

Generally, the words creativity and financial services imply something shady. But in microfinance, they have come together to create a practical system for combating extreme poverty and an opportunity for highly decorated directors to apply their expertise to good causes. Charlotte Moore reports

Small advances, big returns

It's a message that will resonate with Britain's entrepreneurs: small businesses are the backbone of any society and offer the best way for both economic and social improvement, wherever in the world you are based. For some of the poorest nations in the developing world, microcredit is the revolutionary financing tool to make their enterprising spirit a reality.

The concept of microcredit—tiny loans from specialist institutions that are run as co-operatives—is hardly new. But the increasing interest of highly respected global business leaders of the calibre of Sweden's Percy Barnevik, previously the chairman of European engineering giant ABB, has added weight to the idea. Now retired, Barnevik has spent the last three years funding and organising Hand in Hand, a charity in the south Indian state of Tamil Nadu. A key part of Hand in Hand's strategy is the use of microfinance and microcredit, providing loans so that local people can start their own cottage industries. Like so many in business, Barnevik sees self-sufficiency as the most enduring solution. "If we can help them to set up a business, we can wish them goodbye and good luck and focus on giving the next person the right skills," he says. This local solution also, he says, has global implications: "I'm not interested in doing something just for one small group. If we can do this on a big scale we can have an impact on the whole world. This could help us to eradicate extreme poverty."

Eric Thurman, author of *A Billion Bootstraps*, also believes that microfinance is the business solution to

ending poverty. "Microcredit in India is at an inflection point. We could potentially have a proof of the power of the microcredit: not only does it change the lives of small communities but it can change the economy of a nation."

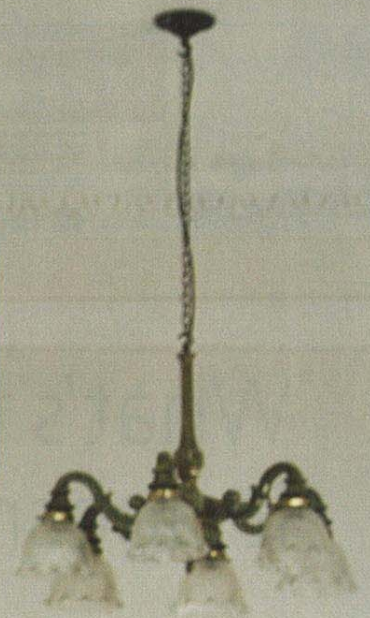
Since last year's Nobel's Peace Prize was awarded to Muhammad Yunus—the Bangladeshi pioneer of microfinance—the number of charities and companies getting involved in philanthropic and commercial ventures seems to be growing daily.

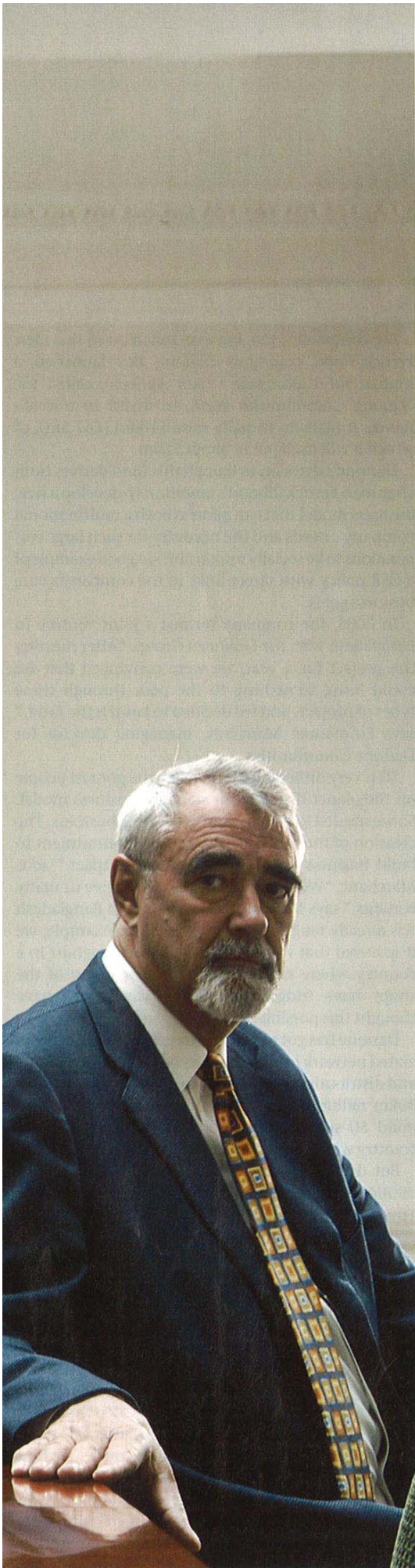
UK microfinance charity Opportunity International sees it as the most likely way to meet the UN's millennium development goal to halve poverty worldwide by 2015—particularly if businesses get behind microfinance initiatives. Its UK operations are focused on fundraising and look to financial institutions, in particular, for support.

