The Role of Government and Private Sector in Promoting “Financial Inclusion”

Foro de Tesorerías Gubernamentales de América Latina (FOTEGAL)

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Bogota - August 23, 2012

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Table of Contents

1. The Role of Mobile Money in Expanding Financial Inclusion 1
2. Scaling Microfinance to Achieve Financial Inclusion 20

1. The Role of Mobile Money in Expanding Financial Inclusion

Why Governments Care about Mobile Money

Mobile money has the potential to become one of the most powerful development tools in history, and it will assist in solving a variety of critical government challenges

Corruption	Natural Disasters	Efficiency	The Citizen	Security	Financial Inclusion
• Graft and fraud are challenges for governments • Cash and paper are corruption's best friend • Many governments place higher political priority on the elimination of corruption than they do cost reduction • Focus on transparency, control and audit	• Many countries unfortunately face regular large impact natural disasters, which pose extraordinary challenges in the area of emergency financial management • Focus on Continuity of Business and sustainability for government operations • If a government "lives" in a cash and paper environment, it is next to impossible to be able to maintain operational functionality in the area of financial management	• Cost reduction is a central goal of governments and electronic banking solutions create significant opportunities for savings • The proven ability of electronic banking solutions to take material cost out of government and improve efficiency makes it an imperative • With exploding government debt and deficits, there is strong interest in fitting e-banking "cost cutting" programs into the package of other fiscal waste removing initiatives	• The political desire to improve the overall experience of the citizen with his or her government is tremendous • In general the average citizen experience in the payment and collections area with their government is poor • Citizens spend lunch breaks waiting in line to pay the government a fee, or walk miles to get cash benefits; 10-15% of citizens never receive their remittances	• Government data security (physical and access), citizen personal information security, identity authentication and theft, and access (physical and network) are on the minds of senior government officials • Is the government vulnerable because the personal information which it has about its citizens is vulnerable to mismanagement and theft? • How safe is paper data held by governments?	• Governments are focused on the gini coefficient and the poorest citizens in society • Social benefit payments and conditional cash transfers are most difficult with the unbanked population • There are 2 billion underbanked and unbanked people in the world that have a mobile phone, making mobile benefit payments a strategic opportunity in the fight for greater financial inclusion

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Early Stage Success: Innovation, Inspiration and Impact

Overview

- It all started in Kenya, the poster child of mobile finance and financial inclusion; the mobile phone has now connected over 70% of Kenyan households to the financial system
  - M-Pesa currently handles more transactions per year than Western Union does globally and represents 15% of Kenya's GDP
- But Kenya's mobile finance success is only the tip of the iceberg; below the surface are an extraordinarily large number of relatively new mobile wallet operators who are having a real early stage impact
  - There are currently 93 live mobile money services and over 100 additional ones planned around the world
- The World Bank estimates that a 15% increase in financial inclusion in a country (imminently achievable) can increase annual employment growth by 1%; if we succeed in reaching tipping points in even a third of the launched ecosystems of the world, the employment benefits will be significant

Bright Shining Examples Abound

- **Philippines:** A "Class D" father in Manila who can use "Text a Payment" services to pay water bills and repay his loans with no cash and without losing his lunch break using mobile money
- **Thailand:** A 20-year old in Bangkok can pay bills after a late night shift; True Money allows her to transact anytime, anywhere
- **Cambodia:** P2P payments, the early stage of any nascent ecosystem, are moving bi-directionally, from rural to urban and urban to rural; an average urban blue-collar worker is sending up to half of his paycheck to his family in rural areas of the country
- **Paraguay:** Farmers send mobile money to their older kids in city schools; the mobile payment system is displacing the unreliable bus driver who may have otherwise carried the money
- **South Africa:** The popularity of mobile finance with the youth of many emerging economies is exciting; young high school graduates - the South African WIZZ kids - from low-income communities teach new users how to open and use mobile accounts
- **Bangladesh:** Young cricket fans are buying tickets with their mobile phone
- **Malaysia:** Payments have even gone cross-border; Malaysian migrant workers are sending money to their families in Indonesia through mobile cross border remittance systems

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Early Stage Success: Innovation, Inspiration and Impact (cont'd)

- **Tanzania:** Beyond individuals, small and medium size businesses (SMEs) and NGOs have only just begun to see the benefits; the small business owner in Dar es Salam, who has neither bank credit nor working capital, can use his mobile phone to pay his supplier and collect from customers
- **Zambia:** Cotton farmers have eliminated the time lags of large buyer payments and reduced transaction costs by using a mobile money platform
- **Non-profits** are adopting with baby steps; Mercy Corp, for example, responded to the crisis in Haiti by paying temporary workers to rebuild infrastructure, sending m-tokens to their mobile phone
- **Government donors,** like USAID, are hiring the best and brightest to understand, impact and fund innovation in this space
- **Fast Moving Consumer Goods Companies:** Nestle has designed a mobile milk supply chain to improve the flow of money and milk with their rural dairy suppliers, improving the life of the rural dairy community
- **Financial Inclusion:** Mobile payments by themselves are only the foundation of the dream; the future impact of mobile money on financial inclusion is really not just about payments and collections
  - It is about the surge of entrepreneurial activity, innovation and the provision of a much broader array financial services targeted at the financially excluded through a mobile channel

Kenya

- Kenya paints a picture of what is possible, as M-Pesa has gone from mobile remittances, to mobile payments to a mobile ecosystem of "m-everything"
  - Micro-credit and micro savings have been transformed by M-Kesho to mobile savings and mobile lending
- New businesses utilizing mobile financial services have blossomed and flourished; for example, there are now approximately 300 businesses that are formally connected to M-Pesa's mobile money capabilities
- Innovation in Kenya abounds – the Jua Kali Association Retirement savings plans, UAP Insurance's crop insurance program for draughts, and Changamka Microhealth's medical savings plan are all mobile finance innovations that are delivering on the financial inclusion agenda
  - Additionally, Musoni provides Kenyans with completely cash free microfinance lending

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Early Stage Success: Innovation, Inspiration and Impact (cont'd)

Microfinance Institutions (MFIs)

- Mobile finance is super charging the microfinance agenda in a way that was heretofore not possible; the ability to achieve scale and cost savings has potential transformational benefits for MFIs
  - In West Africa, MFIs that have introduced mobile finance solutions have reduced transaction costs by a third and processing costs by a quarter
  - Of even greater significance is the fixed branch cost reduction, which in South East Asia has been reduced by almost half
  - Mobile micro finance banks have a client to loan ratio that is 5-8x higher then that of a traditional MFI; this gives MFIs the hope for reach, scale and scope that was simply not possible before now

G-20 / Global Partnership for Financial Inclusion (GPFI)

- The G-20's efforts to improve data and measurement capability will go along way to improving on the status quo
  - When measuring impact, the data should include not only employment and credit, but savings growth, insurance penetration and wealth distribution (using the gini co-efficient)
  - Along these lines, CGAP is already estimating impact in a number of countries:
    - **India:** It is estimated that by 2020, as a result of mobile finance efforts, 82mm new people will have access to credit, 19mm will have first time access to insurance, and 1% of national income will be saved due to travel and time efficiencies; India could actually see a GDP increase of 5%, tax revenue growth of $50 billion and 4 million new jobs, 1 of every ten new jobs created – that's 600,000 new businesses before 2020
    - **Malaysia:** By 2020, mobile finance has the potential to increase formal credit by 23%, insurance by 31%, and formal savings by 15%
    - **Bangladesh:** As an example of a wedge to close the income gap, mobile finance can significantly improve the gini coefficient; one estimate shows the gini coefficient moving by slightly over one point

- As the G-20 looks at the availability of credit as it relates to the global employment crisis, it must look closely at how to impact credit flows to Small and Medium Size businesses (SMEs)
  - Because credit-starved SMEs contribute 45% of total developing world employment, the potential impact of mobile finance on credit can actually move the global employment needle

