The first report of 'A Billion to Gain?' (February 2006) mentioned that most credit by international commercial institutions to local MFIs had been offered in hard currency (Euros and US Dollars). This meant that the currency exchange risk was generally assumed by the MFI, which led to problems for them, particularly during currency crises (e.g. end of the 1990s). An important recent evolution is that wholesale loans by international banks discussed in this report can be provided in local currency such as Russian Roubles, Indian Rupees, Columbian Pesos, etc. This is a major advantage for local MFIs. A similar trend can be found in the list of micro-finance investment funds mentioned in *Table 7*. Seven of the 12 funds indicate clearly that they provide the loans and debt securities not only in Euros and US Dollars but also in local currencies. Nevertheless, local currency financing is not unlimited. International banks provide only a certain number of 'tradable' currencies. In spite of the diversification of local currency financing, it was noted that a large number of loans are still distributed in hard currency (Euros or US Dollars). The exact percentages of local currency financing could unfortunately not be determined. In comparison to the previous two reports, however, an important change in local currency financing by international banks was certainly noted. Large-scale local currency financing is a remarkable evolution of the last few years and is becoming increasingly significant.

International banks may also provide hard currency **GUARANTEES** for local currency loans, in return for which they can charge a fee to the benefiting MFI. In Russia, for example, HSBC structured a US\$ 20m loan guarantee fund on behalf of Opportunity International. This secured letter of credit facilities enables Opportunity International's MFI partners in various countries to obtain local currency funding.

"Global financial institutions are increasingly engaging with MFIs, but most significant are those relationships that have developed between global banks with a local presence in the same countries as MFIs. Whether jointly developing retail products or when arranging local currency finance for MFIs, Citi is leveraging its global and local expertise with those of our partner MFIs. Our relationships are supported globally, but established locally. We operate in the same markets, currencies, languages and communities as our partners and clients."

*Robert Annibale
Global Director of Microfinance, Citigroup*

Table 8: Equity stakes

Bank	MFI / MF bank (year of investment)	Involvement in %	Level of involvement
AXA (1)	MicroCred (2005)	12 (US\$2.5m)	Minority equity stake and founder
Commerzbank (6)	ProCredit Bank Kosovo (2000)	17	Minority equity stakes, board members and audit committee
	ProCredit Bank Serbia (2000)	17	
	ProCredit Bank Romania (2000)	21	
	ProCredit Bank Bosnia (2000)	13	
	ProCredit Bank Albania (2000)	20	
	ProCredit Bank Bulgaria (2000)	20	
Crédit Agricole (3)	ACBA Bank – Armenia (2005)	28	Minority equity stakes, partnership and TA
	ACBA Leasing – Armenia (2003)	28	
	SIPEM – Madagascar (2006)	15	
Rabobank Group (6)	NMB – Tanzania (2006)	35	Minority equity stakes, board members and TA
	URCB – China (2006)	10	
	ZNCB – Zambia (2007)	49	
	Banco Terra – Mozambique (2007)	30	
	Banco Regional – Paraguay (2007)	40	
	UBPR – Rwanda (2008)	35	
Société Générale (4)	Access Bank Madagascar (2007)	17	Minority equity stakes, development and TA
	Advans Cameroon (2007)	20	
	Advans Ghana (2007)	10	
	MicroCred (2005)	18 (US\$3.75m)	
Standard Chartered (2)	Rural Microfinance Development Centre – Nepal (2006)	US\$250,000	Minority equity stake and one member in each board
	Khushhali Bank – Pakistan (2006)	US\$830,000	
> 6 Global banks	22 minority equity stakes	Average equity stake of 23%	

At least six of the banks included in this research have started taking minority **EQUITY STAKES** in MFIs and local banks. Equity providers are essential in the early development stages of a microfinance industry in low-income countries. The characteristics of the early stage make the investment very difficult and explain why most investors other than donors shy away from investing in microfinance at this stage. The investment is difficult because the microfinance organisation often has little experience in the market or knowledge of the demand for financial products.³⁴ Nevertheless, six banks listed in *Table 8* are involved actively in equity investments in MFIs. The banks declared that these investments have a prominent position in their microfinance focus. In comparison to the second '*A Billion to Gain?*' report, there are three important new players in this third report, AXA, Crédit Agricole, and Société Générale.

Within the last year and a half (November 2006 to now), the total number of equity stakes by the participating banks has risen significantly from 15 to 22. Rabobank and Société Générale are responsible for this expansion, with four and three new acquisitions respectively. An interesting outcome is the fact that all banks involved in this research, excluding the six by Commerzbank in 2000 and one by Crédit Agricole Leasing in 2003, acquired their equity stakes in MFIs in 2005, the UN Year of Microfinance or in the following years. This is one of the most remarkable developments in microfinance activities by global financial institutions. Above all, paragraph 4 of this chapter (*Table 10*) shows that Rabobank and Commerzbank have plans to increase considerably the number of equity stakes in MFIs further. Over the years, only one equity stake agreement has been adjourned. Commerzbank had a stake of 2% in ProCredit but sold it to ProCredit Holding because of the

minimal involvement possibilities.³⁵ Despite the risks and lack of high profits to date, several local MFIs have proven successful and prosperous.

There are various explanations for the increase in the number of acquisition by global banks within the last few years. First, since the UN Year of Microfinance 2005, MFIs and the microfinance sector in general may have risen in prestige and popularity. Banks may have decided to invest in this craze due to the popularity or additional attention by the media. Secondly, some MFIs have demonstrated their reliability and profitability over the last few years. This could have resulted in an increased interest by global banks to be involved in these businesses. A third explanation could be that successful MFIs may be beginning to fund themselves by putting out equity stakes in addition to the wholesale funding.

Crédit Agricole's equity stake in ACBA, an Armenian micro-credit institution and full-service bank, is an interesting example in this context of MFI equity stake investments. ACBA opened for business in 1996. Ten years on, with some 37,700 members (31 October 2006) and a nationwide presence, it is the leading bank in Armenia. The transfer of technical assistance, institutional partnership, financial backing and equity stake were (are) part of Crédit Agricole's involvement. In 2006, annual net profits rose to more than US\$ 4m. With the help of Crédit Agricole's minority equity stake in 2005, ACBA's shareholders' equity rose from almost US\$ 17m to US\$ 49m by the end of 2006. The ACBA-Crédit Agricole agreement is a good example of success in the face of potentially negative conditions (high risks, conflicts, difficult business climate, etc.).

34 UNCDF (2001), Raising Capital through Equity Investments in MFIs: Lessons from ACLEDA, Cambodia. www.uncdf.org/sum

35 Additional figures on the current equity stakes by the banks can be found in the specific overview of every bank cited in the second half of this report.

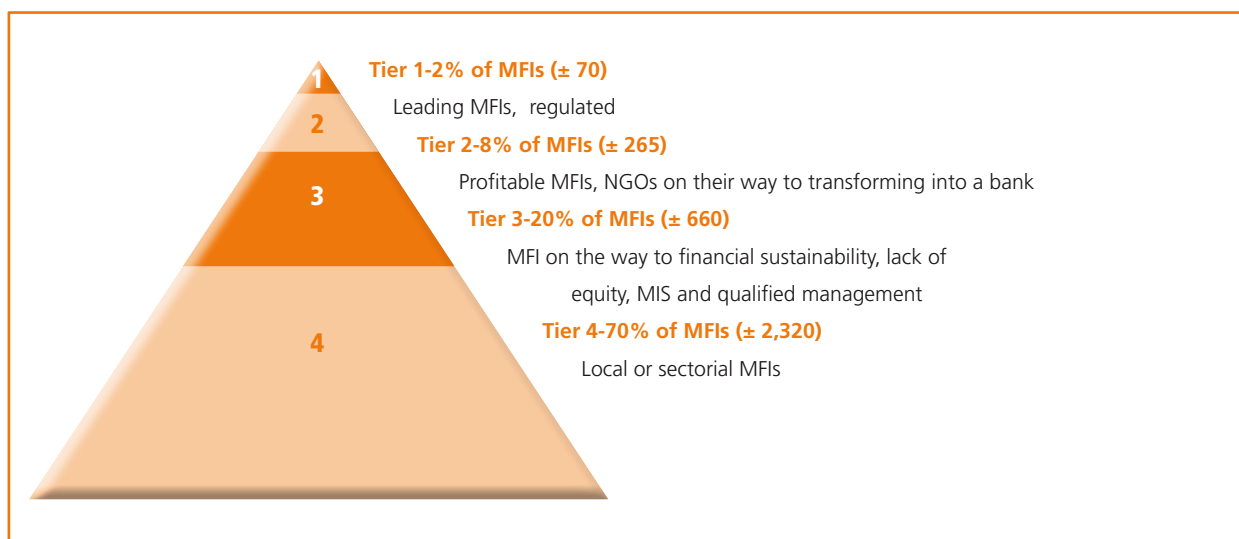
32

Although not always the case, many international banks declared that most of their (wholesale) microfinance investments are to Tier 1 and Tier 2 MFIs (see *Figure 2*). This can be explained by the fact that these MFIs are successful, well organised and probably the most lucrative. These top-tier MFIs are often the most popular and for many international banks the most attractive ones in which to invest. Nevertheless, several institutions, such as the Grameen Foundation USA and the USC Marshall School of Business warn that ‘we’ definitely need to look beyond the 2% Tier 1 MFIs. The USC Marshall School of Business quotes on its website: *“Too much money chasing too few Tier 1 MFIs – potential for major default if an immature MFI takes on too much or improperly structured debt”* and *“The MFIs that are in most need of specialised funding are those in the Tier 2 category that are currently not being reached by existing channels.”*³⁶

Similar quotes were found in other sources too. Even though investments in top-tier MFIs seem the most alluring, concentrating on these MFIs only may affect negatively the end-users as well as the microfinance sector as a whole.

This does not mean that international banks are focused exclusively on Tier 1 MFIs. Several banks are involved actively in creating new MFIs and developing greenfield MFIs. In 2005, for example, Deutsche Bank launched a Start Up Fund that supports commercially-viable MFIs in the earliest phase of their development by complementing private equity stakeholders with loans. Nevertheless, investments by global financial institutions in tier 2, 3 and 4 MFIs are definitely underexposed.

