



**Testimony of Robert Annibale**  
**Global Director, Citi Microfinance, Citi**  
**House Financial Services Subcommittee on International Monetary Policy**  
**January 27, 2010**

Good afternoon Chairman Meeks, and Members of the Subcommittee. My name is Bob Annibale and I am Global Director of Citi Microfinance. I appreciate the opportunity to appear before you today to discuss our views on microfinance globally and to offer my opinions on the future of the sector.

Citi has been actively engaged in microfinance for nearly 30 years, initially through the Citi Foundation, with its first grant in 1982 to Accion International. The Foundation has globally supported leading microfinance networks and associations, focusing on financial education, financial standards and transparency, local network strengthening and innovation.

Over these past three decades, Microfinance has developed significantly and the range of institutions and their scale and scope has broadened from micro credit to delivering a range of financial services to underserved and unbanked communities.

Six years ago, under my leadership, after nearly 20 years working in Africa, Europe, the Middle East and the States, Citi launched a group dedicated to servicing microfinance institutions (MFIs) as clients and partners. We recognized that while the need for our Foundation to support innovations in the sector were as important as in the past, an increasing number of microfinance institutions were seeking more than philanthropy from the wider financial sector, they were seeking access to capital, funding, technology and products to manage risk. They wanted to be served as clients, not beneficiaries.

Working across the bank's businesses, product groups and geographies, Citi Microfinance serves more than 100 microfinance institutions, networks and investors as clients in over 40 countries with products and services spanning the financial spectrum – from financing, access to capital markets, transaction services and hedging foreign exchange risk, to credit, savings, remittances and insurance products - to expand access to financial services for the underserved.

In launching microfinance as a business, Citi has worked with many of the sector leaders, including some of who are also testifying this afternoon, to develop a strategy of primarily focusing on serving microfinance institutions as clients. Any banker that spends time with the best of these microfinance institutions will, with humility, quickly acknowledge the unique knowledge that they have regarding their client's financial needs and capacities, and the innovative products that they have developed to serve their clients.

With a presence in over 100 countries, Citi operates in many locations where microfinance is playing an important role in expanding access to financial services to the unbanked and underserved. Our strategy has been to work closely with microfinance institutions in local markets connecting institutions with access to commercial financing and to their own local capital markets. In doing so, we have worked with many international investors including networks, specialized funds, donors and official agencies, including OPIC.

We have executed a number of innovative domestic financing structures with leading microfinance institutions including securitizations, local bank syndications, and even bond issues. Private sector banks and investors are more active in funding and investing equity in the sector, but the role of public support from international and bilateral agencies, social investors and donors is still critical to the growth of the sector in many countries and regions, especially those serving the poorest segments of society.

While some microfinance institutions have developed from operating initially as non-profit (NGO) to more empowered financial institutions, such as deposit taking banks, the majority of the institutions that Citi works with are either non-profit owned and managed, with development agencies or social investor shareholders, with an increasing number of them having mixed social and commercial ownership. They all expand access to finance to underserved communities, but some institutions, such as BRAC (Bangladesh) and Pro Mujer (Latin America) also provide a wider range of services for building livelihoods.

While Citi Microfinance is a specialized group that focuses on Microfinance, we have ensured that our work with the sector is reflected in our credit policies and product processes across geographies and we serve these institutions through our Citi branches locally, in local currencies, local languages, under local law and increasingly with other domestic bank and capital market partners.

Other areas where we have collaborated with this sector include risk management. While there is wider awareness of the risks associated with foreign exchange exposures for otherwise exclusively local currency institutions, such as MFIs, there has been significant donor and specialized debt funds that have provided MFIs with foreign currency funding that is difficult to hedge. Citi is working with both offshore lenders and MFIs on hedging foreign exchange risk and on supporting MFIs access to their domestic markets for funding.

The work of microfinance networks, including Women's World Banking and Accion International, as well as specialized rating agencies, such as MicroRate and Planet Rating, have all raised awareness of these potential risks and innovative alternative financing structures that connect international funders with the local currency needs of MFIs.