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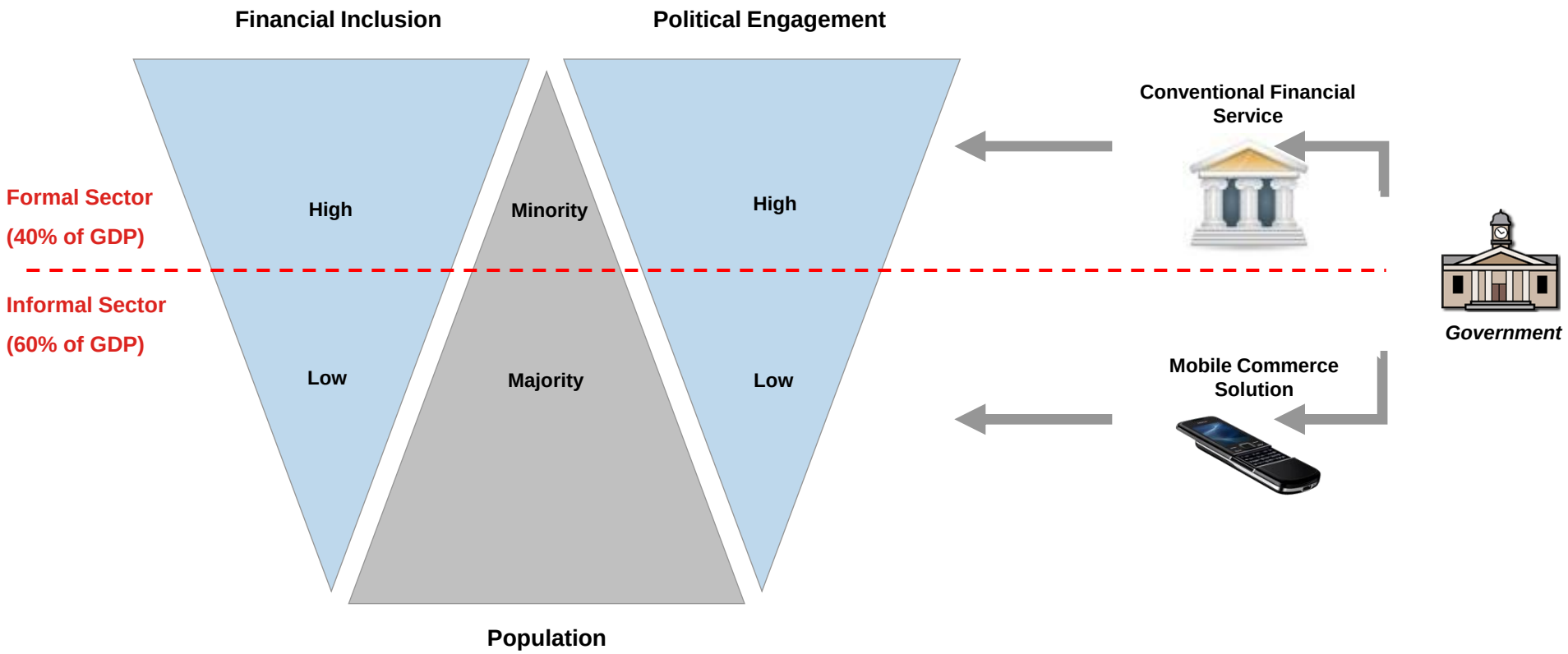
Key to Convert Informal Economy into Formal Economy

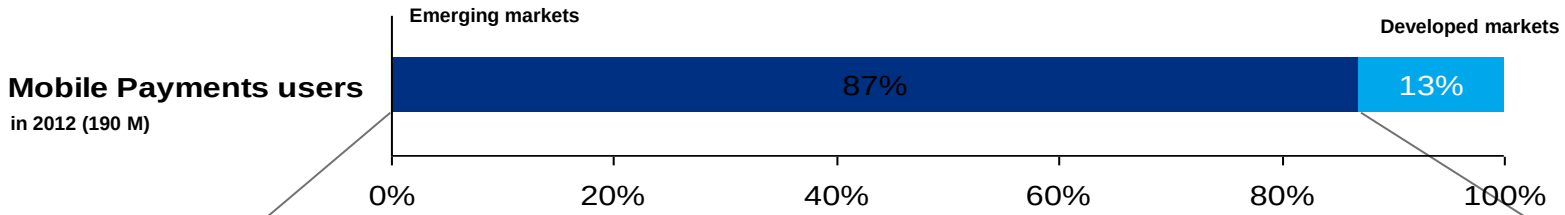
Mobile financial services provide the best option for governments to tap into the informal sector by linking the unbanked population to financial and social services



How mobile financial services can help Public Sector reach the informal sector

- Existing infrastructure of connection and agency network
- Cost efficient way for informal sector to access basic financial and social services
- Wide coverage can serve huge rural population

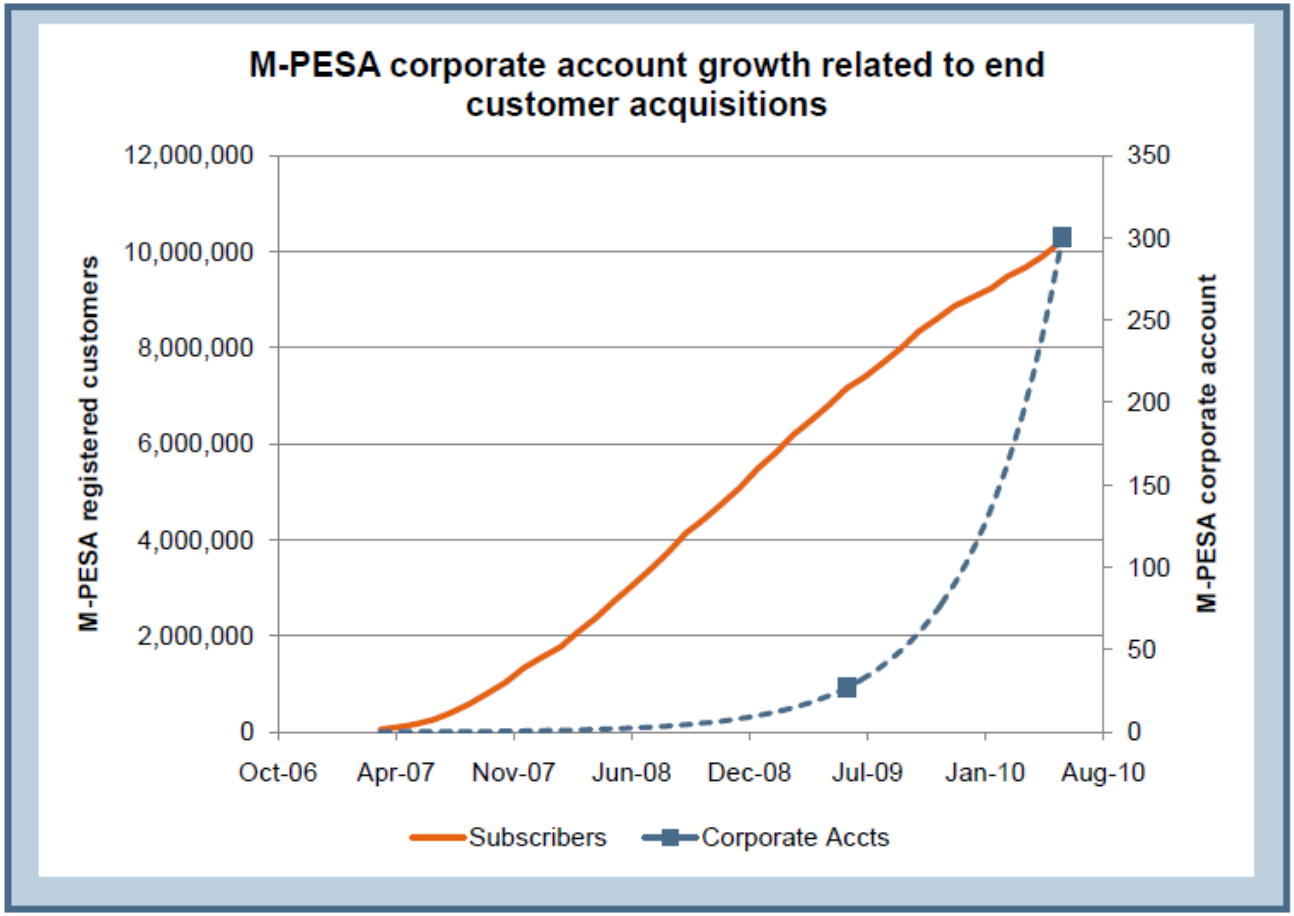
Largest Mobile Payments Opportunity Will Come from Replacement of Cash Transactions



Country	Population (M)	GDP per Capita	% of Transactions originated with cash
Brazil	192	$7,248	93%
China	1,328	$3,316	98%
Colombia	48	$4,455	99%
India	1,190	$906	99%
Indonesia	228	$2,066	99%
Mexico	106	$8,549	98%
Poland	38	$13,850	98%

Source: Gartner, March 2010. Competitive Landscape: Mobile Payments Worldwide, McKinsey Global Payments Map. April 2009., Merrill Lynch Matrix September 2009

