IPS Seminar on “Microfinance”
by
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Introduction

1. Professor Tommy Koh opened the seminar by stating the Institute of Policy Studies’ interest in the area of microfinance. The ‘dark side’ of rapid economic growth in Singapore and the region was the threat of growing income inequalities. There was a need to look at ways to ameliorate this trend and alleviate poverty. Was microfinance a creative way to empower the poor in Singapore and the region and help them do better? Also, given the Singapore Government’s desire to grow Singapore as a regional philanthropy hub, he wished to explore the potential to develop a tax regime and regulatory framework to tap the funds attracted here for microfinance initiatives and add depth to that strategic intent.

2. In August 2007, IPS had hosted a public lecture by Nobel Laureate economist Professor Mohamed Yunus, founder of the Grameen Bank. Prof Koh stated that the lecture inspired the Institute to host a follow-up meeting with various stakeholders to discuss the viability of transplanting the Grameen model to Singapore. Continuing with the theme of microfinance, he was happy to host members of PlaNet Finance—an international non-profit organisation that aimed to alleviate poverty by developing the microfinance sector worldwide.

3. Founded in 1998 by Jacques Attali, PlaNet Finance (PF) was different from the Grameen Bank. It was not itself a microcredit institution but was instead a catalyst for development of the sector and provided capacity-building to microfinance institutions (MFIs).
Presentation by PlaNet Finance

4. The two speakers for the session were Miss Laure Anquez and Mr Cyrille Parant. Miss Laure Anquez was currently the Southeast Asia Regional Coordinator of PlaNet Finance, located in Jakarta Indonesia. The second speaker—Mr Parant was speaking as head of the PlaNet Finance Investment Services (PlaNIS) Unit.

5. Miss Laure Anquez began by stating that PF’s mission was indeed to be a catalyst for the development of the microfinance sector that provided the means to develop income-generating activities to improve the lives its clients and their communities. The system provided activity-lending and not consumer lending. PF had its beginnings as a non-governmental organisation that assisted small microfinance institutions (MFIs) deemed credit-unworthy by traditional banks to become sustainable business and if well-managed, profit-making organisations even. Going through the life-cycle of MFIs, she highlighted how the organisational needs and demands were different with each stage and that support mechanisms had to be designed to meet them. PF also comprised a income-generating department that rated MFIs. Finally, PF now advised corporate social responsibility (CSR) departments of banks and mainstream financial institutions that were interested in investing in MFIs. It sought to develop financial instruments that would attract funds into the sector. This was the specific role of PlaNIS, a third arm of PF, of which Mr C Parant was Chief Executive Officer.

6. PF concerned itself with 6 main activities. The first being provision of technical assistance to microfinance investment growth and financial services. This constituted regulation, risk management, downsizing and strategic business planning. The second was PF rating agency, as aforementioned. The third was issuing guarantees in the form of PF micro-insurance. For instance, there was death insurance to ensure family members of creditors were able to achieve self-sustenance in the event of death of a breadwinner. There were also insurance schemes for crop failure in the event of a natural disaster. To date, Miss Anquez estimated that there were about 150,000 clients on these insurance schemes that cost about €50 to €150. The fourth was micro-credit investment programmes. The fifth was Financités -- a venture capital wing in developed countries to help communities in sensitive urban areas. The last was PlaNis—a provider of financial services for small microfinance organisations.
7. Recognising the specific context of Singapore, Ms Anquez also addressed the question of how microfinance could be adapted in the urban setting. This was an issue that PF tried to address under its Financités programme. The Financités system was more akin to a model of solidarity venture capital with assistance given on an individual basis to micro-business ideas. Also, the magnitude of the ‘investments’ was different. On average, helping the poor in regions such as Africa and Asia would cost about €307 to €334 in microcredit loans. For the urban poor in Paris an average loan would amount to an estimate of €5,000.

8. Financités targeted its financial services towards the poor in developed cities, which were excluded from the services that would have been provided by traditional financial institutions. Financial advice was provided to small, low-income businesses on where and how to invest their capital. For example, microcredit was extended to these enterprises to buy a truck for delivery or for publishing newsletters within a community. Financités would make equity investments in these businesses over a limited period. It also functioned as a ‘safehouse’ for these small, low-income businesses to deposit their capital. Non-financial services were also provided to the urban poor in terms of advice for business development and trajectories, education, health, hygiene and family-planning. To summarise, PF helped the urban poor to increase their income, create sustainable businesses, provide support for their business developments and improve their living conditions.

9. Looking at the broader landscape and ecology of the microfinance sector, there were four groups of actors. The first were the MFIs themselves. These included co-operatives, banks, rural banks, programmes, local and international NGOs. The second group were government and local authorities of the respective countries, constituting legal institutions and national frameworks that provided savings and financial services. The third were commercial banks and insurance companies. Miss Anquez stated that these organisations were previously not interested in the microfinance sector but were now supporting existing MFIs. These would set up branches or provide a range of investment services and products to microfinance organisations. The fourth group of actors were investment funds, both local and international.