### **The impact of the global economic downturn on the microfinance sector**

The global economic downturn has also impacted the microfinance sector very differently in individual countries and regions. While some of the smaller geographic regions are particularly challenged, it is interesting to note that the markets with the largest microfinance outreach have thus far been less impacted, for example Bangladesh, India, and Indonesia. In these markets, MFIs have largely been funded domestically, as a result of exchange control restrictions, or the institutions are licensed to accept deposits. Generally, the microfinance sector has demonstrated resilience and many of the committed long-term investors, including bi-lateral and multi-lateral agencies, have softened the impact by expanding lending facilities to the sector.

Some of the most successful microfinance institutions have prudently slowed their growth during the downturn -- following growth rates of sometimes 50-200% per annum, which is challenging for an institution in terms of human resources, operations and maintaining the quality of client focus and service. In some markets such growth before the global economic slowdown had resulted in examples of potential over lending by the sector, such as in Morocco and Bosnia, and this demonstrated the need for credit bureaus, supervision and reporting that keeps pace with such growth.

In general, however, MFIs have responded well to a changed macro-economic environment with many introducing new and tighter credit processes, and many have slowed their growth either because of client demand or by management. Also, there has been a resurgence in expanding the reach of credit bureaus to include microfinance clients to avoid potential over-borrowing.

In the past few years, institutions have been diversifying and increasing their local market funding while reducing foreign exchange exposure and risks. The ability to accept deposits and the expansion of a wider range of domestic funding sources has become a key strategy for many institutions.

In the current economic environment, the business models for microfinance are evolving and proving dynamic. The global slowdown has brought new challenges for some institutions and countries, but so have other global and local events and trends, including the increased demands on the household incomes of clients of microfinance.

Retail food and energy prices have increased significantly in most countries and these items comprise a larger percentage of the incomes of the poor than other sectors of society. Food security for the poor is an important national issue and directly impacts the clients of the microfinance sector in many countries, limiting the financial flexibility of families and reducing the spendable income in communities that micro entrepreneurs serve as clients.

Remittances from family members working abroad is a significant component of household income for many families. For the first time since remittances have been comprehensively monitored, for which the Inter American Development Bank and the World Bank must be given credit, remittance flows are decreasing to some countries. This has significant impact on families and communities in regions, such as Central America and the Maghreb, where remittances also comprise one of the largest sources of foreign inflows.

### **Future challenges to the microfinance sector**

Citi is spending time with many of the microfinance networks, rating agencies and other stakeholders to identify risks and challenges to this important sector. While private sector funding to the sector has grown over the past three years, this has often been concentrated by country and institution. Some funds attract social investors but also bi-lateral and multi-lateral official funders continue to be significant providers of financing to the sector, much of this still in foreign currencies.

There is increased attention being given to ensuring appropriate financial education and transparency, as well as lending practices, with regard to microfinance consumers. CGAP, at the World Bank, and the Centre for Financial Inclusion at Accion have been instrumental in engaging the microfinance sector, practitioners, donors and investors, on best practices and standards for serving consumers appropriately. MF Transparency is focused on ensuring that clients are shown transparent and consistent interest rate charges for borrowers, providing needed training and collaboration with networks and regulators.

### **Innovation**

There is certainly evidence of innovation in the sector. Over the past three years MFIs have raised capital through social investors, specialized funds and agencies, and in a few examples in the capital markets. Accessing domestic markets has also become an increasing objective for institutions that are expanding and seeking diversification in their funding. Citi co-arranged the first securitization of microfinance loans, in Bangladesh, and the first private placement and investment grade bond issue for the sector in Mexico.

In July 2009, Citi Dhaka helped arrange a syndicated loan (subscribed by a group of local banks) for \$21.7 million for BURO, a not-for-profit that is one of the fastest growing microfinance institutions in Bangladesh. BURO serves more than 700,000 customers, 99% of whom are women. The Citi-arranged local currency loan will support the expansion of micro-lending to small farmers and marks the first time that a syndicated loan has been structured for a microfinance institution solely in support of the agricultural sector in Bangladesh.