Mobile Money Implementations Will Only Be Able to Capture Institutional Payments Once They Reach a "Tipping Point" Scale of Consumers

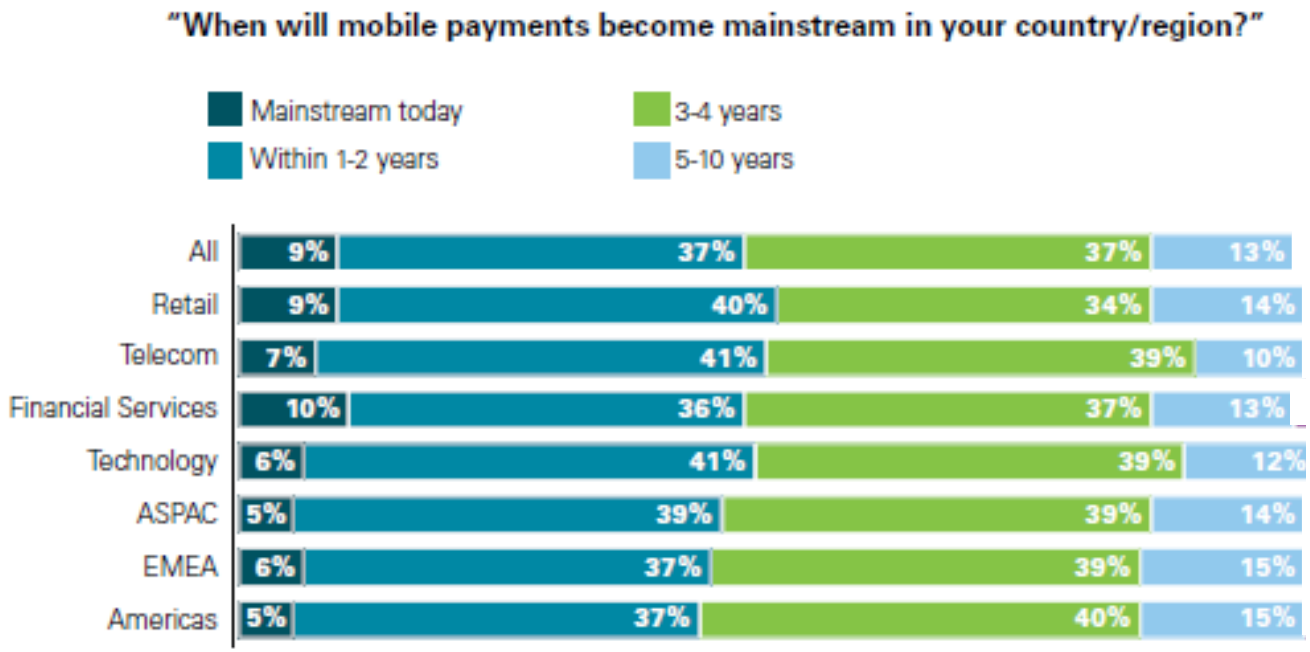


Five business case insights on mobile money

CGAP, April 2011

*From M-PESA Profitability Analysis by CGAP based on publically available data

Almost 75% of Respondents Think Mobile Payments Will Take 2 to 4 Years to Go Mainstream

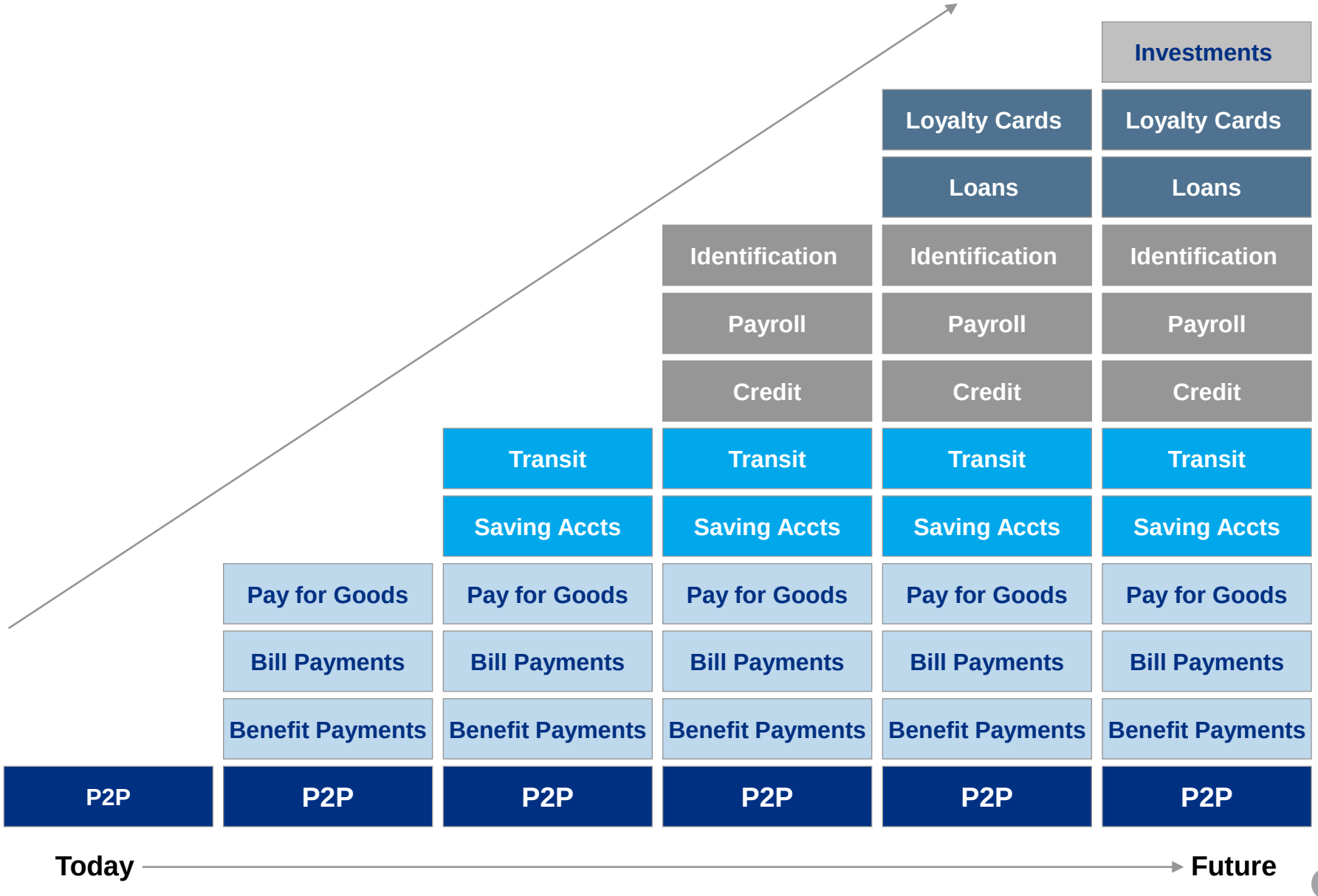


Base: 860 global companies (Values may not sum to 100% due to rounding) Source: KPMG 2011 Mobile Payments Global Survey

2011 KPMG Mobile Payments Outlook

Note: KPMG conducted a global online survey of 970 companies between the period of September, 2010 and February, 2011

Potential Evolution of Mobile Financial Services and Financial Inclusion



USAID-Citi Mobile Alliance

USAID FRONTIERS IN DEVELOPMENT

June 12, 2012
Georgetown University
Washington D.C.

Vikram Pandit, Citi CEO

"Mobile money is a game-changing endeavor with the potential to improve lives, create jobs, catalyze new enterprises and expand financial inclusion, particularly in the emerging markets that are critical to the growth of the global economy. Citi has a rich tradition of ingenuity that enhances our clients' lives through innovation and is one of our company's core principles."