10. Mr Parant explained then how PlaNIS that functioned as a bridge between large capital flows and the needs of microfinance
industry. PlaNIS built on PF’s experience and network by tapping the techniques of traditional investment banking and capitalist markets activity to fulfil its purpose. The services PlaNIS provided were classified under debt, equity and structured financing. These services required much research and analysis, evidenced by its growth within PlaNIS

11. To date, Miss Anquez said there were approximately 10,000 microfinance organisations in the world. In 2006, there were 150 million clients where 84% were women and 66.6 million of the clients constituted the poorest of the poor. The portfolio of the industry was estimated to be US$30 million in 2006 and it enjoyed an annual growth rate of 30%. She also estimated that given the amount of untapped resources, the growth rate of the industry would be sizable. Furthermore, while the average default rate in the consumer banking sector was about 15% and the normal retail sector 5% to 7%, it was, in contrast, an average of 3% in the microfinance sector. Mr Parant added that it was because microfinance empowered its clients and gave honour and due dignity of their clients that led to that low default rate. This made the risk of investment in the microfinance industry attractively low.

12. The demand for microfinance services had increased and there was a need for more funding. Miss Anquez stated that there were more commercial loans coming from investors such as Citibank, DeustchBank or Credit Suisse. The industry was also seeking more investors from local markets in the respective societies as this would foster long-term relationships.

13. Miss Anquez stressed the need for transparency for the creditors. She claimed that PF had the information resources (from doing about 80-90 studies annually), a standardised methodology to study the business structures of these microcredit organisations and rated them according to their efficiency and sustainability standards. An organisation ranked by the PF ranking system would enable itself to access more funds.

14. Concluding the presentation, Mr Parant summarised some of the projects PF was handling in 2008. Comparing Singapore to international finance hubs like Switzerland and Luxembourg, Mr Parant claimed that Singapore could be the Asian hub for the microfinance sector. These two centres had sought to understand the sector and introduce flexible and appropriate legislation that made it, first, possible to set up microfinance funds and second, possible to set up
funds to invest in microfinance. He wondered also if there were any local banks that would wish to be part of this first mover initiative in the region to ride on this wave.

**Q & A Discussion**

15. The first comment from a participant was that the picture presented seemed to be highly rosy. He wondered if any MFIs failed and what would be the reasons, if so. Miss Anquez said that there were indeed some (did she say how many, or magnitude?) cases of failure. This could happen for the following reasons. First, that the political context where the MFIs and their activity were situated were unstable. Such a condition made it difficult for small businesses to be sustainable. She cited the case where an MFI in Benin failed when the Nigerian government closed its borders with neighbouring cities like Benin. Small businesses were affected as their local economies were dependent on trade with Nigeria. Second, that the MFIs faced challenging management and human resource issues too, much like private sector organisations. In the event of an expansion of business operations, problems could occur with the recruitment of suitable and talented staff for management. Recruitment was hampered by the relatively lower salaries offered by MFIs. Third, corruption could be another cause. With growth, there was more money involved and there were instances staff of MFIs absconded with cash. Fourth, products may sometimes be designed within a specific context, or institutions based on personality of their leaders. Expansion into other areas would be hampered by the limits of replication of these conditions. Finally, in urban settings it was difficult to replicate the system of moral surveillance that you had in the rural Grameen model.

16. The same participant asked if the presenters could elaborate on how MFIs were rated. This presumably helped to manage risk. Mr Parant replied that it was PlaNet Finance that did the screening. The organisation had a deep knowledge of the institutions, the actors and the problems involved in the microfinance sector. After much research done, they had also developed standardised techniques and a methodology for screening MFIs. Mr Parant said that large mainstream financial institutions like banks were clients of PF which helped them screen and rate microfinance organisations they were interested to invest in.

17. Another participant asked if the presenters could be more specific about what sort of regulatory framework was necessary to
promote the growth of the sector. Mr Parant replied that a capitalist system and a flexible regulatory system was required. He compared the state of the microfinance sector in the Philippines to Vietnam. In Vietnam, strong state regulation left room for only one MFI and while the state was supposed to do more for the sector, it did not. Therefore, the industry did not take off there. In contrast, Philippines which had little state regulation had a thriving microfinance industry. However, if the conditions were less than conducive, there were ways to encourage discipline and implement internal control mechanisms in place to ensure MFIs were sustainable. Mexico’s Banco Compartamos was one such example. From a small MFI, it had grown into one of the top 10 biggest banks in Mexico and the most profitable.