Figure 2: Tier stratification of MFIs³⁷



³⁶ www.gfusa.org; <http://www.marshall.usc.edu/emplibrary/USC%20Marshall%20Conference%20--%20Maya%20Chorengel.pdf> (12/12/07).

³⁷ The graph and the percentages are made by Planet Finance and can be found on www.planetfinance.com (13/12/07). The numbers of MFIs mentioned between brackets are calculated with the help of the data presented by The Microcredit Summit Campaign.

C. Non-financial involvement

Capacity building and **TECHNICAL ASSISTANCE** projects comprise a range of services provided to customers, consumers and/or partner organisations. Technical assistance may include instruction, skills training, operational knowledge, exchange programmes, consulting services, and/or the transfer of technical data. These activities or programmes cannot be ascribed to wholesale or retail microfinance alone and are therefore subdivided in this paragraph. Technical assistance provided by international banks to the microfinance sector is highly diversified and spread over several businesses. It is generally assumed that the microfinance sector and MFIs in particular have a great need for technical assistance and capacity-building projects in order to increase their outreach. This is the case especially in areas such as IT and communications technology, marketing, remittances and domestic payments.³⁸

Banks such as ING and Rabobank are involved in providing technical assistance to MFIs by using their own staff. Since the beginning of the ING Microfinance Support programme, a total of 70 ING staff have been sent out as advisors on a non-commercial basis. The programme aims to address 30 projects a year. These missions are generally requested by ING's partners or cooperating organisations in emerging countries all over the world. Another large player in providing similar projects is Rabobank International Advisory Services (RIAS). RIAS is a part of Rabobank's microfinance department and helps to improve the expertise and management quality of financial organisations in developing countries. Each year, some 120-130 Rabobank consultants are sent out for an average period of three weeks to support and assist local (partner) organisations. All Rabobank's projects are on a commercial basis and therefore need to be cost-effective. Rabobank's partners get a reduced rate. In addition, the Rabobank Foundation provides a further 20 missions each year under non-commercial,

not-for-profit conditions. Citigroup Foundation's involvement in microfinance also includes supporting MFIs and microfinance-oriented organisations with financial and technical training and capacity-building programmes. At the time of the research, Standard Chartered was developing and implementing a formal strategy of training programmes for their microfinance customers in Africa and Asia.

These four banks are the only ones in our list that offer technical assistance to the microfinance sector in an explicit, systematic and structured way. They are, however, not the only banks that provide technical assistance to the microfinance sector. Other banks with comparable activities include Barclays, BNP Paribas, Crédit Agricole, and Deutsche Bank. These four banks do not make specific plans or strategies such as in ING's and Rabobank's technical assistance projects. They consider technical assistance to be an addition to their other microfinance activities. With the exception of Standard Chartered's entrance as a provider of a technical assistance strategy and ING's increase in the number of microfinance-related missions, no remarkable changes were noted.

“Global financial institutions and microfinance: a promising marriage!? If microfinance is to reach its full potential, there will need to be greater involvement by global financial institutions. Future funding demand by the industry is approximately a few billion annually. However, challenges to commercial investing remain in this nascent asset class. The scarcity of information and lack of understanding of microfinance by institutional investors are only a few to note. If financial institutions can help enhance transparency, liquidity and access to the asset class, then the marriage is a very promising and lasting one.”

Ian Callaghan
Head of Microfinance Institutions Group,
Morgan Stanley

38 ING Microfinance Support: 'A Billion to Gain? An update.' November 2006.

Table 9: Partnerships

Bank	Institution – MFI – MF bank	Level of involvement
AIG	Accion International	3-year partnership
AXA	ADIE – SIFA	Investments and partnership
BNP Paribas	ADIE – France, CRESUS	Investments
Crédit Agricole	Farm Foundation	Founder and partnership
Crédit Suisse	Accion International, responsAbility	Sponsoring founder
Morgan Stanley	BlueOrchard	Collaboration in funds
Société Générale	ADIE – France , Planet Finance	Providing loans (total <€1m)
Santander	BanCrecer - Venezuela	Founder, development and partnership
Rabobank Group	Micro Insurance Association Netherlands (MIAN), Terrafina	Partnership
Citigroup	Compartamos, BRAC, OPIC, SKS, Accion International, Women's World Banking	Management and investment
ING Group	Oikocredit, Opportunity International, Women's World Banking, UNCDF, Micro Finance centre	Partnership

34

Most of the banks have (additionally) entered into **PARTNERSHIPS**, collaborations or agreements with microfinance-oriented non-profit or non-governmental organisations (NGOs) and international microfinance networks. In this way, many banks demonstrate their willingness to be committed to the microfinance sector. The link between the large global financial institutions and these organisations can achieve major advantages for both sectors. The list in *Table 9* presents an overview of the banks' partnerships and the different kind of involvements. Partnerships remain invaluable for the microfinance sector as well as for the banks' expertise.

3. Geographical focus

Owing to the greater scale in microfinance activities of almost all banks' included in this research, providing an all-embracing geographical focus of their microfinance activities is increasingly complex. There are no geographical limits to microfinance. In the past, microfinance activities were concentrated mainly in India, Mexico or Bangladesh. Nowadays, more regions, Africa in particular, are involved in banks' microfinance strategy.

Six of the banks participating in this report consider their microfinance activities to be

globally-oriented. Here, 'globally-oriented' means their microfinance strategy contains no specific geographical focus. Three banks in the list stipulate retail presence as a condition for involvement in microfinance. These banks, namely Barclays, BNP Paribas and Société Générale ascribe preference to countries where their bank has a local retail business network.

As mentioned in 'A Billion to Gain' (2006), historical and linguistic ties between banks' home countries and certain regions seem to affect to some extent the choice of countries where banks are initially active in microfinance. Spanish banks are to some degree focused on Latin America, German banks on Eastern Europe, French banks on French-speaking Africa and British banks on English-speaking Africa and India. However, there are many exceptions and there are signs that banks are changing their microfinance strategy to include a more global focus.

Table 10: Geographical focus ³⁹

Region	Bank
Sub-Saharan Africa	AIG, AXA, Barclays (Ghana and South Africa), BNP Paribas, Crédit Agricole (Madagascar and Burkina Faso), Société Générale, Standard Chartered
Arab States	Allianz (Egypt), AXA (Pakistan), BNP Paribas, Société Générale, Standard Chartered (Afghanistan and Pakistan)
Asia and the Pacific	Allianz (India and Indonesia), AIG, AXA (India), BNP Paribas, Crédit Agricole (Bangladesh), Standard Chartered
Eastern Europe and Central Asia	AXA (Kosovo), Crédit Agricole (Armenia), Société Générale
Latin America and the Caribbean	AIG, AXA, BNP Paribas, Commerzbank, BBVA, Santander
Global, no particular focus	Citigroup, Deutsche Bank, ING (India), Morgan Stanley, Rabobank, Crédit Suisse

Globalisation is definitely having an impact on global financial institutions' microfinance activities. In comparison to the last two 'A Billion to Gain' reports, most of the microfinance activities of the banks included have passed their introductory stage and their geographical scope has started to widen. The banking sector's internationalisation and rise of the *informational economy* are having a significant (positive) impact on the world of microfinance.⁴⁰ Some or several of the microfinance activities have been introduced in most of the world's developing or emerging countries. Some countries, such as Peru, Bolivia, Bangladesh and India, are quite advanced. There is already a solid, microfinance system in these countries, with the result that many banks continue to invest in these regions. It should be noted, however, that the microfinance sector has grown significantly in Sub-Saharan Africa. As mentioned before, this could be explained by the involvement of several large French banks. *Table 10* shows considerable involvement of banks in the Sub-Saharan African countries and the

39 The division of the World into districts by the United Nations Population Fund, www.unfpa.org (18/12/07).

40 Manuel Castells' book, *The Information Age: Economy, Society and Culture*.

Arab States, two regions where two or three years ago very few banks had microfinance activities.

4. Plans for the future

It is noteworthy that at least half of the top 20 global financial institutions are involved actively in the microfinance sector.⁴¹ This is demonstrated in the introduction in *Table 1*. The banks not included in the top 20 but which do have microfinance activities are also large international institutions with a worldwide presence and a major impact in the financial (and social) sector. Even though microfinance has been around for several decades, only few of these international banks had implemented a dedicated structured microfinance strategy before the year 2000. As repeatedly indicated in the course of this report, many appreciable microfinance-oriented activities by global financial institutions have been developed in the last few years. The experimental introductory stage of most banks has ended and the microfinance growth stage has started (recently). The plans for the future indicate that the microfinance sector will be supported and financed by the global banks. Even though there will be a (quantitative) increase in the future, the greatest increase in the variety of microfinance products (qualitative) has probably already taken place. Presumably, global banks will not be developing many new sorts of microfinance products.

36

Around the turn of the century, few banks were involved in the microfinance sector. The figures in this report show not only a significant increase in the number of banks active in microfinance but also important growth in the total number of investments in the sector. In addition, microfinance activities have diversified remarkably. Next to the 'standard' wholesale and retail loans, new, more complex forms of investments have been reviewed. The banks' presence and involvement has introduced a wide range of microfinance products into the sector. *Table 11* shows the banks' plans for the future concerning microfinance. Most of the banks included stated explicitly that they are certain of an expansion in their microfinance activities within the next year. Should the banks involved be able to provide certainty regarding the realisation of these plans, the involvement of global financial institutions in microfinance will continue to increase in the future. The list in *Table 11* shows great promise for the near future of microfinance by global banks. The banks have indicated that they are committed to the sector for the long term. None of the banks declared that they intend to stop or decrease their involvement in microfinance. The data in this report shows that most banks have passed the introductory stage and are developing profoundly in the world of microfinance. Even though the global banks' contribution to the microfinance sector will continue to grow, total involvement as compared to 'normal' businesses will be limited.