Raj Shah, USAID Administrator

"The ability to store and transfer money, as well as to make small payments using mobile phones, has the potential to lift millions out of poverty, just as the Green Revolution did in the 1960s. Our partnership with Citi, a global banking leader, will accelerate implementation of these new services in a smart and safe way"

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Scope of the USAID-Citi Mobile Alliance

The USAID-Citi Alliance will broaden financial inclusion by fostering the rapid adoption of mobile money technology in developing countries

- USAID and Citi share a common belief that expanding the adoption of mobile financial solutions is a critical economic development strategy with the potential to drive growth and increase financial access and security for the developing world's poor population
  - Strengthen alternatives to a cash-based system that is inefficient, costly and prone to corruption
  - Seek widespread transition of payment streams from cash to mobile money, requiring the participation of governments, often the largest payment providers (i.e. salaries and benefits)
- Discuss with governments and regulators how to improve the ecosystem environment and accelerate adoption
- Create in-country networks composed of ecosystem participants to exchange information and expertise related to mobile ecosystem success
- There is an initial focus on nine countries: Colombia, Haiti, Peru, Indonesia, the Philippines, Kenya, Tanzania, Uganda and Zambia

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USAID-Citi Mobile Money Accelerators

Accelerator 1: Ensure Mobile Transfers Are Safe and Transparent

- Government entities and regulatory authorities should work to ensure mobile money regulations strike the appropriate balance between innovation and safety / security
  - Standard-setting bodies (SSBs) should incorporate principles associated with new innovative business models, like mobile money, into their standards
- Accordingly, as regulators monitor and evaluate the potential risks, they should consider the relative importance of the following:
  - **Financial Sector Regulation and Supervision**
    - Proportional licensing schemes and e-money licensing, market integrity (fraud and crime control), financial systemic risk (concentration risk mitigation) and consumer protection standards
  - **Telecom Sector Regulation and Supervision**
    - Existence of universal service policies, coverage rate requirements and identification requirements for prepaid services
  - **Mobile Money Regulation and Supervision**
    - Banking agent regulation, MNO role as banking agent, non-bank agent development, permitted agent activities, non-bank mobile or electronic licensing, treatment of stored value, anti-money laundering, combating the financing of terrorism (AML / CFT) regulation and oversight, proportional transaction limits, proportional Know York Customer (KYC) requirements, international mobile money transfer regulation and interoperability

Accelerator 2: Establish an Inter-agency Government Process to Coordinate Mobile Money Decisions

- Many governments are still siloed in their approach to the various components of success; in many cases, coordination is sub-optimal, as no one government entity owns the entire process
  - For example, development banks, central banks, ministries of finance, ministries of telecommunication, financial inclusion entities, public utilities, pensions, bank and telecom regulators, benefits and social security related entities all have, to varying degrees, a role in a successful mobile finance ecosystem
- Governments should have an inter-agency committee process to ensure policy coordination between government institutions internally and with the private sector externally

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USAID-Citi Mobile Money Accelerators (cont'd)

Accelerator 3: Leverage Mobile Money for Government and Donor Payments and Collections

- Paying government salaries, social benefits and pensions into the mobile channel speeds adoption and moves the ecosystem dramatically forward along the network effect curve toward a tipping point
  - These payments can also promote financial inclusion if they land in accounts that:
    - Enable recipients to store funds and use them for other transactions within the general purpose payments infrastructure
    - Are accessible to customers in terms of cost and proximity
- The mobile phone also has the ability to transform conditional cash transfer (CCT) programs by taking the paper out of the conditionality process; this can make the delivery of CCTs faster, more cost-effective and economically efficient
- Large donor organizations should similarly adopt the use of mobile money in their disbursements, as the end-to-end digitization of donor flows will improve transparency and reduce costs and leakage

Accelerator 4: Get Food and Household Product Retailers to Accept Mobile Money

- The financially excluded should be able to use a mobile wallet to purchase food and household goods from a local retail store, such as mom and pop stores in rural areas; this will be critical in making the day-to-day payment benefits clear and provides more uses of mobile money
  - In order for individuals to be able to pay using a mobile wallet, shop owners must have a mobile wallet themselves
- The fastest way to get a mom and pop retailer to embrace a mobile wallet is for Direct Store Delivery companies (e.g. Coke, P&G, SabMiller, Danone, etc.) to embrace mobile money collections by incentivizing adoption or eventually making it mandatory
  - This is in the interest of FMCG companies because they rely on troublesome cash collections
    - The process of replacing cash collections with mobile money transactions has many benefits for FMCG companies, including safety, cost, efficiency, anti-fraud and working-capital liquidity management
  - Not only will these solutions create efficiencies for the supply chain of FMCG companies, but they will also exponentially increase the number of retail locations that have a mobile wallet and that are able to accept a mobile payment from the unbanked citizen

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USAID-Citi Mobile Money Accelerators (cont'd)

Accelerator 5: Promote Open-Architecture Policies and Interoperability Within and Across Ecosystems

- As the mobile money market becomes more competitive over time and new operators enter the ecosystem, it will be increasingly important to discuss, regulate and incentivize the creation of the infrastructure backbone necessary to facilitate interoperability
- Regulators can encourage the appropriate development of and investment in centralized payment clearing and settlement infrastructure to support a functional and open mobile money ecosystem

Accelerator 6: Allow Mobile Money Transfers to Move Seamlessly Across Borders and Mobile Networks

- Governments have an interest in using mobile money to facilitate the cross-border flow of remittances and reduce cash transfers
  - The cost of moving money across borders is also extremely high and there is significant leakage
- With a coordinated mobile money regulatory framework, governments can encourage international transfers
  - This not only unlocks critical cross-border payments but brings them into view, reinforcing transparency and control by CFT, AML and other law enforcement authorities

Accelerator 7: Support Pilot Programs to Test Innovative Approaches, Create Impact Analysis, and Develop Replicable Opportunities for Scale

- The use of mobile money in development programming is still relatively new; there is not yet a clear sense of what works, what doesn't and why
  - Governments, NGOs and donors can help fund pilot projects that integrate the use of mobile money across sector programs
  - There are countless examples of potential pilot projects that would help document the impact of mobile money across development programs and thereby create a case for scaling successful solutions, including:
    - **Agriculture:** farmers may find it easier to use mobile money to pay input suppliers and will be less likely to need to borrow to purchase inputs at the beginning of the crop cycle
    - **Healthcare:** assist in understanding the benefits of mobile money for patients who pay healthcare providers via mobile; additionally, pilots may help healthcare providers test rewards for patient treatment compliance and healthy behavior

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USAID-Citi Mobile Money Accelerators (cont'd)

Accelerator 8: Protect People through Client Education and Consumer Protection Measures

- The unbanked often lack basic financial education and an understanding of the consumer protections they are afforded
- Governments and NGOs have the potential to combine efforts so that system rollouts include education not just on how mobile wallets works but on why mobile money makes sense for them from economic, financial, social and lifestyle perspectives
  - These broad-based financial literacy efforts can include the promotion of best practices in consumer protection (e.g. use of hotlines, ombudsman, etc.)

Accelerator 9: Facilitate the Ability of People to Put Cash In and Take Cash Out of Their Mobile Wallets

- Governments should consider using their own infrastructure (e.g. post offices) to support agent networks and coordinate disbursements with mobile payment operators to ensure against large liquidity squeezes on the system
- Long-term success should ultimately incorporate the following:
  - Proper agent incentives / commissions
  - Training and supervision
  - Liquidity
  - Density
  - Security / trust

Accelerator 10: Tackle the Identity Issue for the Unbanked

- If unbanked individuals lack appropriate forms of identification, which is not uncommon, they may struggle to participate in mobile money opportunities
- When identity is re-established with the unbanked and connected to a mobile money initiative, the likelihood of credit extension is increased
  - The Indonesian government, for example, linked the national identity process with the credit bureau process, which accelerated credit extension to the financially excluded
- As a poor identity process can end up placing constraints on the pace of mobile money adoption, this issue must be addressed early on in the development of an ecosystem

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Government as an Enabler

- Governments play a key role by issuing balanced regulatory frameworks that oversee private-sector behavior
- Monitoring Progress through feedback mechanisms such as Pilot Programs (e.g. Mexico case)
- Launching information campaigns to heighten awareness
- Promoting the use of MF for international and local remittances

Bank Involvement in Branchless Banking Models

- Bank(s) offer individual accounts that can be used through bank-managed branchless channels

CAIXA (Brazil)

Xac Bank (Mongolia)

- Bank(s) offer individual accounts accessed through nonbank-managed agent networks and/or technological platforms

TRANSFER (Mexico)

SMART (for 21 banks in the Philippines)

- Bank issues electronic value which is purchased from bank and redistributed by nonbank directly to customers

Orange Money (Cote D'Ivoire, Senegal and Mali)

- Nonbank issues electronic vale and holds matching-value assets in regulated bank.