"From our experience poor people do not want hand outs. They want an opportunity to lift themselves out of poverty and create a stable business that can benefit the local economy as much as the would-be entrepreneur," says Edward Fox, Opportunity's chief executive.

For Barnevik, his decision to invest millions of his own money in Hand in Hand was a natural extension of his family's involvement in charity, and his many years working for some of Europe's largest and most successful companies.

"I first visited India almost 40 years ago. During my career, I ran multinationals that had a lot of investment in India, and these companies often had a





social programme to provide things such as school books and clean water. Over that time, I built up my network in India," he says.

Hand in Hand works specifically with the poorest women in the villages of Tamil Nadu. Says Barnevik: "The women don't drink or gamble and they have an entrepreneurial spirit. They are bankable despite being very poor. They are the ones that bring up the family and can pull their families—even whole villages—out of poverty."

The women pay their debts to the microcredit agency, on time and with no excuses, he adds.

The women that Hand in Hand works with are usually illiterate, so one of the first steps is to enrol them in a 100-day crash course to teach basic reading, writing and arithmetic. Barnevik insists that loans alone will not help the world's poor make a better life for themselves, but that they also need to be taught a degree of entrepreneurial expertise. "Providing microfinance is only 10 per cent of the challenge, 90 per cent of the challenge is providing the business skills."

Thurman, though, believes there's tendency in the west to condescension: "There is an assumption that poor people need technical assistance or they cannot do anything. Skills such as literacy and numeracy are desirable but not necessary to lift people out of poverty," says Thurman.

For him, the power of microfinance is that it can move those parts of the population that have been reliant on the informal, untaxed, cash economy into the formal economy by giving them access to credit.

Its ability to open up previously untapped banking markets explains why a global bank like Citi is keen to get involved. "It's a whole new customer base for

Borrowing the skills of business

Percy Barnevik is clear about the best route for business to help to lift the world's most deprived people out of poverty: "Go out to these countries and invest there. Bring technology out to these countries. Then train and employ the people—and make sure you pay them well."

He recommends that those companies with funds earmarked for donation ensure the recipient charity is doing more than simply helping out in a crisis. Specifically, any initiative should also be committed to teaching people business skills so that they can help to lift themselves out of poverty.

Nor should a company take a softly-softly approach. "Be very demanding of the charity. Demand measurable results. Make sure the charity is transparent so you know you are getting real value for your money," he says.

Microfinance—a user's guide to lending small

Microcredit institutions arrange tiny loans—sometimes as little as \$25 (£12)—for people in extreme poverty. These loans are used to help people to start or expand neighbourhood businesses and services.

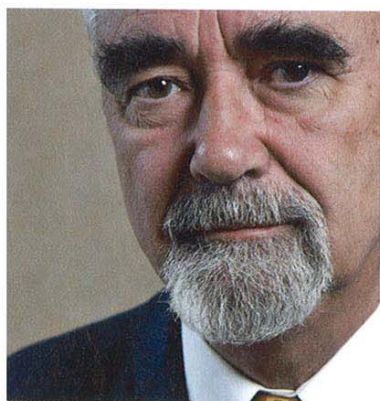
Through microcredit, donors, borrowers and microcredit staff become partners to help solve complex problems and meet shared goals. Unlike charity, the loans help to build strong reciprocal relationships and mutual trust.