41 ING Profile – August 2007.

"The Nobel peace prize committee did the world a favour by awarding the 2006 prize to Muhammad Yunus for the development of microcredit to assist the poorest of the poor in eliminating their own poverty. Microcredit alone will not be sufficient to achieve this task, but it is playing an ever more important role. Arguably inspired by the 2006 prize, this report shows that global financial institutions are increasingly fulfilling their responsibilities in this respect."

*Charles van Marrewijk
Professor of Economics, Erasmus University
Rotterdam*

An important question for the future is: Can banks get the same returns on their microfinance investments as on their 'normal' business investments? The majority of those responsible for microfinance within the banks stated that the commercial perspective of their microfinance activities is gaining in importance. International banks' involvement in the sector is not or no longer exclusively focused on the corporate social responsibility level. It is clear that increasing numbers of banks are getting involved further. There are at least two explanations for these developments: more banks (and persons) consider corporate social responsibility increasingly

Table 11: Future plans⁴²

Bank	Near-future plans related to microfinance
AXA	Increase in the AXA World Fund Micro-insurance
Barclays	Financial inclusion programmes in Barclays’ retail network (11 emerging countries)
BNP Paribas	A microfinance fund Remittances Micro-insurance Technical assistance
Commerzbank	New minority equity stakes (5) A fund consisting of (business) loans to ‘poor’ people.
Deutsche Bank	A ‘technology for microfinance’ fund A new microfinance consortium (US\$ 200m)
ING Group	Increase in number of TA projects Increase wholesale funds
Morgan Stanley	A debt fund (> US\$ 100m) A private equity fund (US\$ 100-150m) 1 minority equity stake in a tier-2 MFI Direct investment in MFIs
Rabobank	Increase in number of TA projects Target of maximum 2 new equity stake in MFIs a year
Standard Chartered	Increase in wholesale loans to MFIs, authorisation of US\$ 500m

important, or increasing numbers of banks are discovering the economic and commercial opportunities of investing in microfinance. As matters stand, a combination of the two is probably the most reasonable explanation for the growth in the sector. This report shows that banks are tuning their strategy to a more commercial approach to microfinance. Although more activities have reached positive levels of sustainability and can generate profits, the purely commercial returns in microfinance do not currently meet

the commercial returns of a ‘normal’ business investment. Some reports show that the social community-based returns could be tremendous. Currently and surely in the near future, short-term profit maximisation investors are probably better off in another sector.

⁴² Since these are vocal communications and no accompanying information has been published so far, we may not be certain if we can take these figures as hard facts.

5. Conclusion

This second follow-up study to 'A Billion to Gain?' on global financial institutions and microfinance serves three main objectives. It is intended foremost as an update of global financial institutions' activities and future plans regarding microfinance. Secondly, it reveals the recent major developments and trends in global financial institutions' involvement in the microfinance sector. Finally, it makes an assessment of the impact of the microfinance activities of the global banks. There are numerous research papers that describe and evaluate the development of microfinance institutions, public microfinance investments and/or local microfinance projects. However, this and the previous two reports provide a unique perspective and detailed overview of large global financial institutions' commitment and involvement to microfinance.

38

Current activities, developments and plans

According to the results of this research, 20 large global financial institutions are in one way or another involved substantially in providing microfinance products or the commiseration to related activities. Most of these banks have managed the early phase of defining and implementing their microfinance strategy successfully and are

currently entering the next phase of involvement. This report shows that the global banks are paying far more attention to microfinance than ever before. An increasing number of banks have started to consider their microfinance strategy to be part of their 'normal' business activities but with a notion of the social impact. In most cases, they have defined a clear strategy, set up a specialised team and developed a wide range of microfinance products. The activities are no longer for corporate responsibility reasons only, but also need to be (at least) cost-effective. All banks included in this report have entered the microfinance market with a long-term perspective. At this point, global financial institutions have significantly increased their wholesale products dedicated to microfinance. *Figure 3* represents involvement and commitment related to strategic orientation.

Recent major developments

An interesting development is the fact that global banks have recently provided microfinance products in African countries, a significant contribution that was rarely seen before. However, few global banks are actively involved in providing large-scale retail microfinance. An important exception is micro-insurance; several banks and in particular the (bank-) insurers have declared their intention of focusing on developing and expanding this product in the future. Notwithstanding the generally greater involvement by banks, it is still fair to say that the total involvement in microfinance in terms of financial resources allocated is still small in comparison to banks' mainstream activities.

"I continue to welcome commercial banks into microfinance. Having said that, I continue to be concerned that, 10 years from now, commercial banks' involvement will have done little to hasten the end to extreme poverty as commercial banks understandably seek the most profitable MFIs, institutions that seldom reach the poorest clients. International development already fails the very poor whose children die at the rate of more than 26,000 a day and commercial banks' involvement will suffer the same fate without innovation and a commitment to investing in the very poor."

Sam Daley-Harris

President of RESULTS Educational Fund and until 2006

Director of the Microcredit Summit Campaign

Figure 3: Involvement and commitment related to strategic orientation

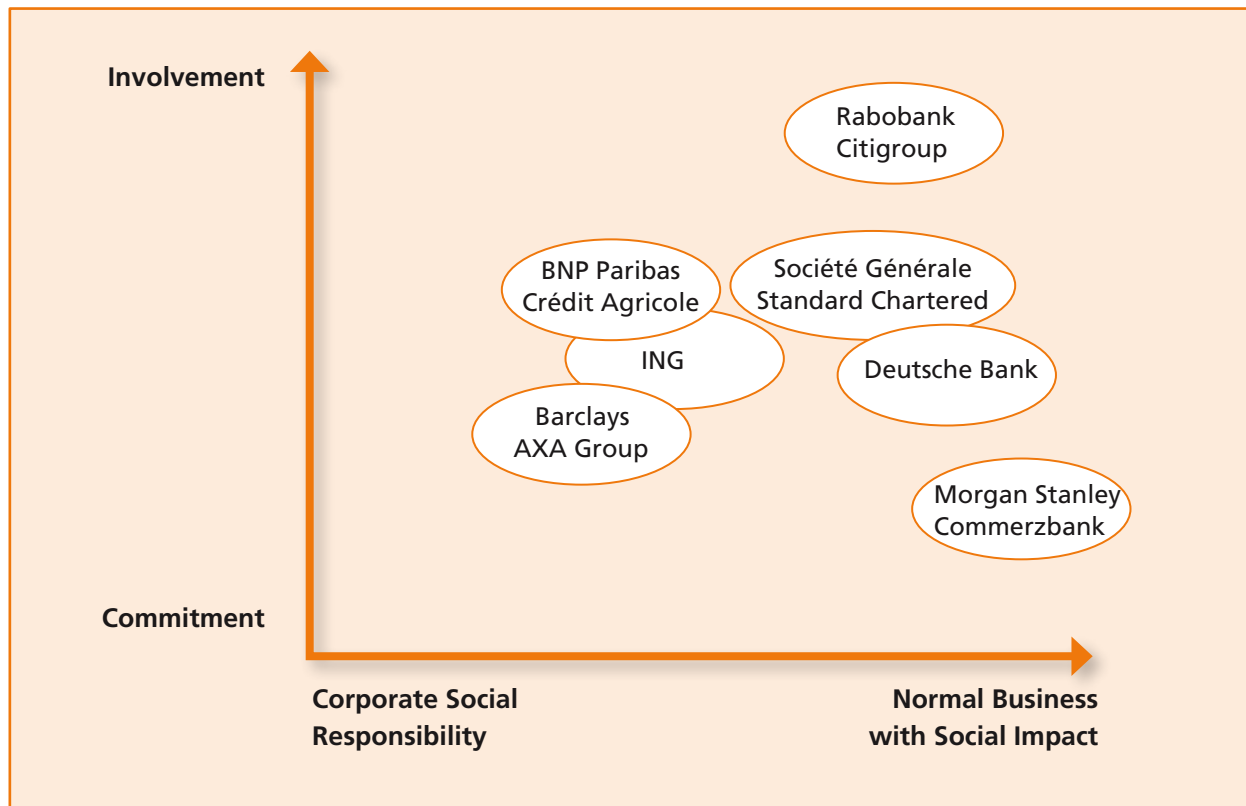


Figure 3 presents a graph of global banks' involvement and commitment in microfinance in relation to their strategic orientation. 'Commitment' can be defined as international banks' willingness to allocate resources to microfinance, to serve the market of the unbanked and by making innovations in financial products for the benefit of the micro-finance sector.

'Involvement' indicates to what extent banks have allocated significant resources to microfinance and their willingness to take risks. It refers also to the scope of the various micro-finance activities a bank has developed.

"Opportunity International has benefited greatly from the strong partnership with ING. With ING's global banking footprint and related expertise in all aspects of bank operations, including risk and audit, they have been an outstanding partner in many of the countries in which we operate. ING provided speakers and their Amsterdam training centre to Opportunity for our advanced banker training, and the expertise provided to our senior managers from around the world was priceless."

*Adrian Merryman
CEO Opportunity International Network*

The impact of global financial institutions in microfinance

40

Before ending this analysis, this study needs to look at an important objective of microfinance: the general aim of providing financial services to un(der)banked people. It is definitely worth investigating global financial institutions' impact in microfinance. The activities described in this report show that global banks are willing to invest in microfinance. The banks are increasingly providing microfinance products and are starting to integrate business targets in their strategy. In many cases, however, the banks are involved in a relatively limited way in providing financial services to the poor directly. As matters stand, the role of global financial institutions in microfinance is that of an effective financial services provider to (local) microfinance institutions, microfinance funds or microfinance network organisations.

In this sense, the wide variety of wholesale products provided by global banks and the accompanying financial know-how contributes significantly to the development of the microfinance sector and increases the international funds available for microfinance. Since the banks' retail microfinance is still often underexposed, and little research was performed into individual (potential) microfinance clients, this study cannot define the

banks' role and impact at the retail level or that of the microfinance end-user.

Nevertheless, the large-scale contributions to MFIs and related organisations clarify the importance of the global banks' involvement in microfinance and their significant impact, eventually also for the end-users. The strong relationship between MFIs and global financial institutions could result in a more professional and innovative environment where new aspects in the microfinance sector are being developed and executed. Consequently, the role of global financial institutions lies in providing increased funding, better financial structures and innovation power to develop new products (e.g. micro-insurance, remittances), delivery channels and systems for MFIs.