Safari (m-Pesa in Kenya)

Globe (GCASH in the Philippines)

Bank-Based Model (LatAm) — **Nonbank-Based Model**

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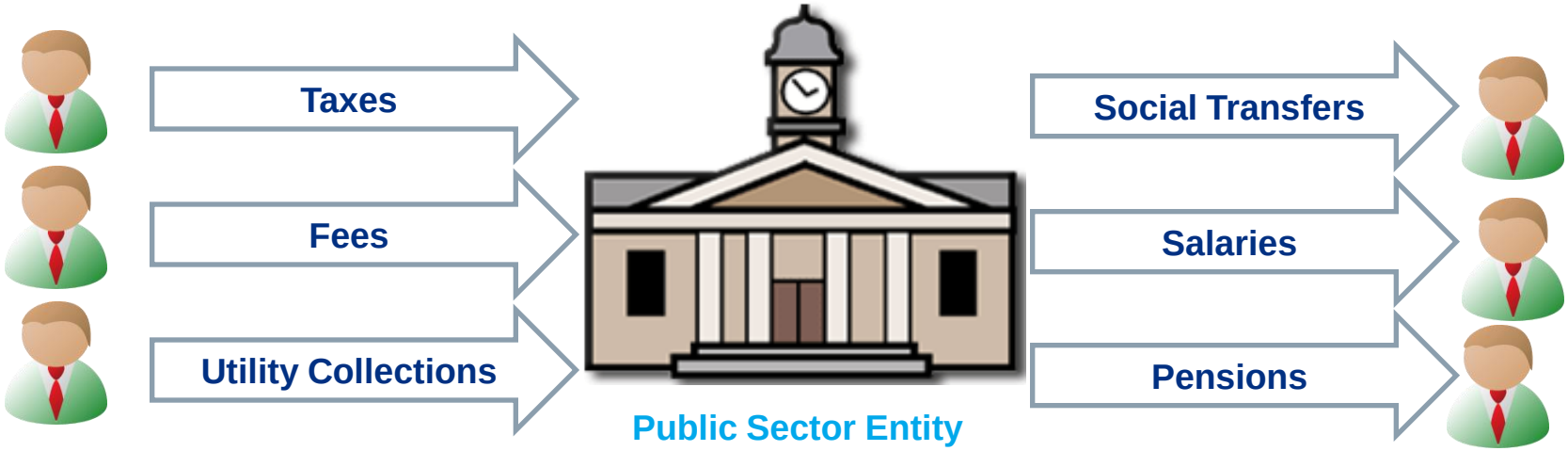
Government as a Participant and Facilitator

- Technology and Innovation create an opportunity for governments to dramatically improve Payments and Collections
- G2P payments come primarily in the form of subsidies; throughout emerging countries, total G2P payments for the unbanked stand at over $1tn
- Salaries to government employees (10% to unbanked according to CGAP) and pensions are also key G2P payments



- The two greatest barriers to achieving best-in class financial management in Government: Paper and Cash. According to BCG, the cost of providing subsidies through “paper-based” transactions is 10 to 100 times higher than doing so via Internet or Mobile
- Mobile & other electronic disbursements also considerable reduce administrative & overhead cost (incl. Audit & Reconciliation)
- In addition to these large savings, governments can achieve important strategic goals through MF:
  - Increase the utilization of the various subsidies programs for which citizens may be eligible
  - Increase the effectiveness of subsidies specially for in-kind (e.g. food & fertilizers) benefits
  - Reduce corruption & fraud by eliminating intermediaries

Regulatory Themes

- **Model Design:** low risk financial service
- **Policy Objective:** financial inclusion
- **Customer / Citizen Protection Standards:** fund parameters and agent regulation
- **Market Integrity:** fraud and crime controls
- **Financial System:** concentration risk mitigation
- **AML / KYC / CFT:** risk appropriate and proportionate standards
- **Regulatory Framework:** clarity and supervision

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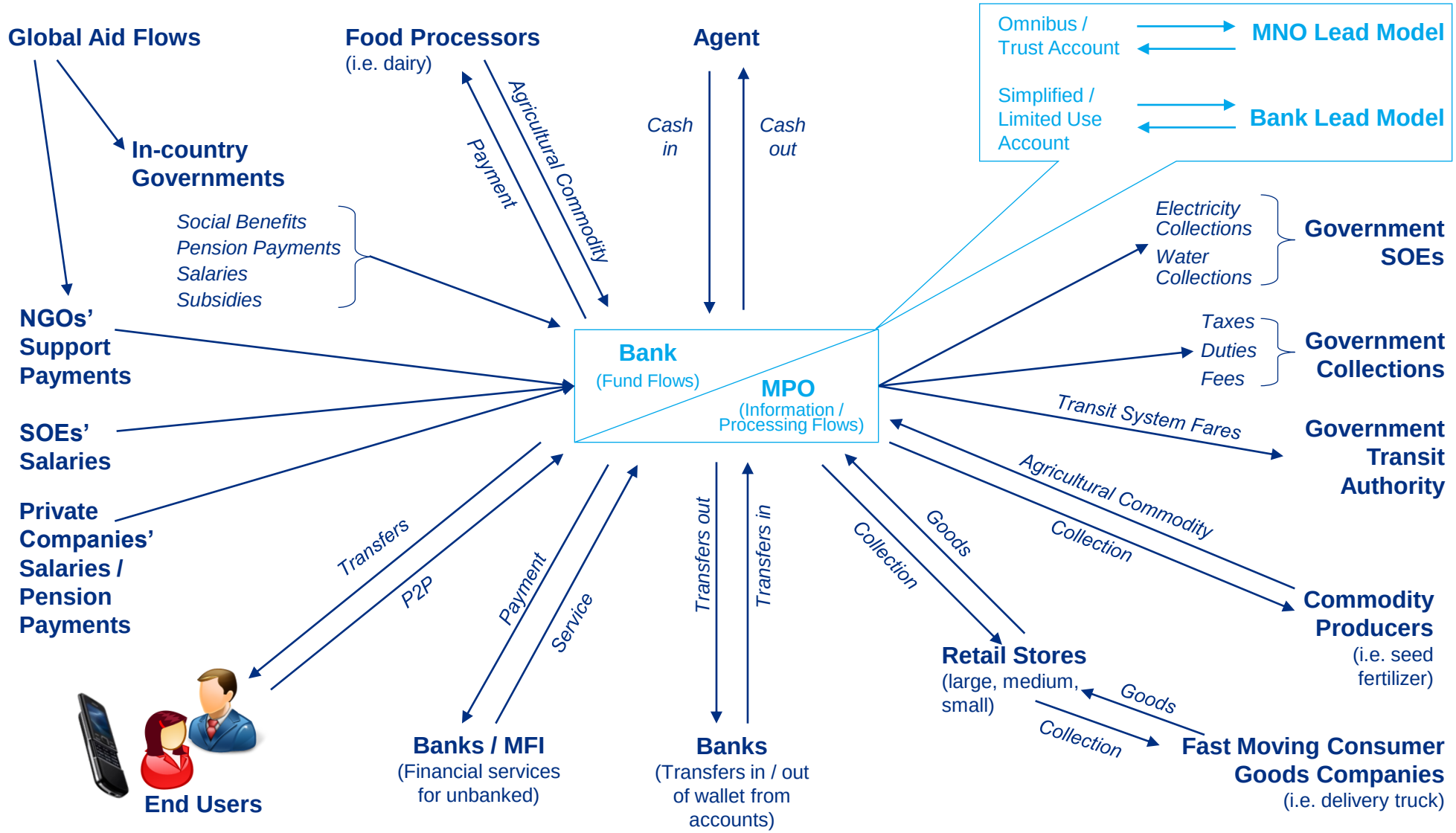
Mobile Money Ecosystems and Financial Inclusion



2. Scaling Microfinance to Achieve Financial Inclusion

Financial Inclusion Is at the Core of Citi's Business

Citi created a specialized microfinance team to partner with the microfinance sector and investors to develop appropriate products, distribution mechanisms and financing to broaden / increase the scale of outreach of financial services

- **Mission:** Leadership in Financial Inclusion (FI) is a critical component of Citi's strategy as well as our culture of responsible finance
  - We seek to expand access to formal financial services for the large unbanked and underbanked population
- **Definition:** Financial inclusion entails serving the full range of financial services and needs of the economically active un/underserved households and smaller / informal enterprises
  - Financial inclusion builds on our existing track record, business model and client relationships, and will leverage emerging technologies and strategic partnership opportunities
- Citi's strategy focuses on four key elements:

1. Building customers' financial capabilities
2. Delivering quality, affordable products designed for the needs of these customers (savings, insurance and credit)
3. Providing convenient access
4. Ensuring economic sustainability

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Citi's Financial Inclusion Pillars