Despite lending to some of the poorest people on the planet, there are very few loan defaults and the borrowers are, in fact, highly credit worthy. Repayment rates are higher than they are for commercial banks. Thurman says this is, in part, because it is their neighbours guaranteeing the small loans.

Citi," confirms Thurman. Bob Annibale, Citi's head of microfinance, says that it was the bank's philanthropic foundation that first inspired it to become involved with microfinance. "Then, three years ago we started working with microfinance institutions and their customers as potential partners and clients, rather than just beneficiaries of our philanthropy."

Conventional wisdom (not to mention the experiences of US sub-prime lenders) would indicate that organisations making loans to the very poor would run a high risk. But the reverse appears to be true. They tend to be institutions with cutting edge credit models. "These institutions are very innovative and very credit worthy," says Annibale. "In Bangladesh, they are reaching more individual clients than the whole of the conventional banking system."

Last year, Citi and some partners arranged a six-year, \$180m AAA-rated local currency securitisation of microloans for BRAC, a Bangladesh NGO. "This was a complex deal taking hundreds of thousands of loans, each worth just over \$100," says Annibale. "We



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were able to take an advanced finance structure to give the largest NGO in the world access to lower-cost and longer-term financing so that they could grow their business and reach more people."

Citi is just one of the global banks involved in raising money for microfinance institutions. In May, Morgan Stanley and the Switzerland-based Blue Orchard raised \$110m from the issue of a securitised bond backed by repayments from microfinance loans. Ian Callaghan, head of microfinance institutions group at Morgan Stanley in London, is abuzz with the potential for this new and rapidly growing financial market. Some microfinance set-ups, he says, are highly entrepreneurial: "There are microfinance institutions that are completely leap-frogging stages that more traditional banks have had to go through. They are using new technologies such as the internet and mobile phones to grow rapidly and to reach large, new groups of customers."

Big companies, too, have cottoned on to this idea. French food company Danone has launched a mutual fund alongside Credit Agricole, called the Danone Communities Fund, to invest in microfinance. It plans to initially raise \$100m (£67.5m), of which it will itself put in about \$20m.

Danone's decision to launch this fund derives from chairman Franck Riboud's ambition to develop a new business model that can address both a multinational company's needs and the necessity for such large corporations to be socially responsible—a good example of a CSR policy with direct links to the company's core business goals.

In 2005, the company formed a joint venture in Bangladesh with the Grameen Group. "After running the project for a year, we were convinced that we could bring something to the poor through these types of projects and we decided to launch the fund," says Emmanuel Marchant, managing director for Danone Communities.

"It is very difficult for us to reach the poorest people on the planet through our standard business model. So we needed to find new ways of doing business. The creation of the fund makes clear our commitment to build business with a positive social impact," adds Marchant. "We believe this project will give us many benefits," says Marchant. "Our project in Bangladesh has already taught us many things. For example, we discovered that we could make and sell yoghurt in a country where neither the houses or many of the shops have fridges. Before, we would not have thought this possible."

Danone has got round Bangladesh's lack of a refrigerated network by making the yoghurt at microplants and distributing the product daily to villages within a 30km radius of each plant. The company wants to build 50 such factories to distribute yoghurt to a country with a population of 150 million.

But do big players with mixed intentions spell a dilution of microfinance's good intentions? Says Thurman: "I'm not worried that the big players are going to corrupt the industry because I think the industry has a good sense of who they are. I am concerned that we forget about the small players who are reaching populations no-one else can access. They are still dependent on donations and need help to scale up."

Likewise, Thurman's keen to encourage smaller UK companies to participate in microfinance initiatives: "There are two types of people who gravitate to microcredit," he says. "One is sophisticated financiers and the other is entrepreneurs. It is, after all, small and medium-sized businesses that make such a difference to the poorest people in the world." For directors such as Barnevik, the motivation's clear: "When I go to India and see women who were previously downtrodden now running enterprises with pride and confidence, it's a hell of a reward." **D**