“Global financial institutions and microfinance: a promising marriage!?! MFIs are performing the same role as formal financial institutions to the poor and rural areas. Unless regulation provides the opportunity for these MFIs to act in full capacity as a financial intermediary (bank), MFIs' marriage with the Financial Institution is inevitable and cannot be avoided. Without the support of bulk lending from these institutions, the MFI sector will be unable to survive. As a result, banks need MFIs as it is the next biggest growth sector and they cannot afford to miss it. And unless the MFI is by itself converted into a bank, MFIs need banks as they are the primary source of funds.”

*Arjun Muralidharan
CEO ASA Grama Vidiyal, India*



Micro-entrepreneur Rajeshwari and her husband, clients of ASA Grama Vidiyal, India. Photo ING



Group meeting of clients of the Samayapuram branch of ASA Grama Vidiyal, India. Photo ING

Part II Overview per institution

This section of the report provides an overview of the microfinance activities of all the banks that participated in the research. The microfinance involvement of twelve global financial institutions is addressed here in detail. The summaries of each participant describe the most recent microfinance-oriented activities in broad terms. The persons in charge of the institutions' microfinance activities were interviewed in the course of the research (September-December 2007). You will find a list of the persons interviewed at the end of this report.

Each summary is divided into several paragraphs. The '*General*' paragraph provides a brief introduction of the bank's overall 'banking' activities, including the number of employees, net profit, total assets or other data of each individual bank. *Microfinance Structure* gives a brief outline of the internal organisation and responsibilities within the bank's microfinance activities. This makes it easier to compare the scope of the banks' involvement. The paragraphs *Geographical Focus* and *Product Focus* respectively list the countries where the bank is actively involved in microfinance and the kind of (micro)products they deal with mainly. *Wholesale* and *Retail* address the various microfinance activities within the stated countries in more depth. This dichotomy was mostly indicated by the banks themselves. The penultimate paragraph records those microfinance-oriented activities that do not fit within the dichotomy but are relevant within the purposes of this report. The last point of interest looks at the bank's *Plans for the future*. These activities include plans that are in development but have not yet been made public officially as well as activities that the bank plans to start or implement in the near future.

In addition, five relevant (partly) microfinance-focused international banks are summarised in a two-page overview at the end of this chapter. It is based on the information available in the public domain but was not verified by the institutions.

"Banks began a love affair with microfinance a few years ago and it is good to see that early relationship flower into a long-term "marriage". However, any marriage works better if the division of labour is clearly defined and understood. Banks contribute a comparative advantage in product development, technology, efficiency and funding. MFIs must continue to ensure that the poor, especially women, are not overlooked in the rush to expand financial outreach. If they truly work together, global financial institutions and microfinance providers will create an unbeatable partnership."

Mary Ellen Iskenderian
President Women's World Banking

1. AXA Group

General

AXA is positioned as a global leader in Financial Protection, offering individuals and businesses a wide range of products and services that meet insurance, savings, retirement and financial planning needs. The Group counts over 120,000 employees, 52 million clients and 400,000 shareholders worldwide. In 2006, AXA's consolidated revenues reached US\$ 104bn (€ 79bn).

Microfinance structure

AXA's microfinance activities are coordinated by a four-person Sustainable Development team at Group level. AXA also has sustainable development correspondents in each of its entities. Since 2005, AXA has focused increasingly on developing micro-insurance projects in cooperation with its partner MFIs.

Geographical focus

Mainly in France, Morocco and India.

Product focus

Funds, micro-insurance, equity stake and wholesale loans

Wholesale

The AXA World Fund Development Debt (AWF), launched by AXA Investment Managers in 1998, supports micro-financing initiatives through direct investment in microbanks and indirect investment in development agencies. Investment decisions within the AWF are based on sustainable development criteria affecting communities at a local, regional and global level. Preference is given to short-term securities issued by microbanks and mid- and long-term projects promoting sustainable development in partnership with supra-national organisations, principally in Latin America. By the end of 2007, the AWF total assets amounted to US\$ 23m (€ 16m), of which 10% is dedicated to microfinance investments.

In 2005, AXA committed \$ 3m to the \$ 80.6m Global Commercial Microfinance Consortium, a fund that provides MFIs worldwide with

local currency financing. More details on the Consortium are provided in the Deutsche Bank's summary.

AXA has also devoted US\$ 2.5m (€ 2m) to MicroCred, an investment company dedicated to creating and developing commercial companies for low-income entrepreneurs. At least 60% of investments made by MicroCred are in Africa. More details on MicroCred are provided in Société Générale's one-page summary.

AXA likewise invests in MFIs and similar organisations committed to social and economic integration of the unemployed and destitute within France, namely the Société d'Investissement France Active (SIFA), the Association pour le Droit à l'Initiative Économique (ADIE) and Habitat et Humanisme. The SIFA represents over € 2.3m (US\$ 3.1m) of these mutual funds combined, while the ADIE accounts for nearly € 2.6m (US\$ 3.5m). Added to the investments in Habitat et Humanisme (€ 960,000/US\$ 1.3m), overall investments in these three organisations exceed € 5.8m (US\$ 7.9m).

Micro-insurance

In partnership with the ADIE, AXA France and Macif have developed a co-branded micro-insurance offer (comprehensive business, homeowners, auto and building) that is sold alongside ADIE micro-lending products in France. As of December 2007, more than 60 policies had been accorded within a regional pilot programme launched earlier in the year. This initial offer is expected to apply to ADIE members nationwide in 2008 and to non-ADIE members in subsequent years.

Plans for the future

In microfinance, the AXA Group intends to develop viable and effective micro-insurance coverage that can be offered in addition to micro-loans or via other distribution channels.

2. Barclays

General

Barclays is a global bank established in Britain in 1690. The bank has 27 million customers and is present in over 50 countries. It has more than €1,500m in total assets and over 125,000 employees. Barclays' microfinance activities are focused mainly on its retail network.

Microfinance structure

Barclays' microfinance strategy is owned at country and regional level supported by the Financial Inclusion Team, with three people responsible for microfinance at Group level. The core of the microfinance inclusion strategy is to provide affordable and appropriate financial services on a for-profit basis to the unbanked. This will lead to positive measurable social outcomes. To date microfinance programmes are running in the UK, Ghana and in South Africa, with more planned in other countries.

Geographical focus

Africa, Asia and UK

Product focus

Deposits and loans

Wholesale

In 2005, Barclays initiated Barclays Microbanking, a programme aimed at working with indigenous financial intermediaries used by the unbanked. These include microfinance institutions, credit unions, Susu collectors, trade associations, and churches. The programme was piloted initially with Susu collectors in Ghana where Barclays developed an account for Susu deposits. Barclays made GBP150,000 available to start the project. Each day, these Susu collectors get a fixed amount of money, on average GBP1 from their clients. Each Susu collector has an average of 484 clients. Barclays also provides the collectors with loans at competitive rates, which they lend on to their clients. By the end of 2007, the programme had extended over GBP150,000 in loans, extending microbanking to over 500 Susu collectors and

taking the outreach to over 250,000 traders. Before gaining access to Barclays' services, collectors must be members of the Ghana Co-operative Susu Collectors Association and must undertake financial training organised by Barclays. Barclays has now extended its services to all the other financial intermediaries. In addition to accounts and loans, Barclays provides technical assistance and awareness programmes to the clients of the intermediaries. Also, Barclays granted GBP 30,000 to support the setup of 20 rural credit unions in Ghana in addition to its increasing portfolio of credit unions.

Retail

Barclays owns 56% of ABSA's shares. ABSA is part of the bank's emerging group. ABSA is South Africa's largest retail bank and has 8.5 million clients, 4.6 million of whom are considered 'low-income'. 27% of these low-income clients have a monthly income of less than US\$ 100, 79% less than US\$ 300. The Retail Banking Division provides the saving accounts, transmission accounts and insurance. At the end of 2007, ABSA launched the Micro Enterprise Finance Unit. This focuses on the 4.6 million low-income people, provides individual loans, group lending to the self-employed and wholesale loans to MFIs.

Other activities

The financial inclusion team is also responsible for financial inclusion in Europe (UK, Spain, Portugal and France). Efforts have focused mainly on the UK. So far, Barclays has opened almost 500,000 basic bank accounts designed specifically for low-income people. Barclays is also a member of the '1%-Club', from which the technical assistance and many other grants are paid. The members of 1%-Club agree to spend 1% of their time, salary or net profits on reducing poverty.

Plans for the future

Barclays is investigating innovative ways to tackle financial exclusion in the markets in which it operates, especially in the emerging markets (10 African countries and India).

3. BNP Paribas

General

BNP Paribas has one of the largest international banking networks, a total balance sheet of € 1,664bn (US\$ 2280bn), over 155,000 employees, and a presence in 88 countries. BNP Paribas has been prominent in the microfinance market in France for almost fifteen years. Since 2002, BNP Paribas has also been involved actively in financing MFIs through its international banking network.

Microfinance structure

Inspired by the UN Year of Microfinance, the Executive Committee agreed in 2006 to implement a central unit, called the 'Microfi'. Some micro-finance activities were already running before this implementation. The unit is coordinated by three full-time employees in a central team, with one or more responsible persons in each local subsidiary with microfinance activities.

Geographical focus

Africa, Asia and Latin America

Product focus

Wholesale loans

Wholesale

BNP Paribas has been financing MFIs through international retail banking networks in Africa (Morocco, Guinea, Egypt and Madagascar) since 2002. In May 2007, BNP Paribas made available a global line of €100m (US\$ 135m) for financing the microfinance sector. At the end of 2007, more than €75m (US\$ 101m) in outstanding loans had been approved for financing MFIs. Now more than 410,000 end-users draw benefits from borrowing from one of the 22 MFIs to which BNP Paribas is lending money. Eleven out of 16 target countries are already involved. In addition, MFIs in Mali, Senegal, India, Philippines, Mexico, Brazil and Argentina got involved in the Microfinance Activity policy.

Most loans are provided in local currency. With eight MFIs involved, India receives special focus. The aim, however, is to finance two or three MFIs in each target country.