	Approach	Examples
1 Microfinance	• Expand client base to consolidate Citi's as the sectors' leading global bank	• 146 microfinance clients globally (FI, funds and networks)
2 Inclusive Value Chain Finance	• Develop innovative partnerships with corporate clients to finance small producers and distributors	• Pilot with small producers in Mexico to become Pepsi / Danone suppliers
3 Cashless Payments	• Leverage payments (including prepaid cards and mobile) to expand financial access	• Government payments of cash conditional transfers (CCTs) and subsidies
4 Savings Partnerships	• Explore replicable / scalable educational partnerships with governments and NGOs	• Universal Savings Accounts program with the City of San Francisco
5 Thought Leadership	• Research and provide tools to promote sector growth	• Banana Skins, CTS Mobile research, Strategic grants to MIX, CGAP
6 Investments	• Strategic investments in funds and relevant MFIs	• Banamex co investment with IDB and OPIC in MiGroF fund
7 Mobile Financial Services	• Connect nascent mobile payments platforms to partners that reach the unbanked (previously addressed)	• Link Citi Microfinance clients to mobile wallets solutions around the world

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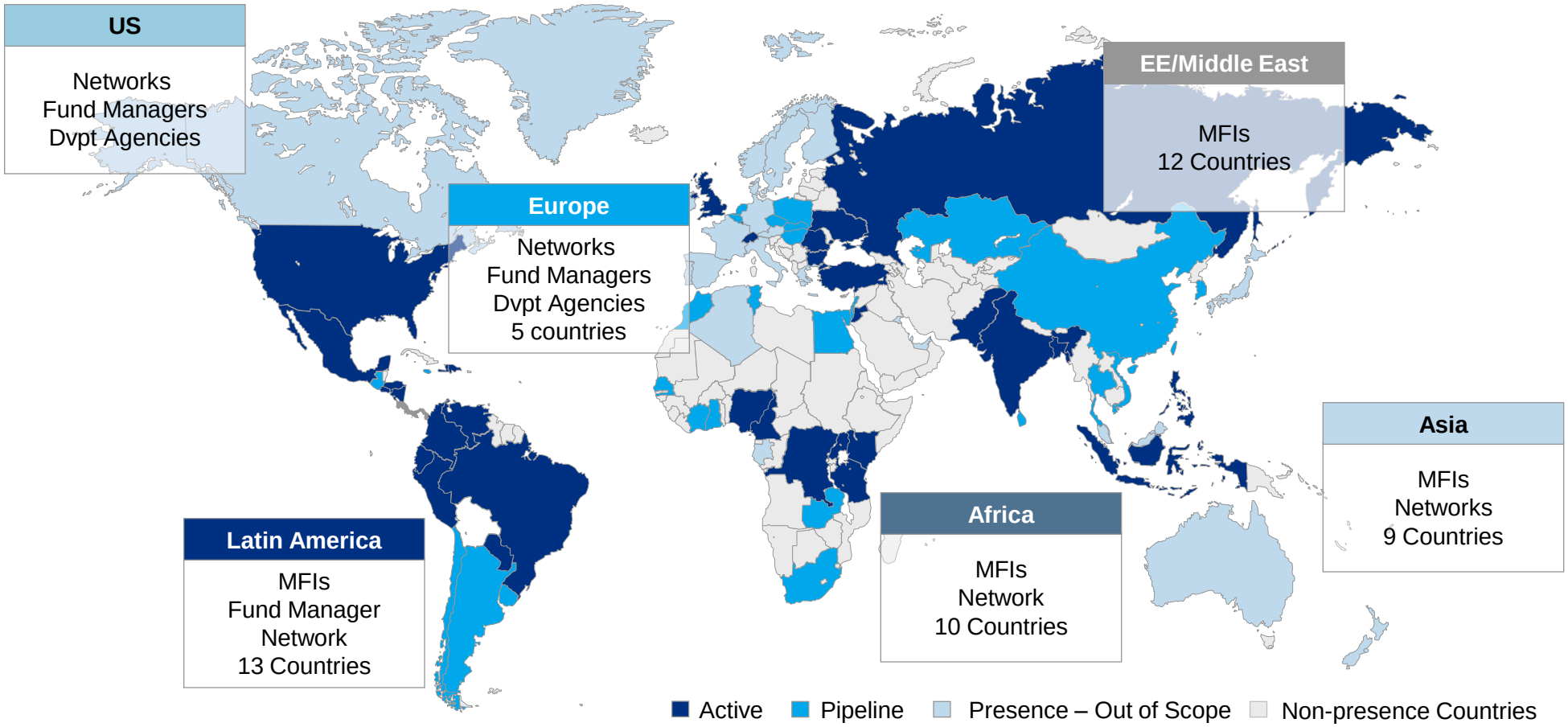
1. Microfinance Global Engagement

Citi partners with microfinance institutions, fund managers / networks, multilateral agencies and public sector clients to reach the unbanked



Citi Microfinance

- Develops full client relationships with microfinance sector across all business products and divisions

1. Funding and Banking Microfinance Institutions

The global impact thus far

Citi Direct Lending to MFIs and local capital markets structures

Citi direct on balance sheet lending	90% in local currency
Number of Agency Partners	4
Number of MFIs financed	66
Number of countries reached	30
Number of microfinance clients funded through Citi ^	Est. 2,400,000 microentrepreneurs
% of female clients ^	95%
% of rural clients ^	76%
Average loan size funded ^	US$244

Estimated data based on client information and Mix Market.

^ Excluding lending to Holding companies and Short Term ordinary banking facilities.

1. Strong Emphasis in Latin America

Latin America Existing clients

- 39 existing microfinance clients
- 14 countries
- Over 5 million end borrowers

	Active Clients	Activities
Mexico	8 clients	Payments (Prepaid cards/ Agents' network), Cash management, Mobile banking, Local funding, FX, Capital Market
Peru	5 clients	Capital Market, FX, Local Funding
Brazil	1 client	Local Funding, FX
Paraguay	4 clients	Cash Management, Local Funding, FX
Ecuador	3 clients	Funding, FX, Cash Management
Colombia	2 clients	Payments (Prepaid cards/ Agents' network), Cash Management
Venezuela	1 client	Local Funding, Regulatory requirements
Haiti	1 client	Cash Management, Payments, Local Funding, FX
El Salvador	3 clients	Payments (Prepaid cards/ Agents' network), Cash Management, LCY Funding
DR	1 client	Local Funding, FX
Honduras	4 clients	Cash Management, Local Funding, FX
Nicaragua	3 clients	Cash Management, Local Funding, FX
Other	Costa Rica, Jamaica	

1. Funding Transactions Highlights

- **Grupo ACP, Peru**

  - **$85MM international unsecured Bond issuance for Grupo ACP**
    - First Senior Unsecured Reg S only Notes out of Peru and listed in Luxembourg stock exchange
    - First international bond for a microfinance holding company, with non-profit status
    - Investors include Citi private, institutional and pension fund clients in Peru and Chile
    - The transaction was highly subscribed with the order book reaching US$150 million in orders

- **Vision Banco – Home Improvement Facility**

  - **$3.0 MM under IDB Risk Sharing facility**
    - 80% guaranteed by IDB
    - To finance loan products for home improvement and extension targeting low income population of Paraguay
    - First IDB Guaranteed transaction with Citi

- **Banco do Nordeste (BNB), Brazil**

  - **$40MM 1-yr credit facility - priority sector lending**
    - Large government-owned bank with largest microfinance program in Latam (800,000 clients)
    - Citi Brazil will comply with regulatory requirement for lending to microfinance and agribusiness sector.
    - Start of relationship with BNB which can lead to further cross-sell in Capital Market and GTS

- **Procredit Ecuador**

  - **$ 10 MM Qualifying Portfolio under Global Microfinance Credit Program (MCP)**
    - One of the largest Microfinance Bank in Ecuador
    - Focus on Small and Medium Businesses Finance
    - 47% Qualifying Microfinance Portfolio
    - Expanding Citi's existing relationship with Procredit at local and international levels

2. Inclusive Value Chains Demand New Business Models

To expand and penetrate new markets in the developing world, companies need to create new products, secure new supply chains, establish new distribution channels and set up new working capital management models

Consumer & Healthcare companies

New market opportunity : India

- 1.2 billion consumers but 72% live in rural villages.
- Water scarcity, nutrition, hygiene are critical issues.

eg. Mexico

eg. Ghana

Consumer & Healthcare sector clients are committing to **sustainable sourcing** (eg. fair trade growers) and investing in small-holders to **diversify and secure their supply chain**.

