

FROM MATTRESSES TO MORTGAGES

Imagine a life without banks, where savings are stashed in risky hiding places, credit is only available through expensive pawnshops or loan sharks, and where purchasing a home requires a suitcase full of cash. According to the Asian Development Bank, some 690 million people in Asia live in extreme poverty, earning \$1 per day or less. They have no access to the basic financial services that the developed world takes for granted.

The financial sector is expanding to serve these poor communities. The movement began with Microcredit, small loans to help people without collateral start their own businesses.

For the very poor, even on \$50 loan is enough to spark an enterprise that can change the future of an entire family. Several loans can change a community. Thousands of these microfinance loans can transform an economy.

A wide range of microfinance providers, more formally known as microfinance institutions (MFIs), can now be found throughout Asia's developing nations. These MFIs are also starting to offer more than just credit; they are beginning to provide the poor with a full range of products and services such as savings, insurance and remittances.

But while MFIs have proliferated and demonstrated some significant successes, only a tiny proportion of Asia's poor households have access to basic financial services. This is largely because one of the greatest challenges is to expand microfinance services.

MFIs need to consider new ways to reduce their operational costs, for example by adopting innovative technologies, explains Beris Gwynne, executive director of the Foundation for Development Cooperation (FDC), an independent, non-profit international development organisation. They also need to consider creating partnerships with large financial institutions looking for commercially viable models to serve poor communities and non-financial organisations, such as retailers, that have operation in rural areas.

In addition, access to capital continues to be a problem for the majority of MFIs. Money is needed to support lending activities and strengthen management systems, but donor funds are limited and few MFIs have the required balance sheets or equity to borrow capital from financial markets.

On top of all this, the microfinance sector in many Asian countries finds it difficult to operate effectively because government policies and regulations are still being developed.

To help address these challenges, the Asian Microfinance Forum is being organised in Beijing from March 21-24 by the Banking With The Poor Network and FDC, with the Citigroup Foundation as lead sponsor. Under the theme 'Partnerships and Innovation: Increasing the Impact of Microfinance in Asia', around 200 representatives from MFIs, governments and development organisations, educators and private-sector financial experts will come together to find better ways to provide financial services to those in need.

Says Gwynne of the FDC: 'For greater impact, MFIs need to partner with commercial banks and communication networks as well as governments, educational institutions and other

development NGOs. We want to create a constructive and inclusive forum to understand the benefits and constraints, and learn how to make these partnerships work.’

Since 1997, the Citigroup Foundation has granted more than \$10million in support of microfinance programs in Asia to help build the capacity of large numbers of MFIs and to promote the development of microfinance generally. Citigroup also has commercial relationships with selected, well established MFIs around the world.

Says Robert Morse, chief executive officer of Corporate and Investment Banking, Citigroup Asia Pacific: ‘Microfinance plays a critical role in achieving local sustainable economic growth and vitality. A more inclusive financial sector across the region means that microfinance can benefit more poor communities. We think this is an effective way to help reduce poverty, and that’s why it is a priority for Citigroup.

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