Citi has co-financed with a number of official agencies in local currency and under local jurisdictions through the bank's branch network around the world. Citi and OPIC first launched a global program for emerging market microfinance institutions with a \$100 million program and, since then, we have co-

finance approximately \$230 million in total. Citi has the local banking relationship with microfinance institutions and is structuring financing for them in local markets which OPIC takes a risk participation in. This has supported our working with a diverse range of institutions, many emerging and NGOs, in a range of countries providing longer term local currency funding than we would have been able to do otherwise. For example, drawing from a portfolio of Citi/OPIC deals totaling \$200 million in local currencies, this financing reached 26 institutions, in 15 countries, with an average loan balance per borrower of \$177, of which 95% of these institutions' clients are women.

In September 2009, Citi and OPIC announced a further \$250 million program which we have targeted to provide financing to more microfinance institutions in many countries that we have not yet reached, particularly in Africa, Central America, the Southern Asia and the Middle East.

### **The importance of savings**

A wider appreciation of the importance of savings, the role for the microfinance sector, and collaborations with banks in extending access to savings has increased. Two examples of savings programs include Citi's introduction of biometric identified accounts in India with BASIX, and in NY with Grameen America. The bank is partnering with non-profits to open economical savings accounts for the non-profits' clients that apply the lessons learnt in financial education programs about the importance of savings. For some, this is their first-ever savings account and gives them an entry-point into the financial services system.

The Bill and Melinda Gates Foundation is providing important grant funding to numerous microfinance networks and institutions to support innovation in expanding the outreach and scale of savings as a product offering to many micro credit clients and other underserved communities.

We have also been working with microfinance institutions on remittances and linking two ends of an unbanked family. Someone who remits is someone who saves. We have a particularly successful remittance program like this in Ecuador which has reduced the cost for transferring funds and, in partnering with Banco Solidario and other institutions, also provide beneficiaries of remittances with access to savings products and services.

### **Conclusion**

The microfinance sector has evolved and continues to be strongly supported and influenced by a more diverse forum of agents of change than in most areas of development, including official government agencies, multilateral and bilateral, the non-profit and social finance sector, and, increasingly, private commercial investors and financial institutions.

The US Government has taken a lead position amongst governments in providing support for the development of the sector. US-AID, particularly in the past and we are optimistic for the future, was instrumental in supporting institutional development and capital for many of today's leading microfinance institutions and networks, including FINCA, in developing training and risk programs, and in providing valuable and specialized consultancy services from organizations such as Shorebank International in some of the most challenging newly independent or post conflict states. There continues to be a need for US-AID to provide leadership, especially in some of the most challenging environments for microfinance to achieve scale and sustainability, such as in Africa, Pakistan and the Middle East, and in the areas where microfinance and food security intersect, in the expansion of credit bureaus, rating agencies and social impact analysis.

OPIC has similarly played a complementary role in encouraging and participating in early stage commercial financing to the sector. In so doing, OPIC has helped to 'push the envelope' and catalyze investors, social and commercial, to bring innovative capital and funding resources and structures to support the growth of institutions, often young microfinance institutions, through enabling investors – specialized microfinance funds, networks, social and commercial – to structure longer tenor and mostly local currency financing to emerging microfinance institutions, often in post conflict environments, such as Kenya after the riots a few years ago, or to smaller institutions and markets. This too should be encouraged and supported by Congress, as OPIC has leveraged private sector financing to go much further and more patiently than it would have done otherwise.

Financial institutions, such as Citi, are largely working with the microfinance sector as partners, leveraging their respective expertise and resources to expand scale and outreach, while preserving the unique attributes that have been attributed to the success of microfinance. Financial inclusion is a much wider accepted development objective by not only NGOs and official development agencies, but also private philanthropic and commercial capital.