Other activities

In 2006, 1,400 microprojects in France were financed by BNP Paribas through ADIE, amounting to a total of €4m (US\$ 5m). ADIE is an association that addresses financial inclusion in France and the French Overseas Territories. In addition, the BNP Paribas Foundation, which encourages dialogue between the banking world and its social and cultural surroundings, gave a €2m (US\$ 2.5m) grant in 3 years to support Project Banlieue, a project for underprivileged areas. This project is coordinated by the Foundation and in partnership with ADIE. It supports job creation via microcredit and coaches 700 new micro-entrepreneurs.

In 2004, CETELEM, a 100% BNP Paribas subsidiary with a pre-tax profit of €734m (US\$920m) in 2006, helped ADIE to establish recovery procedures and set up a decision aid tool. In 2006, CETELEM had an agreement with Caisse des Dépôts et Consignations to grant social micro-credits in partnership with the CRESUS association (US\$ 375-3750).

Plans for the future

One of the action plans is to work jointly with BNP Paribas Asset Management to study the feasibility of a microfinance fund. In addition, the bank is in the process of launching new projects on international migrants' remittances and a micro-insurance project to cover the outstanding microcredits. Last but not least, BNP Paribas aims to involve retired BNP Paribas staff members for voluntary technical assistance programmes in the microfinance sector. The objective is to mobilise volunteers to support ADIE in France, known as the JACADIE project (since 2005) and volunteers outside France (Microfinance Sans Frontières) to train microfinance institutions staff.

4. Citigroup

General

Citi is today's foremost financial services company, with some 200 million customer accounts in over 100 countries. Citi's employees, which exceed 370,000, are divided across 3 major business groups: Global Consumer, Markets & Banking, and Global Wealth Management.

Microfinance structure

In 2005, Citigroup launched a business unit, the Citi Global Microfinance Group. All Citi's microfinance activities are delivered through local relationships and distributed across more than 35 countries and 65 institutions. The Group works with Citi's businesses to develop commercial relationships with microfinance institutions, investors and networks as clients and partners. It aims to provide the sector with varied products and services.

Geographical focus

Global

Product focus

Wholesale structured finance, individual loans, savings, remittances, insurance and technical assistance.

Wholesale

In 2006, The Financial Times awarded Citi/Banamex for the US\$ 50m local currency structured investment-grade bond for Compartamos Bank, Mexico's leading MFI. The five-year bond was designed to support the rapid growth in micro-loans.

In July 2006, BRAC, the world's largest national NGO, closed the world's first AAA rated micro-credit securitisation. Citi participated in the six-year US\$ 180m local currency equivalent programme as co-lead manager and investor. The securitisation allows BRAC to diversify its funding sources, reduce its on-balance assets and disburse more funds to a larger number of micro-entrepreneurs. It contributes to the development of local capital markets.

In 2007, Citi arranged the first local currency loan syndication for Kashf Foundation in Pakistan, which will provide the MFI with access to local capital markets and diverse funding to support its growth plans.

In September 2006, Citigroup arranged Romania's first-ever private sector local currency syndicated loan, a US\$ 63m facility for micro-lender ProCredit Bank Romania. In the same year, Citigroup announced a global US\$ 100m medium-term local currency financing facility for microfinance institutions with risk participation from OPIC, which supports a wide range of MFIs.

In May 2007, SKS Microfinance and Citibank announced a US\$ 44m financing programme. Each individual loan originated by SKS is purchased by Citibank, which shares credit risk in the transaction. The programme delivers loans of US\$ 125 to US\$ 500 in local currency to 200,000 unbanked customers across India.

Retail

Citi's insurance company in Mexico, Seguros Banamex, launched a micro-insurance product in 2005. As of December 2007 it provides over 1 million life insurance policies to Compartamos Bank's 750,000 microcredit clients. This represents over 15% of the total individual life insurance policies in Mexico.

Citi 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 US and Banco Solidario in Ecuador. In July 2007 BRAC signed a remittance distribution agreement with Citi Bangladesh.

In partnership with microfinance institutions, Citi India launched an innovative micro savings product called Citi Pragati (“progress” in Hindi), which uses state-of-the-art technology to improve access to savings accounts for the unbanked. This product uses a first-of-its-kind, customer-friendly biometric ATM, enabled to facilitate financial transactions for illiterate clients.

Other activities

The Citigroup Foundation’s support of the microfinance sector focuses primarily on providing MFIs and related organisations with training and capacity building that support the industry to achieve greater scale. Over the past 7 years, Citigroup Foundation has contributed more than US\$ 40m in grants to over 200 microfinance partners in more than 50 countries. Foundation grants in 2006 include the Microfinance Information eXchange, Saahasee’s development of Microcredit-Based Women’s Cooperatives in India and ACCION International. In 2006, the Foundation donated US\$ 92m to ‘Financial Education’, ‘Educating the Next Generation’ and ‘Building Communities and Entrepreneurs’ projects.

Plans for the future

Citi will expand its microfinance commercial relationships across geographies, businesses and product groups to accelerate the scale and scope of financial access in many countries. Citi’s Global Consumer Bank continues to work with partners to deepen its client footprint, particularly with regards to providing savings and insurance products.

5. Commerzbank AG

General

Commerzbank is Germany’s second largest bank and one of the leading banks in Europe. Its consolidated balance-sheet total stands at € 620bn (US\$ 840bn). Roughly 36,000 employees, 8,700 of them active outside Germany, look after more than eight million customers in 40 different countries. Commerzbank provides financial services for private and business customers as well as for small to medium-sized companies (Mittelstand). Commerzbank is involved in microfinance by investing in local microfinance banks; it has taken minority equity stakes in ProCredit banks. So far, it is the only commercial German financial institution with direct participations in microfinance banks.

Microfinance structure

Commerzbank works with one overall relationship manager for microfinance at the Corporate Banking level at the head office. The manager uses specialists from various divisions within the bank to conduct the activities. The microfinance activities were considered a normal business from the outset. Commerzbank has board members in all institutions it has acquired. In addition, it is represented in most of the audit committees of the ProCredit Banks.

Geographical focus

Southeast Europe

Product focus

Equity stakes

Wholesale

Since 2000 (starting in Kosovo) Commerzbank has acquired equity stakes in seven microfinance banks. They are all named ProCredit Bank. Currently Commerzbank has taken minority stakes in these banks in southeast Europe (Kosovo, Serbia, Romania, Albania, Bosnia, and Bulgaria). The bank sold its stake of some 2% in ProCredit Bank Georgia to ProCredit Holding. The ProCredit banks operate on a profit-oriented basis, without subsidies.

They are assisted by the German consulting firm IPC and are linked to the German-based ProCredit Holding AG. The aim is to achieve an Return on Equity (ROE) of 15% after tax. The target group for the banks' services consists of micro clients and SMEs (business loans) as well as private (target-oriented) households. Depending on the country, the average loan size is €3,000 upwards. They increasingly tap the capital market for funding.

	ES ¹	PIC ²	NP ³	GP ⁴
Kosovo	16.7	1.67	7.8	63
Serbia	16.7	5.9	2.3	-54
Romania	21	4.2	1.5	77
Albania	20	2.4	3	14
Bosnia	7.6	1	1.1	-1
Bulgaria	19.7	3.5	4.6	13

- 1 Equity stake (%)
- 2 Paid in capital (million Euro)
- 3 Net profit 2006 (million Euro)
- 4 Growth percentage (%)

Plans for the future

Commerzbank's target for the future is to increase the number of investments in microfinance banks. These stakes will stay more or less on the same level. The focus of Commerzbank's microfinance activities remains on equity stakes in developing microfinance banks. They will also be outside of Europe.

Commerzbank's latest activity in microfinance was in Belarus where it founded a microfinance bank together with i.a. Kreditanstalt für Wiederaufbau (KfW), the European Bank for Reconstruction (EBRD) and Development and the International Finance Corporation (IFC). The project will start operations in the near future.

Commerzbank is also considering offering private customers a fund consisting of (business) loans to 'poor' people.

6. Crédit Agricole SA

General

Crédit Agricole (CA) is the largest banking organisation in France. The bank is active in more than 70 countries, has 41 million customers around the world and 157,000 employees. CA is a unified and decentralised group consisting of 39 regional cooperative banks and Credit Agricole SA, which is the Apex structure and a listed company. CA has a 25% market share in banking in France and is the country's second largest life-insurer.

Microfinance structure

The bank's microfinance involvement is not centralised to date. As far as microfinance in developing or emerging countries is concerned, activities have been carried out mainly by Credit Agricole Consultants, the consultancy arm of Credit Agricole SA, or on a voluntary basis by regional banks. A five-person unit at Group level is in the process of establishing a meeting point and coordination centre dedicated to microfinance within CA. This team will have an overview of all the activities spread across the various entities.

Geographical focus

Global

Product focus

Technical assistance, equity stake, loans

Wholesale

CA Consultants provide long-run assistance to ACBA Bank, an Armenian MFI and full-service bank. The interventions include transferring technical assistance, institutional partnership, financial backing, joint venture and equity stake. ACBA opened for business in 1996. Ten years later it had US\$ 143m in total assets and is a solid financial institution based on 694 village associations of farmers. The net profits in 2006 (US\$ 4m) were 40 times higher than in 1996. Today, one third of the bank's policy is dedicated to the special needs of the farming sector. ACBA Leasing was formed in 2003 and is 28%-owned by CA Leasing. CA Group acquired 28% of ACBA Bank as

part of a capital increase, dedicated to the bank's development.

ICAR, a consortium of eight regional banks of CA and led by CA's North East Regional Bank, supports three microfinance networks in Madagascar: the so-called CECAM, TIAVO and FIVOY networks, which are cooperative agricultural financial institutions providing (micro) credit to farmers in the country. The main support offered by the consortium includes institutional development, HR, technical assistance and management. ICAR owns a minority stake in the Apex bodies of each network and is committed to allocating €1m (US\$ 1.46m) in the form of grants or technical assistance over the period 2007-2009.