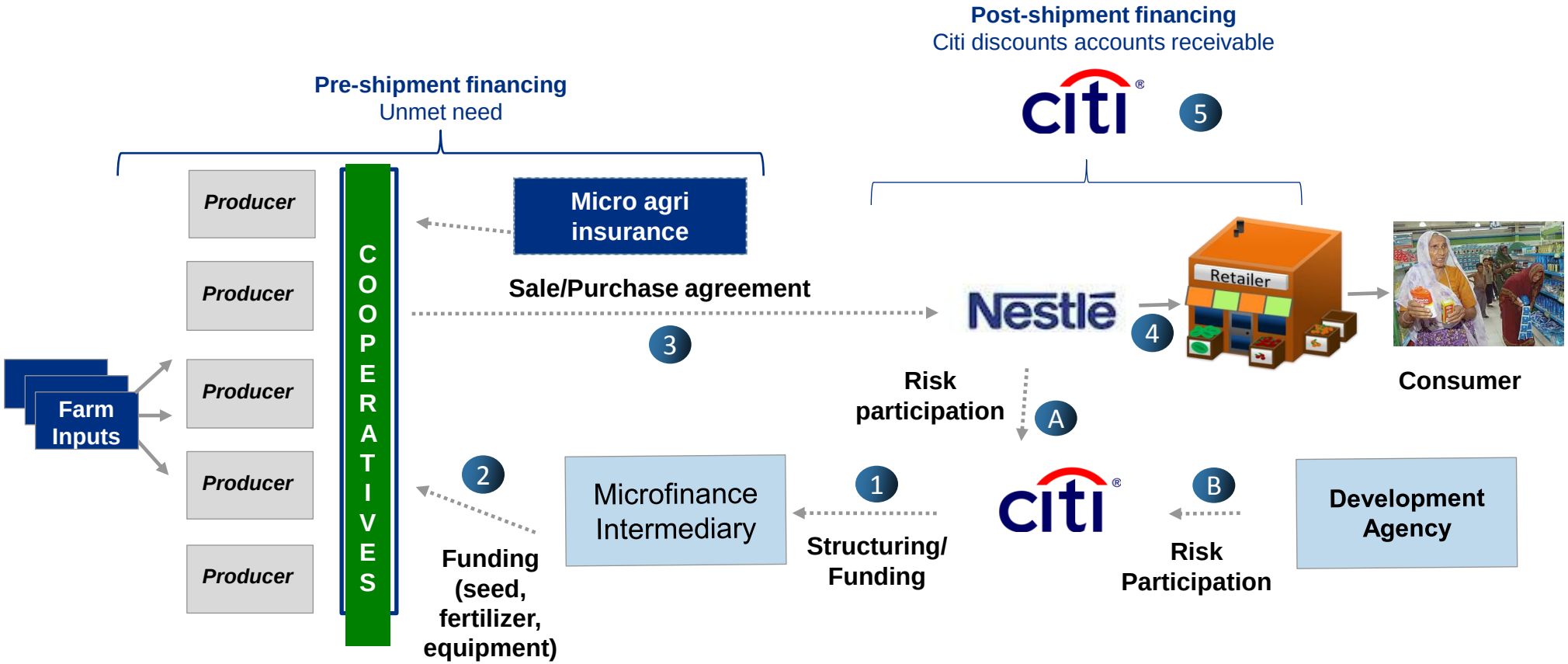
eg. India, Africa

New markets demand **new distribution models**, eg.

- Different packaging and distribution logistics
- Collecting payments from unbanked distributors

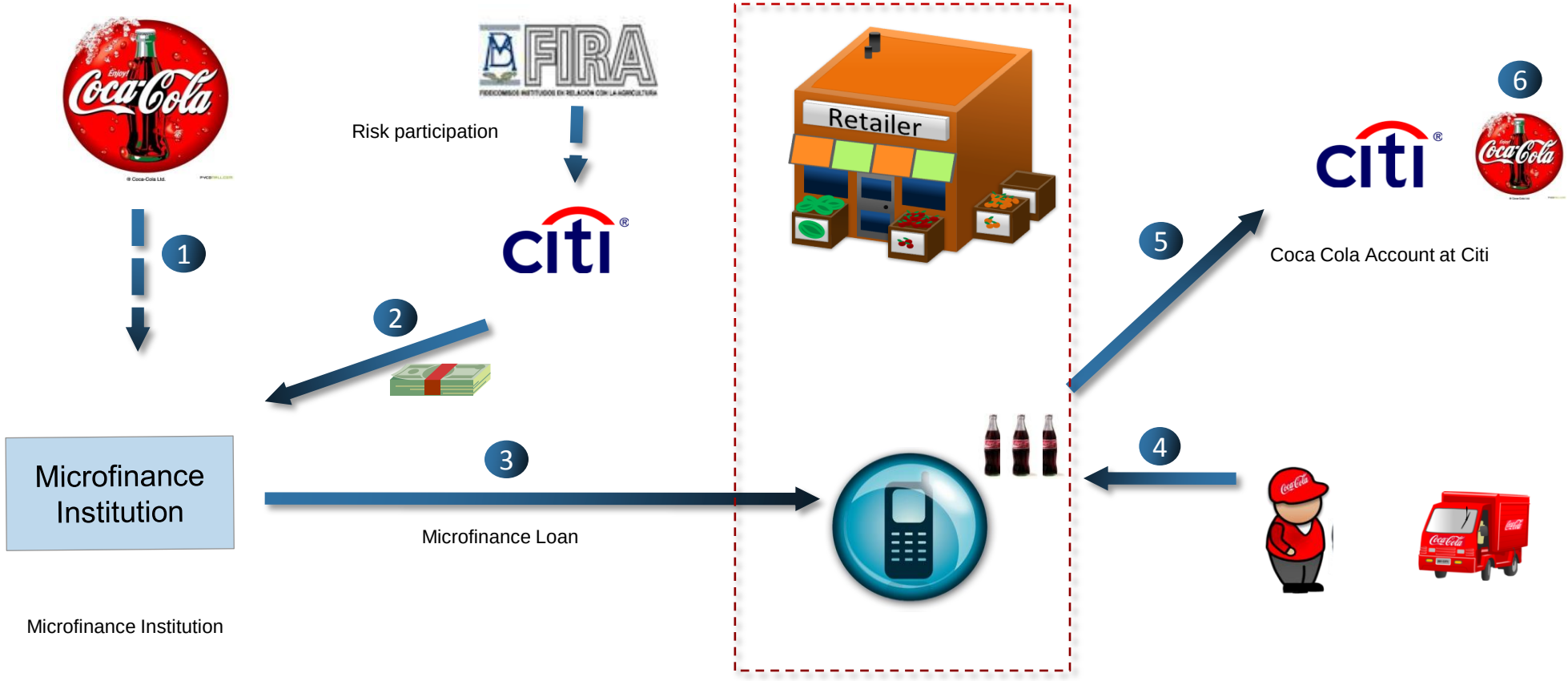
2. Supply Chain Model

Reach the underserved and unbanked in the supply chain model using funding and mobile payment solutions



1. Citi funds MFI with agency and wholesaler participation (A,B)
2. MFI funds cooperatives or producers directly
3. Company signs a purchase agreement
4. Wholesaler distributes to small retailers and gives them credit (creates account receivable)
5. Citi discounts the wholesaler's account receivable
6. Wholesaler pays back Citi with through SMS

2. Distribution Chain Model



1. Wholesaler provides MFI with purchase history of the retailer
2. Citi Funds Microfinance Portfolio
3. MFI provides micro loan to small retailer
4. Wholesaler delivers product
5. Small retailer texts (SMS) payment to the wholesaler account at Citi
6. Wholesaler increases sales