Citi is committed to continuing to be a global and local supporter of the microfinance sector, focusing both the resources of our Foundation and our businesses to expand financial inclusion and economic growth.

<http://www.citigroup.com/citi/microfinance/>



## **Citi and ACCION Texas Report Significant Progress Helping Microentrepreneurs Through Economic Downturn**

Partnership generates \$6 million in small business loans Statewide

**San Antonio, TX, December 8** – Citi today announced that its partnership with ACCION Texas has made a significant impact at the one-year mark despite the economic downturn and weak small business sector performance. Citi's partnership with ACCION Texas generated \$6 million in loans to help finance small business investments in underserved communities, which allows ACCION Texas to further expand its business model.

Established in 1994, ACCION Texas is a nonprofit microfinance institution that provides credit to low- to moderate-income entrepreneurs who do not have access to traditional sources of credit, and helps these entrepreneurs to stabilize and increase their incomes, create employment opportunities, and contribute to the economic revitalization of their communities. ACCION Texas has the largest active microloan portfolio in the U.S., and has served over 10,000 clients with loans totaling more than \$89 million, with an average loan size of \$15,000.

In August 2008, Citi entered into a five year contract with ACCION Texas to purchase up to \$30 million in micro enterprise loans, marking a first for the U.S. microfinance industry. As part of the agreement, ACCION Texas is serving as Citi's national service provider, handling underwriting, servicing and collections. In addition, both Citi and ACCION Texas are sharing the risks and the revenue from the loan portfolio.

"Citi's unique business partnership with ACCION Texas brings together the market and lending expertise of this leading US microfinance institution and Citi's Commercial Bank in Texas to serve and provide finance to microentrepreneurs," said Robert Annibale, Citi's Global Director of Microfinance. "We are very pleased that our partnership with ACCION Texas, which has a solid track record of serving small enterprises, will contribute to greater scale and finance for emerging businesses."

The partnership was developed jointly by Citi Microfinance and Citi Commercial Banking. Today, Citi works with 100 microfinance institutions (MFIs) in over 40 countries.

By partnering with microfinance leaders such as ACCION Texas, Citi Microfinance and Citi businesses are developing profitable and sustainable models combining our respective strengths and resources to reach underserved communities and to serve more small business clients.

ACCION Texas President and CEO Janie Barrera said, "After more than 15 years in the microfinance business, ACCION Texas is achieving consistent growth and strong performance and with our partners have succeeded in developing a scalable credit and operating platform. Through our partnership with Citi, we are increasingly able to serve more clients." Barrera noted her organization was fortunate to have access, through Citi, to additional capital beyond what is typically available in nonprofit funding through grants or loans.

"With high unemployment and tightening credit, the value of microfinancing multiplies," said Barrera. "ACCION Texas's partnership with Citi has guaranteed our ability to provide more loans to new and existing self-employed business owners and, given its success, we are actively evaluating how to expand the partnership."

The Citi Foundation has provided more than \$1 million in capacity building philanthropic support to ACCION Texas over the past 13 years. Citi's partnership with ACCION Texas builds on nearly three decades of experience in the area of microfinance through Citi Foundation and Citi's formal launch of Citi Global Microfinance as a business unit in 2005.

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**Note to editors:**

**About Citi**

Citi, the leading global financial services company, has approximately 200 million customer accounts and does business in more than 140 countries. Through Citicorp and Citi Holdings, Citi provides consumers, corporations, governments and institutions with a broad range of financial products and services, including consumer banking and credit, corporate and investment banking, securities brokerage, and wealth management. Additional information may be found at [www.citigroup.com](http://www.citigroup.com) or [www.citi.com](http://www.citi.com).