CA also provides support to local MFIs through its subsidiary, BNI Madagascar, a major local bank. BNI is extending special loan facilities to the local associations of CECAM. BNI has also a 15% stake in SIPEM, an MFI dedicated to microfinance in Madagascar's urban areas. At the end of 2006, 1,385 borrowers had received a loan from SIPEM. The average loan per borrower amounted to US\$ 1135.

Other activities

IFC has entered into a Technical Assistance Contract with CA Consultants in which CA Consultants delivers support to 'Banque Agricole et Commerciale du Burkina' to set up and develop a dedicated department as well as a marketing strategy for micro, small and medium enterprises.

Through Credit Agricole Solidarité et Développement, CA has also provided financial support to micro-finance projects aimed at restoring the local economy in Southeast Asian regions hit by the tsunami at Christmas 2004. Some of these projects are still ongoing.

Credit Agricole Asset Management has been able to actively participate in setting up and managing Danone communities, a € 100m (US\$ 146m) fund dedicated to funding social businesses, jointly carried out by Danone and the Grameen Group, such as the yoghurt plant located at Bogra in

Bangladesh, with micro-credit activities performed upwards (farmers) and downwards (Grameen Ladies) in the plant. CA's entities placed € 20m (US\$ 25m) in this fund.

CA is also the main founder of the French Foundation FARM (Fondation pour l'Agriculture et la Ruralité dans le Monde). Its commitment is close to €1m (US\$ 1.46) per year. The purpose is to support the development of agriculture in developing countries.

Beyond its initiatives around the world, CA also actively supports microcredit initiatives carried out in France by NGOs, such as ADIE, France-Active, and has been at the leading edge of social innovation to provide tailored advice and coaching, as well as microcredit, to the unemployed who cannot meet the minimum requirements for access to regular banking services and loans.

Plans for the future

The establishment of a dedicated central team proves that microfinance is taken seriously within CA. In 2008 and onwards the bank will take major steps forwards in designing and promoting a full set of financial technical facilities aimed at developing micro-finance institutions around the world, with special attention given to the rural and agricultural sector.

7. Deutsche Bank

General

Deutsche Bank (DB) is a leading global investment bank with almost 80,000 employees spread over 75 countries. It has three Group Divisions: Corporate and Investment Bank, Private Clients and Asset Management, and Corporate Investments. DB is considered a pioneer in microfinance.

Microfinance structure

DB started a fund 10 years ago and is now managing a total of some US\$ 500m in social investments. There are thirteen people working in a Community Development Finance Group, eight of whom are dedicated full-time to microfinance investments. They are active in 45 countries and have around 100 relationships to which they lend money in currency demanded locally. Deutsche Bank arranges and manages six funds.

Geographical focus

Global

Product focus

Loans and Funds

Wholesale

DB started the *DB Microcredit Development Fund* in 1997 (assets US\$ 5m), which provides credit to nearly 50 MFIs in 27 countries. It was the first commercially-oriented microfinance fund launched by a global bank. Loan sizes vary from US\$ 25,000 to US\$ 250,000 at commercial rates. It facilitates links between MFIs and local financial institutions.

In 2005, DB launched *DB Start Up Fund* (assets US\$ 1.5m) that supports commercially-viable MFIs in the earliest phase of their development by complementing private equity stakeholders with loans. Eight projects have already received a loan varying between US\$ 25,000 and US\$ 100,000. DB invested US\$ 0.5m.

The *Global Commercial Microfinance Consortium* was also launched in 2005. Its assets currently amount to US\$ 80.6m, with more than 40 deals approved in 21 countries. Coordinated

and managed by DB, the fund is a partnership between three leading development agencies, philanthropists and 13 institutional investors, including two universities. The fund facilitates capital access for commercially-focused MFIs in locally-demanded currency at commercial rates to a loan size no more than US\$ 4.5m. DB invested US\$ 1m in this fund.

DB German Fund for Microfinance was launched in September 2007 and amounts to some € 60m (US\$ 83.3m) funded by 21 German investors. This fund was the first sub-debt fund rated by Fitch. In addition to management duties, DB invested € 4m (US\$ 5.5m). Available loan sizes vary up to € 5m (US\$ 6.9m) (or a local equivalent). MFIs from 15 countries are involved.

Other activities

Two other DB funds are the *Eye Fund* and the *Enterprise Social Fund*. The Eye Fund (assets US\$ 20m) addresses the major constraints of a sustainable eye care sector in the developing world with increased outreach to the poor. The second fund helps create low-cost housing for America's most needy families. Both funds are grant-based.

In 2006, DB invested € 34m in the *European Fund for Southeast Europe* (EFSE). A large proportion is used for an asset securitisation deal in a large MFI in Bulgaria.

In addition, DB is expanding the technical assistance programme in which treasury risk people from DB and local MFIs are exchanged for a certain period.

Plans for the future

DB sees itself as *the* investment bank for social capital and is looking to achieve social goals through commercial means. In 2008, DB will roll out 4 new funds: a Rain Forest Preservation Fund, an Education Fund, a Technology for Microfinance Development Fund and, last but not least, a US\$ 200m Multi-Issuer Rated Deal similar to the Global Commercial Microfinance Consortium. The bank is also developing a multi-facility (grant, debt, equity) investment vehicle for microfinance to be marketed to single-country investors/donors.

8. ING Group

General

ING provides a broad range of insurance, banking and asset management services and is a top-15 global financial institution (based on market capitalisation). ING serves more than 75 million customers, works with around 120,000 employees, and is spread over 50 countries. Last years net profits reached around € 8bn (US\$ 10.5bn).

Microfinance structure

In 2004, ING set up ING Microfinance Support, a programme based in the Netherlands and aimed at providing technical assistance via partner organisations, raising awareness of microfinance and giving Dutch employees of the Group the opportunity to participate in microfinance efforts. ING Vysya, an Indian bank in which ING Group has a stake and management control, provides wholesale loans to MFIs in India and financial products to the 'bottom of the pyramid'. ING Green Finance, section Microfinance, provides wholesale loans to various MFIs.

Geographical focus

India, global

Product focus

Credit, savings, micro-insurance, technical assistance

Wholesale

ING Vysya Bank provides loans to MFIs in India. By November 2007 € 45.17m (US\$ 67m) had been provided to a total of 18 MFIs, reaching an estimated 567,000 people. ING Wholesale Green Finance invested € 12m (US\$ 17m) in loans in three MFIs in Eastern Europe and India (partly through ING Vysya).

Retail

In addition to its wholesale lending, ING Vysya Bank is active in providing micro loans to 'Self Help Groups'. The bank provides loans to 5,692 of these Self Help Groups. By November 2007, € 5.74m (US\$ 8.4m) in loans had been distributed. Micro deposits were collected also through this channel.

ING Vysya Life focuses on micro-insurance products for the rural community (farmers, self-employed people, contract and day labourers). At the end of 2007 ING Vysya had 170,000 clients. The micro-insurance premium per year varies between € 15 and € 200, with an average of € 40 (US\$ 56). The company has developed a group term life product aimed at the 'rural' sector. It allows ING to sell group creditor insurance to cover micro loans provided through banks and MFIs.

Other activities

ING Netherlands promotes support for micro-finance through its Microfinance Support programme. The ING Microfinance Support Network involves over 3,500 employees. Since 2004, 70 ING specialists have participated as an advisor in technical assistance projects. These projects were executed in emerging countries all over the world in cooperation with Microfinance Support's partners: Oikocredit, Opportunity International, Women's World Banking, the UN Capital Development Fund and Micro Finance Centre. By December 2007, ING clients and employees had invested € 4.2m (US\$ 6.1m) in Oikocredit Nederland Fonds.

Plans for the future

ING plans to increase both its retail activities in India and its wholesale activities in a number of other countries. ING Microfinance Support will continue to raise awareness and increase the number of technical assistance projects, aiming for 30 projects each year. ING Vysya's goal is to finance 30 MFIs by 2009-10, reaching over 1.25 million poor people.

9. Morgan Stanley

General

Morgan Stanley is a leading global financial services firm that provides a wide range of investment banking, securities and investment management services. The company's employees serve clients worldwide including corporations, governments, institutions and individuals from more than 600 offices in 32 countries. Morgan Stanley is committed to assisting in the profitable growth of microfinance globally and was the first investment bank to establish a dedicated micro-finance team.

Microfinance structure

In June 2007 Morgan Stanley created a fully commercial microfinance-oriented business unit called the Microfinance Institutions Group (MFIG). MFIG is part of Institutional Sales and Trading, but provides a gateway for clients to the full Morgan Stanley skill set. The Group numbers 12 full-time specialists based in London and New York. They provide international capital market solutions to financial intermediaries.

Geographical focus

Global

Product focus

Debt and equity funds, advisory, investment banking.

Wholesale

Before MFIG was founded, two microfinance-oriented debt funds were set up: BOLD 2006 and BOLD 2007. This commitment builds on the track record in debt financing. Morgan Stanley provided the equivalent of US\$ 210m in seven currencies to 33 MFIs in 15 countries. In both cases, Blue Orchard serviced and sponsored the transactions. Morgan Stanley dealt with the arrangement and the placement of the transactions with the investors.

BOLD 2006 was the first ever microfinance-backed collateralised obligation (CLO) transaction arranged by an investment bank. The fund amounts to US\$ 100m, financing 21 top-tier MFIs in 13 countries. In total these MFIs reach over one million borrowers, with an average credit per client of US\$ 1600. BOLD 2007 was the first rated microfinance-backed CLO transaction arranged by an investment bank. This fund counts US\$ 110m, financing 20 top-tier MFIs in 12 countries. The first three classes of notes are listed on the Irish Stock Exchange.

In addition to the plans mentioned in the next paragraph, MFIG's aim is to provide all of Morgan Stanley's services to their or other microfinance clients. The objective of these advisory activities is to offer a collaborated platform of specialised knowledge and services.

Plans for the future

With the launch of the Microfinance Institutions Group, Morgan Stanley will be working on transactions in at least the following areas:

- Principal and agency debt transactions;
- Private equity funds for direct and indirect investments;
- Stimulating liquidity and mobility in microfinance equity;
- Theme-related capital markets products (water, housing, renewable energy).