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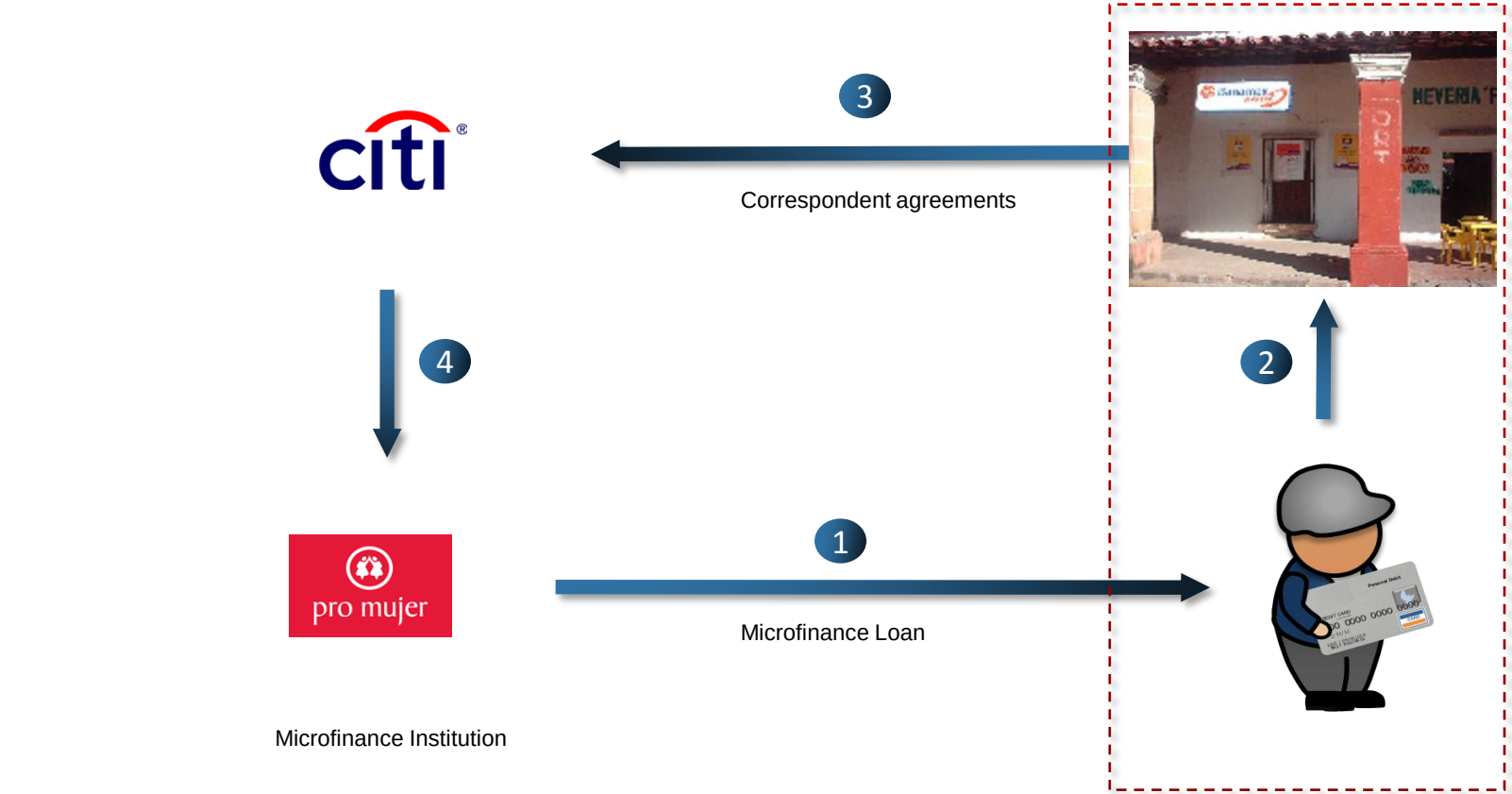
3. Cashless Payments for Microfinance Loans

Over 400,000 microfinance borrowers in Mexico use Banamex prepaid cards and alternative networks to access loans and complete repayments



Reduces operational costs, improves efficiency, increases MFI's access to clients

1. MFI disburses loan on a prepaid card
2. Borrower access cash and pays back loan at a correspondent agent in a convenient location
3. Citi collects payments through a correspondent agreement
4. MFI reduces collection costs

4. Children's Savings Example: Replicable Public Partnership Model

A replicable banking platform that supports universal children's savings accounts, with financial education and incentives in partnership with cities, charter schools and non-profits

San Francisco United School District

Kindergarteners receive college savings accounts with school enrollment, Financial Education in the classroom and behavior-based incentives (attendance)

City of San Francisco Office of the Treasurer

Opens and manages accounts at Citi for the benefit of the students

Account Opening and Usage Process Flow

Commercial Banking Relationship

- City of San Francisco keeps program balances with Citibank
- Citi manages accounts for students

Student Account Opening

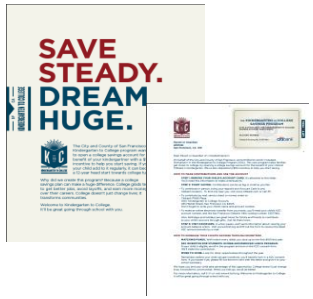
- Students are auto-enrolled by the Treasurer's Office
- Account Opening by Citibank

Program Website

- Students use individual Citi savings card
- Regular savings becomes interactive and fun

Citibank Branch

- Students and families introduced to banking services
- Remote deposits can be made through: Popmoney, Bill Pay



5. Citi Foundation: Thought Leadership and Knowledge Building

Citi has invested philanthropically in financial inclusion for 30 years.

Savings Linked Conditional Cash Transfer Demonstration

- Test and evaluate new business models to deliver saving products to 150,000 recipients of Conditional Cash Transfers (CCT) in seven countries across Latin America and the Caribbean
- Proyecto Capital - Colombia LISTA
- **Thought Leadership Goal:** Deepen knowledge of how government payment schemes can promote financial inclusion

US Financial Capability Innovation Fund

- Linking financial education to usage of products
  - **Thought Leadership Goal:** Develop business case for product linked financial education and public policy recommendations

Program Design and Guidance Product Technical Assistance

Bridging the Gap: The Business Case for Financial Capability

- Between 500 million and 800 million of the world's poor now have access to finance – yet our research suggests that only 25 percent of these many millions have been provided financial capability skills
- ***Thought Leadership Goal:*** Shape public policy and industry dialogue about need to strengthen efforts to enhance client capability through sustainable models

Partnership for College Completion

- National demonstration project linking savings, financial education, scholarships and college
- *Thought Leadership Goal:* Develop understanding of impact savings can have on student aspirations and establish public policies to support low-income families efforts to save

This approach leverages synergies between Citi's businesses and Foundation to maximize resources and demonstrate Citi's commitment to corporate citizenship and responsible finance

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5. Citi Thought Leadership

Colombia examples: Strategic initiatives to expand knowledge and develop scalable solutions for inclusion

Colombia Green Protocol

- Sustainable product offering development
- Promotion of project with social benefit

Grameen Foundation Colombia

- Mobile technology solutions for farmers and cooperatives
- Information and financial transactions for agricultural purposes

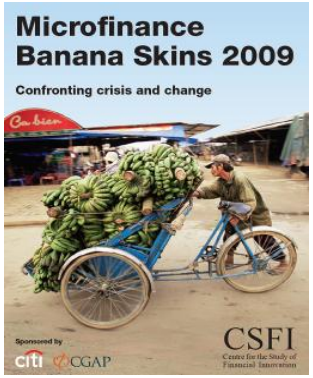
Root Capital / Starbucks Manizales, Colombia

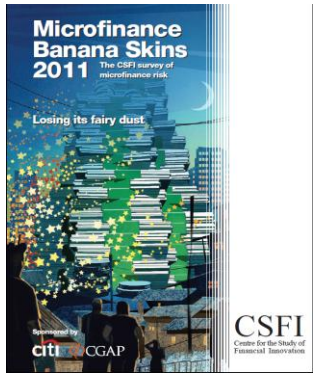
- Assessment of coffee cooperatives in Manizales to build inclusive supply chains
- Connect small cooperatives to finance

Opportunity International Colombia

- Develop microsavings products for microfinance clients
- Invest in software and technology to scale and enable clients savings

Global Examples: Building microfinance industry knowledge – understanding risk





Citi Embeds Financial Inclusion in its Different Businesses to Interact with Various Relevant Stakeholders

- Deepening **existing client relationships** into the field of **financial inclusion and sustainability projects**
- **Financial inclusion is important to many stakeholders in Citi's ecosystem, including:**

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Citi believes that sustainability is good business practice. We work closely with our clients, peer financial institutions, NGOs and other partners to finance solutions to climate change, develop industry standards, reduce our own environmental footprint, and engage with stakeholders to advance shared learning and solutions. Highlights of Citi's unique role in promoting sustainability include: (a) releasing in 2007 a Climate Change Position Statement, the first US financial institution to do so; (b) targeting $50 billion over 10 years to address global climate change: includes significant increases in investment and financing of renewable energy, clean technology, and other carbon-emission reduction activities; (c) committing to an absolute reduction in GHG emissions of all Citi owned and leased properties around the world by 10% by 2011; (d) purchasing more than 234,000 MWh of carbon neutral power for our operations over the last three years; (e) establishing in 2008 the Carbon Principles; a framework for banks and their U.S. power clients to evaluate and address carbon risks in the financing of electric power projects; (f) producing equity research related to climate issues that helps to inform investors on risks and opportunities associated with the issue; and (g) engaging with a broad range of stakeholders on the issue of climate change to help advance understanding and solutions.

Citi works with its clients in greenhouse gas intensive industries to evaluate emerging risks from climate change and, where appropriate, to mitigate those risks.

efficiency, renewable energy & mitigation

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