**Citi Microfinance**

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**ACCION Texas**

ACCION Texas ([www.acciontexas.org](http://www.acciontexas.org)) is a private non-profit 501 (c)(3) microenterprise development organization based in San Antonio with 14 offices across Texas and Louisiana. The organization began lending in 1994 and developed and implemented a recognized blueprint for establishing microlending programs in new areas around the state. In December 2007, ACCION Texas received the Wachovia Next Award after being selected over 600 other Community Development Financial Institutions (CDFI) with less than \$50 million in assets. The same year, it began providing underwriting and loan services to other microlending institutions nationwide. In 2008, the organization signed a five-year agreement with Citi to purchase up to \$30 million of ACCION Texas's microloans. Currently, ACCION Texas has \$6 million loans under management for Citi.



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## **OPIC BOARD APPROVES PARTICIPATION IN A \$250 MILLION GLOBAL MICROFINANCE FINANCING PROGRAM WITH CITI**

WASHINGTON, D.C. – The Board of Directors of the Overseas Private Investment Corporation (OPIC) today approved up to \$250 million to expand a successful partnership with Citi that provides microfinance lending to borrowers in emerging markets worldwide. The facility has the potential to reach more than 480,000 borrowers.

OPIC will risk participate in Citi originated and funded local currency loans to microfinance institutions (MFIs), which in turn make small loans to micro-borrowers in Africa, the Middle East, Asia, Eastern Europe and Latin America. The project represents the expansion of a \$100 million OPIC-Citi microfinancing funding facility launched in December 2006. Under this program, Citi and OPIC are providing financing to 23 MFIs in 13 countries.

"The global economic crisis has significantly curtailed microfinance lending, raising the cost of lending and causing liquidity problems for many MFIs," said OPIC Acting President Dr. Lawrence Spinelli. "MFIs need access to markets and funding to continue their work. By expanding an existing – and successful – microfinancing facility with Citi, OPIC is working proactively to help address this shortfall."

Dr. Spinelli noted that OPIC and Citi's Export and Agency Financing group have partnered in providing financing to emerging-market borrowers for more than a decade, through a series of risk-sharing arrangements set forth in framework guaranty facility agreements: as of June 30, OPIC had 18 such framework agreements with Citi. To date, there have been no payment defaults on any of the guaranteed loans.

Citi works globally with over 100 microfinance institutions, networks and investors in more than 40 countries, as clients and partners, with the objective of expanding access to financial services, including savings, financing, remittances, and insurance, on a scalable and sustainable basis.

"Citi has long been committed to globally expanding access to financial services to microentrepreneurs. Leveraging Citi's emerging markets presence, this new Citi/OPIC \$250 million Global Program will provide incremental funding to achieve our shared objectives of supporting microentrepreneurship and stimulating economic growth," said Vikram Pandit, Chief Executive Officer of Citi.

OPIC uses the framework agreements to mobilize private capital in host countries, extend the term of available financing in support of local development, and increase host country liquidity. The agreements enable OPIC to efficiently channel private capital to support host-country developmental needs by leveraging in-country bank skills and assets.

The microfinance sector has experienced rapid growth and attracted significant investment, particularly from the private sector. However, only a small portion of those that lack access to financial services are currently served. A wide spectrum of microfinance institutions continue to be in the forefront of designing and delivering appropriate financial services to the unbanked. This program will support MFIs to expand their outreach and achieve scale in financing microentrepreneurs around the world.

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OPIC was established as an agency of the U.S. government in 1971. It helps U.S. businesses invest overseas, fosters economic development in new and emerging markets, complements the private sector in managing risks associated with foreign direct investment, and supports U.S. foreign policy. Because OPIC charges market-based fees for its products, it operates on a self-sustaining basis at no net cost to taxpayers.

OPIC's political risk insurance and financing help U.S. businesses of all sizes invest in more than 150 emerging markets and developing nations worldwide. Over the agency's 38-year history, OPIC has supported \$188 billion worth of investments that have helped developing countries to generate over 830,000 host-country jobs. OPIC projects have also generated \$72 billion in U.S. exports and supported more than 273,000 American jobs. Visit OPIC on the web at [www.opic.gov](http://www.opic.gov).

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