10. Rabobank

General

Rabobank is a full-range financial services provider founded on cooperative principles. The Group is comprised of local independent Rabobanks. It is the only private Dutch bank with the highest credit rating (AAA) that is not quoted on the stock exchange. The bank employs over 55,000 staff and is represented in 41 countries. Internationally, Rabobank focuses on the food, beverage and agribusiness sectors. In the first half of 2007, the Group achieved a net profit of € 1.4bn (US\$ 1.9bn), a rise of 14%. The Group has always contributed significantly to financial inclusion programmes and the economy in rural areas and developing countries.

Microfinance structure

Rabobank's microfinance involvement is classified in two large sections. On the one hand there is Rabo Financial Institutions Development (RFID) with its subsidiary Rabo International Advisory Services (RIAS). On the other, Rabobank works through its independent Foundation. RFID employs 40 people, twenty of whom are Rabobank specialists working as an expatriate in one of the partner banks. The Foundation employs eight people. Rabobank is represented by two members on the board in all its acquisitions. 2007 was RFID's first self-sustainable year.

Geographical focus

Global

Product focus

Loans, savings, insurance, equity stake and technical assistance (TA).

Wholesale

In 2005, RFID was established to develop, support and acquire banks focused on the rural market segment. Rabobank (RFID) acquires minority stakes, is represented on the board and provides managers and TA (via RIAS). In the long term, the objective is to develop a list of dedicated, well-established and mainly rurally-oriented banks

in developing countries. Five acquisitions have been completed and one is in progress. The total amount of investments by RFID in all these activities is almost US\$ 80m.

Partner bank	Country	Stake (%)	# of expats	Balance sheet ¹
NMB	Tanzania	35	7	580
URCB	China	10	2	3,500
ZNCB	Zambia	49	3	260
Banco Terra	Mozambique	30	3	-
Banco Regional	Paraguay	40	2	170
UBPR ²	Rwanda	35	3	85

1 In € m

2 In progress

In addition to the above, Rabobank Foundation provides loans to MFIs in their local currency, guarantees, grants and TA. It currently has a portfolio of € 7m (US\$ 10m) in outstanding loans to MFIs in 11 different local currencies. These activities reach over 3 million people spread over some 35 countries. The Foundation provides about 20 TA missions each year on a non-commercial basis. Over the years, the Foundation has granted € 60m (US\$ 87m).

Other activities

RIAS provides management advice and TA on a commercial basis. RIAS helps to improve the expertise and management quality of financial organisations in developing countries. Each year, some 120-130 consultants are sent out for an average period of three weeks. Most of these TA projects are in one of the partner banks. All the partner-linked projects are at a reduced rate, but need to be cost-effective.

The Foundation has been working with the Micro Insurance Association Netherlands (MIAN) since its foundation in 2004. The MIAN helps local organisations to put in place a system of micro-insurance. In 2006, the Foundation joined forces

with the MIAN in the fields of health insurance in Cambodia and India.

Plans for the future

RFID is looking to acquire more minority stakes in rural banks in developing countries. RFID has a target of two new acquisitions per year. In order to fulfil the demand, TA projects and the number of expatriates will increase also. Rabobank Foundation is transforming its policy by decreasing its donations and increasing its outstanding loans. RFID/RIAS, the Foundation, and Rabobank International are looking to strengthen their cooperation.

11. Société Générale

General

Société Générale is one of the largest financial services groups in the euro zone. The Group employs 120,000 people worldwide in three key businesses: Retail Banking & Financial Services, Global Investment Management & Services and Corporate & Investment Banking. Société Générale is active in 77 countries with a banking network of 37 subsidiaries in Africa, Middle East, French Overseas territories, Eastern Europe and the Balkans.

Microfinance structure

Société Générale focuses on wholesale lending and equity stakes where the Group has a retail banking presence. The organisation of the microfinance activities depends on local staff. At the head office level there is one person responsible for coordination and supervision. It is not a separate department, but a function integrated in the mainstream activities and officially part of the supervisory desk of Retail Banking outside France. All microfinance activities are conducted through Société Générale subsidiaries in local currency.

Geographical focus

Africa, Middle East, French Overseas territories, Eastern Europe and the Balkans

Product focus

Wholesale loans and equity stake

Wholesale

Société Générale provides credit on commercial terms to a total of 33 MFIs spread over 14 countries via its local branch network in Morocco, Benin, Madagascar, Ghana, Senegal, Burkina Faso, Tunisia, Cameroon, Romania, Jordan, and recently, Guinea, Egypt, Bulgaria and Georgia. The largest exposure is in Morocco. In 2007, the level of credit authorisation increased to a total of € 110m (US\$ 136m). At the end of the year, the total amount of outstanding loans was around € 80m (US\$ 108m) (or local equivalent). Loans are based on market rates. They are not subsidised.

In addition, the bank has minority equity stakes and participated in creating three greenfield MFIs with little financial infrastructure. They were Access Bank Madagascar (17% stake), Advans Ghana (10% stake) and Advans Cameroon (20% stake). The total value of these stakes is some € 1.2m (US\$ 1.8m). These MFIs started operations in 2007.

Other activities

In July 2005 Société Générale supported the creation of MicroCred, an investment company founded by PlaNet Finance, by participating in its capital with an investment of € 3m (slightly under 20%). MicroCred creates or invests in commercial MFIs or banks and provides them with technical assistance. Four MFIs have been established (Mexico, Senegal, China, and Madagascar). By 2011, MicroCred aims to be a specialised microfinance services group offering financial services to low-income entrepreneurs without access to the financial sector in at least 15 countries.

In France and the French Overseas Territories, Société Générale provides market-priced loans to ADIE, an organisation that supports the creation of small enterprises by the unemployed. Globally, involvement amounts to almost € 2 m (US\$ 2.92m).

Plans for the future

The strategy is not to expand activities for the sake of it but to seize any opportunity to add value to the sector when it makes sense. As such, Société Générale will continue to work with the current MFIs and wholesale lending and consider new equity participation on a case-by-case basis.

12. Standard Chartered

General

Standard Chartered (SC) has a history of over 150 years in banking and operates in many of the world's fastest-growing markets. SC employs almost 60,000 people in over 50 countries and derives over 90% of its profits from Asia, Africa and the Middle East. By the end of 2006, total assets rose to US\$ 266bn. SC Bank has been involved in microfinance since 2004. The first years of SC's involvement were used to put all processes in place. What started as a social responsibility programme is now becoming a profound sustainable business model.

Organisational structure

In September 2006, the Group's Chairman pledged to create a US\$ 500m microfinance facility over the next 5 years. This will help to lift an estimated 4 million people out of poverty. One year down, SC has already spent US\$ 170m and by March 2008 the bank will have US\$ 200m in outstanding loans. SC's Microfinance Head Office is located in Dubai. In all countries where SC is active with microfinance, people on the ground support and coordinate the microfinance activities. In addition, SC has a dedicated team in 4 countries where the microfinance involvement of SC is significantly high.

Geographical focus

Africa and Asia

Product focus

Wholesale loans, technical assistance and equity stake

Wholesale

In 2006, SC announced the establishment of a US\$ 500m microfinance facility in Asia and Africa. At the end of 2007, SC was providing a total amount of US\$ 170m in loans to 41 MFIs in 13 countries including 7 African countries (Tanzania, Uganda, Zambia, Kenya, Botswana, South Africa and Ghana) and 6 countries in Asia (India, Nepal, Bangladesh, Pakistan, Sri Lanka, Afghanistan). The average loan size to MFI

partners was about US\$ 2m. In total it affects an estimated 1.2 million individuals. In March 2008, MFIs in 7 new countries received SC support. At that point, SC's total amount of outstanding loans reached a level of US\$ 200m. By provisioning loans to MFIs, SC supports all kinds of business models, including Self Help Group lending, joint liability lending, enterprise lending and individual lending. All the MFIs benefit from access to these local currency financing and convenient transaction banking services. In addition to the wholesale lending, SC is developing and implementing a training programme for their microfinance customers in Africa and Asia. SC is partnering with microfinance experts for investments in technical assistance, training and capacity-building for the entire microfinance sector. MFI employees as well as individual borrowers are part of SC's focus group. A formal technical assistance and training strategy is being formulated. In India, SC is piloting with a training programme for the governance of MFIs.

Other activities

In Nepal, SC has an equity stake in the Rural Microfinance Development Centre. This centre is the leading institution in Nepal providing wholesale funds to viable MFIs. In 2006, SC contributed US\$ 250,000 in equity and took a seat on the organisation's board.

In Pakistan, the bank has a US\$ 830,000 stake in Khushhali Bank, a rural-oriented microfinance bank. The Bank's line of products includes short-tenure micro loans ranging up to US\$ 500 for working capital and asset purchase. By the end of 2006, Khushhali Bank achieved its expansion into 85 districts covering 535,000 households.

Plans for the future

At least until 2011, the bank will be focussed on building a wholesale lending portfolio, technical assistance investments and training programmes within the microfinance sector. Total outstanding loans are increasing significantly and there is a fair possibility that the US\$ 500m could easily be completed by the bank.

Other relevant microfinance activities

13. BBVA

BBVA is one of the top financial groups in Latin America, providing banking, pension and insurance services to most countries in the region. The group is market leader in 10 Latin American countries and has over 20 million customers. At the start of 2007, BBVA announced the launch of a global microfinance network via the BBVA Microfinance Foundation. It started with an authorisation of € 200m (US\$ 260m). It provides the network with capital as well as shared governance and management systems.

The Foundation initially targeted Latin America. BBVA has conducted a profound study of microfinance activity, reaching agreement for future integration in the Latin American networks of four organisations: Corporación Mundial de la Mujer in Bogotá (Colombia), Corporación Mundial de la Mujer in Medellín (Colombia), Caja Nor Perú (Peru) and Caja Sur (Peru). This programme is a new endeavour by BBVA in its commitment to all Latin American countries. The operations in Colombia and Peru are the first step in creating the global network.

The investment of €200m for the BBVA Microfinance Foundation will be used to facilitate development of small-scale productive activities. By September 2007, 71,300 microcredits had been provided by the two organisations in Colombia.