18. One participant wanted to know about the scalability of microfinance organisations given what seemed to be the constraint of the social work input necessary to ensure sustainability. It seemed as though the counselling was as much a part of the work of MFIs as the financial aspects. What was a good estimate for the number of volunteers necessary to mentor and train their creditors? Or how could one convince people on the microfinance schemes to save? And how important was this social input? Miss Anquez stressed that this social input was very important, especially on the point of encouraging people on the microfinance schemes - clients - to save their profits. In MFIs situated in China, there was a policy of compulsory savings for clients. It was undoubtedly unpopular but without accumulation, it was difficult for the micro-businesses to increase its capital and operations. Furthermore, these people usually lacked financial literacy and educating them was necessary. So was counselling for business development plans.

19. Miss Anquez stated that the more urgent question was how microfinance organisations could finance this social labour. Obviously, increasing interest rates on loans was one way of financing business development services. However, this was hard on the clients of MFIs and not a good solution. One way was for the organisation to reduce operational costs as much as possible. One could outsource the social input involved to interested and competent non-government organisations although that could prove to be complicated for the clients. Mr Parant emphasised the need to let their clients trust the organisation, to see that they had a stake in the prospects of the MFI. With that, the return factor would be high and the MFIs could then achieve sustainability. It was absolutely critical to find the right levers or ways to incentivise people to save. When people saw the real difference it made in their lives, even when they no longer needed the
help of MFIs, they returned to support the work of what they viewed as their benefactors. Grameen made its clients understand that they were contributing to a bank that they 'owned'; they were stakeholders of the bank.

20. Another question was about how exactly Financities worked in the city setting; how it helped low-income families and communities in developed societies like France. How could this be translated to Singapore—a highly regulated system and with sustainable success? What were the new risk formulations? Mr Parant noted that in developing societies, microfinance organisations could set their interest rates at what seemed to be rather high rates because they only needed to be clearly lower than the extremely usurious rates that loan sharks charged. The loans were also relatively small. However, this was unworkable in developed countries. A more viable solution was to fund small businesses through a venture capital fund. For sustainable success, Miss Anquez believed that a good system to do due diligence of proposals in the MFI needed to be in place. Secondly, MFIs needed to incentivise people to be entrepreneurs. Lastly, it was important that these institutions listened to the ground and found out what services their clients needed and adapted accordingly. Mr Parant advised that instead of thinking in terms of profit and success, it was more important to think in terms of normal equity yet without expectations of a 100% return of investments. If the funds were also intended as philanthropic dollars in the first place, the average returns were not unattractive.

21. One participant asked how capital and banking institutions could support the microfinance sector. He noted that over the last five or six years, the financial institutions in Singapore were modernised and harmonised with international standards. We had a conducive and efficient tax structure that made Singapore an attractive place for microfinance sector to grow. Furthermore, like Switzerland, we also had innovative channels for investments. Mr Parant agreed but added that for an environment conducive for the sector to grow, it had to be easy to start a venture fund and he appealed for local banks to start the ball rolling. He believed that tax rebates for investments in microfinance organisations would help increase funds inflow but he maintained that it was of utmost importance that the end-user, i.e. the small, low-income businesses, received the credit they needed.

22. Concerned with the targeted investors of high-net worth individuals to begin a venture capital fund, one participant wondered how they could ensure that due diligence could be done to ensure that
the sources of funds were bona fide. Mr Parant replied that all investors were duty-bound to a code of conduct. It was PF that guaranteed that the funds invested were not ‘tainted’ and investors would know exactly what they were or would be investing in.

23. Another participant shared that she had ground experience working with Banco Compartamos of Mexico. The microfinance bank had done extremely well from its humble beginnings. She wondered which kind of philosophy PF believed in and adopted. Was it one of the Grameen Bank where ‘non-profit and social dividends to the poor’ was its working philosophy? Or did they adopt the Banco Compartamos which hoped to have clients list their companies and make good returns on that? And what did PF think was more appropriate for Singapore? Mr Parant believed that the Mexican model was too specific to replicate in other contexts. The high-interest rate of about 70% was impossible to impose on micro-creditors in other societies. As a MFI, it was essential to not squeeze the end-user. That was why private equity funds were not within the portfolio of PF. While elements of the logic of capital was necessary to grow the venture capital fund so as to have a greater outreach to the poor and small businesses, social responsibility ought to be the main priority and driving force.

**Conclusion**

24. Miss Anquez concluded the discussion by thanking IPS and the participants at the seminar for their warm welcome and interest. She saw great potential for growth for the microfinance sector here and hoped PlaNet Finance would be able to play the role of catalyst here too. Social responsibility was a growing concern in the age of globalisation and inequalities. With a good regulatory framework in place, appropriate working philosophies, conducive institutional conditions and ready funds, microfinance was sure to have a great impact on Singaporeans. She hoped the presentation had raised interest in what PF did.

25. Prof Koh closed the seminar session by expressing the desire for the stakeholders to move forward in developing the microfinance sector. He wished to invite Miss Anquez to return for more discussion with the stakeholders here. Singapore was a finance hub with funds richly available. It was enlightening to know that there were other options available for profitable investments that could simultaneously, to be able to do good.
Rapporteur:
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