14. Credit Suisse

Credit Suisse Group is a world-leading financial services company, advising clients in investment banking, private banking and asset management. At the end of 2006, Credit Suisse Group employed 44,871 people in more than 50 countries. Credit Suisse's microfinance involvement has become increasingly important in recent years. Credit Suisse founded the company ResponsAbility in 2003 in conjunction with other business partners and launched the ResponsAbility Global Microfinance Fund. The fund invests primarily in fixed-income securities or acquires a stake in local MFIs. Some 125 MFIs and approximately 153,000 microentrepreneurs have access to the assets

managed by the Fund. Microfinance products accounted for almost US\$ 200m of fund assets under management. Most of the investments are in US\$; partial investments can be in EUR. In addition, Credit Suisse partnered with ACCION International by sponsoring its annual investor conference 2007 on microfinance.

15. Grupo Santander

The Group's main business areas are retail banking, wholesale banking and asset management and insurance. Santander has more than 129,800 employees, 69 million customers and 2.3 million shareholders. In 2006, the Group registered its highest profit ever, € 7,596m (US\$ 9,000m), 22% more than in 2005.

Grupo Santander has been active in microfinance in Chile through Santander Banefe since 2003. It provides retail-banking services in Chile to microentrepreneurs of varying size. In addition to financial services, the bank also provides assistance to microentrepreneurs to teach them basic financial skills. 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. By the end of 2006, the bank was serving 68,000 clients with US\$ 125m outstanding in loans under the Santander Banefe brand. In July 2006, the bank also launched BanCrece, a microfinance bank in Venezuela. BanCrece's aim is to provide about 500,000 credit contracts a year to micro-businesses in 4 to 5 years.

16. AIG

American International Group is a leader in insurance and financial services and operates in more than 130 countries and jurisdictions. In 2006, AIG had total revenues of US 113.2bn and a net income of US\$ 14bn.

In September 2006, AIG announced a US\$ 5.25m, 3-year partnership with ACCION International to improve access to financial services for those facing poverty. AIG's contribution will assist

ACCION in developing a range of dynamic new initiatives and products to improve the quality, impact and reach of microfinance around the globe. ACCION innovations will extend from remittances and savings products to micro-insurance and housing loans, and to a range of products that meet the financial services needs of poor entrepreneurs.

17. Allianz

With approximately 178,000 employees worldwide (as of September 2007), the Allianz Group serves more than 75 million customers in some 70 countries. Allianz is the market leader in the German market in insurance and has a strong international presence. The Allianz Group is also one of the largest services providers in insurance, banking and asset management. In 2006 the Allianz Group achieved total revenues of over € 101bn. Allianz has put micro-insurance into practice in three emerging countries.

Allianz microinsurance ventures focussed initially on India. Bajaj Allianz launched its first micro-insurance product in 2003 and went on to cover more than 100,000 customers. The humanitarian crisis that followed the tsunami in 2004 prompted Allianz to team up with CARE International, an organisation with extensive experience in micro-finance in India. The (micro) life insurance product in Southern India charges US\$ 0.87 per year, and pays US\$ 370 in the event of an accidental or natural death.

In 2005 Allianz teamed up with German Technical Corporation to research the potential for micro-insurance support in Indonesia. Normally, a premium rate Allianz package would cost roughly US\$ 10.5 per month. The Allianz micro life insurance is available for US\$ 0.66 per year. The programme now covers 18,500 credit customers but plans to achieve a total of 50,000 insured persons within the next 12 months.

Allianz's micro-insurance programme in Egypt is a joint venture with Planet Finance, Surety Fund and a number of European reinsurers. The programme is developing a pilot project offering death and disability insurance to more than 30,000 customers. Financial literacy training is made available to the NGO sector in Egypt as part of the programme.

Annex 1 General overview

60

Main microfinance focus areas of the financial institutions in this study, 2007							
	Retail loans US\$m	Wholesale loans/ Guarantees US\$m	Technical assistance in # of projects	Equity stakes in # of MFIs/ micro- finance bank	Micro- insurance products in # of clients	Arranging and managing funds US\$m under management	Investment in MF funds US\$m
AXA Group		X		1	X	23	3
Barclays	0.3	via acquisit.			via acquisit.		
BNP Paribas		101 (22 MFIs)	X				
Citigroup	X	X	X		One million policies to 750,000 clients		
Commerzbank	via acquisit.	via acquisit.	via acquisit.	6			
Crédit Agricole	via acquisit.	via acquisit.	via acquisit.	3			25
Deutsche Bank		via its funds	±10			175	56
Morgan Stanley		via its funds	X			210	
Rabobank Group	via acquisit.	10	140	6	X		
ING Group	8.4	84 (21 MFIs)	30		170,000		6.1
Société Générale	via acquisit.	108 ¹ (33 MFIs)		4			
Standard Chartered	via acquisit.	200 ² (41 MFIs)	X	2			
AIG	via acquisit.				via acquisit.		
Allianz					>130,000		
BBVA		260 ³					
Crédit Suisse	via acquisit.	via acquisit.				X	
Santander	125		X	1			

1 The board of Société Générale authorised a total of US\$136m in wholesale loans.

2 The board of Standard Chartered authorised a total of US\$500m up to 2011.

3 The board of BBVA authorised US\$ 260m for the BBVA Microfinance Foundation.

Annex 2 Participating organisations

Bank	Persons interviewed
ABN Amro	Ingrid de Jong
AXA Group	Catherine Boiteux-Pelletier
Barclays	William Derban, Gerhard Coetzee
BNP Paribas	Emmanuel de Lutz, Olivier Barthalon
Citigroup	Robert Annibale
Commerzbank AG	Eckard von Leesen
Crédit Agricole	Brigitte Drège, Jean-Luc Perron
Deutsche Bank	Asad Mahmood
Fortis	Eric van der Linden
HSBC Group	Maggie Crompton, Chloe Dyson
ING Group	Gera Voorrips, Roy Budjhawan, M.S.V. Prasada Rao
Morgan Stanley	Hiti Singh, Henry Gonzalez
Rabobank Group	Arnold Kuijpers, Bart Jan Krouwel
Société Générale	Pascale Lacombrade, Peggy Houssier
Standard Chartered	Zaitoon Esmail

Banks (literature study only)
American International Group
Allianz
BBVA
Credit Suisse
Grupo Santander

List of tables and figures

Tables

- Table 1 Top global financial institutions by market value..... 12
- Table 2 Organisational structure of microfinance 18
- Table 3 Microfinance products 21
- Table 4 Direct retail microfinance involvement 22
- Table 5 Wholesale loans to MFIs 25
- Table 6 Microfinance funds 'arranged' by participating banks 26
- Table 7 Other important microfinance investment funds 28
- Table 8 Equity stakes 30
- Table 9 Partnerships 34
- Table 10 Geographical focus 35
- Table 11 Future plans 37

62

Figures

- Figure 1 Level of contribution..... 17
- Figure 2 Tier stratification of MFIs 32
- Figure 3 Involvement and commitment related to strategic orientation 39

Quotes

We are grateful to the microfinance experts who made the effort to respond to the statement 'Global financial institutions and microfinance: a promising marriage?!'

Postlude by the author

This first comment relates critically to **statistical-quantitative** research. Even though one of the purposes of this report was to generate a statistical-quantitative review of the microfinance activities undertaken by global financial institutions and this research contains numerous figures, readers are urged not to become fixated on the vast amount of money shown in the tables. A very important aspect of microfinance is and will hopefully always be the social impact of the activities: the financial inclusion of un(der)banked people. This certainly does not mean that a commercial or quantitative approach is bad by definition. The point is, however, that some banks may use euphemistic terms or data to prove the relevance of their microfinance activities. Some could use it to popularise their strategy. Quantitative as well as qualitative research in the field should make the real involvement clearer. The impact of each individual bank's microfinance focus on end-users is nevertheless very difficult to measure.

A second remark focuses on the **technical assistance** projects provided by international banks. Even though technical projects may contribute significantly to creating, developing or expanding MFIs or organisations that are oriented similarly, 'western' banks should never underestimate or undervalue the capabilities of local specialists. One of microfinance's strong points is the fact that the responsibility is in the hands of the end-user. Microfinance products can only be successful if the people are willing to be responsible for their own economic activities. Past 'unconditional' development donations have rarely generated remarkable change. Africa has been given by far the most grants and donations, yet unfortunately remains the poorest continent on the planet. The age of microfinance has introduced a new dimension to the world of postcolonial development economics. Freely given, imposed technical assistance projects can turn back these positive developments nevertheless. International banks have to make sure that there is a dedicated demand from the MFI to the bank. Make sure that we are talking about

'assistance'. This remark must be regarded as a warning for all "western postcolonial unconditional donation thinkers". Follow the aims and purposes of the microfinance concept and let the people themselves be at least responsible and part of their own development. Technical assistance is certainly not bad, but definitely needs a social-anthropological manual. Make sure that the projects (on a granted base) contribute to long-term, effective personal and local community development.

I would like to make a third comment regarding the realisation and application of **the concept of microfinance**. Due to the major increase in product diversity, expanding activities and the growth of the microfinance sector as a whole, it is becoming remarkably difficult for some banks and researchers to determine 'microfinance's' demarcation. One should keep in mind that some organisations' microfinance activities may be deceptive and could be named 'microfinance' to euphemise their policy or to (ab)use the positive connotations of the word. Make sure that the term 'microfinance' is used correctly.

As a final remark, I would like to **thank everyone** who supported, supervised or helped me during the research process for the report '*A Billion to Gain – The Next Phase*'. Firstly, it was a great opportunity for me to discover the world of banking, the microfinance sector and most of all the people behind this immensely interesting world of international (development) economics. Secondly, I hope the information provided in this report will satisfy the target groups and may contribute to the awareness, development and establishment of the microfinance sector. I especially would like to thank my supervisors Gera Voorrips, Anna Gogoman and Professor Charles van Marrewijk, my companion in life Fientje Thyssen, my colleagues at ING Microfinance Support, my friends and family, and of course all the persons who were interviewed. Thank you for the time, confidence and motivation!

Matthijs Bouúaert

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