



**International  
Finance Corporation**  
World Bank Group



## **Banking the Bottom of the Pyramid:**

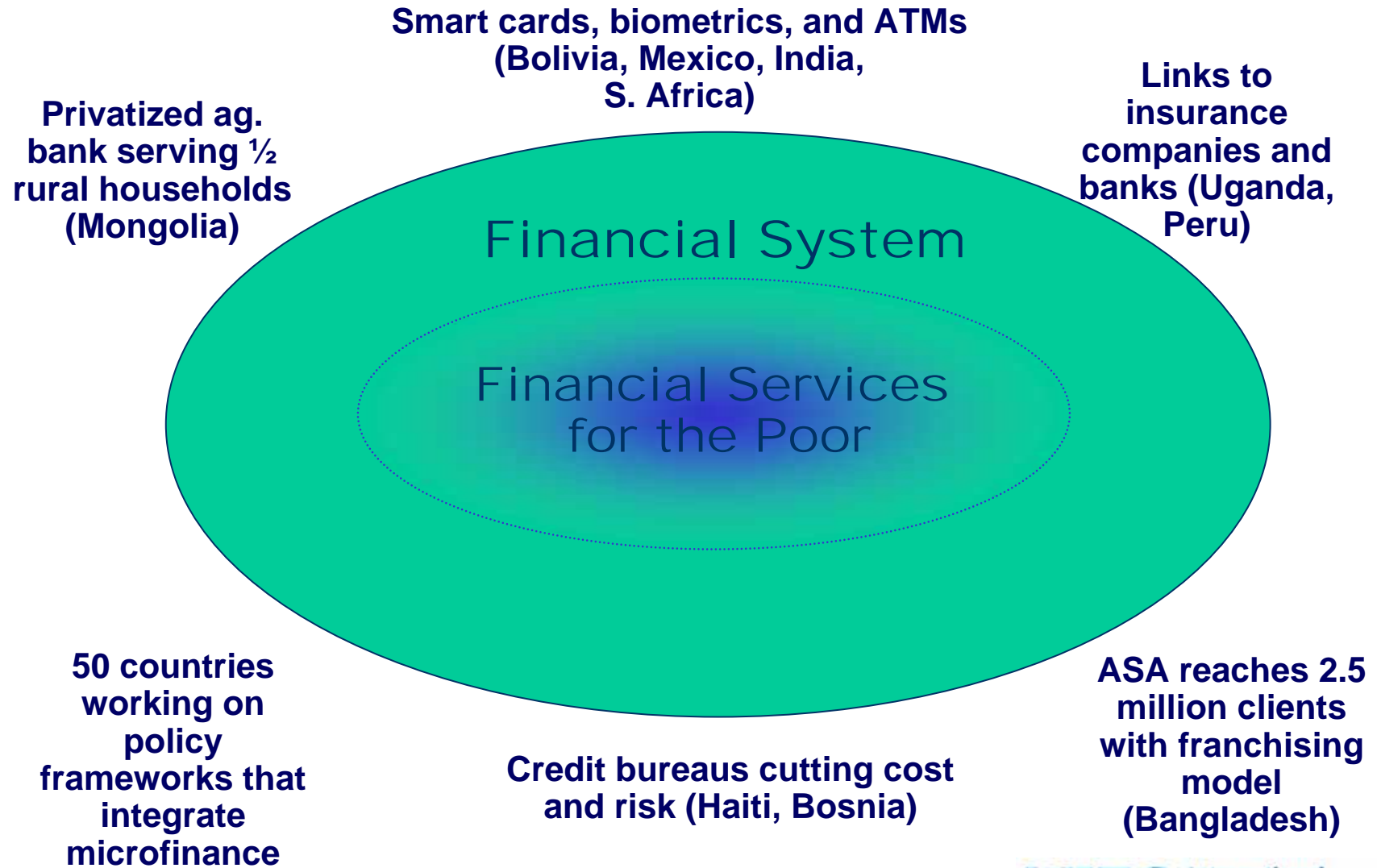
***“From Microfinance to Inclusive Finance and Beyond”***

**Asian Bankers’ Association  
Shangri-La Hotel, Hong Kong  
2 November 2007**

**Brigit Helms  
Sector Leader, Access to Finance  
East Asia and the Pacific**

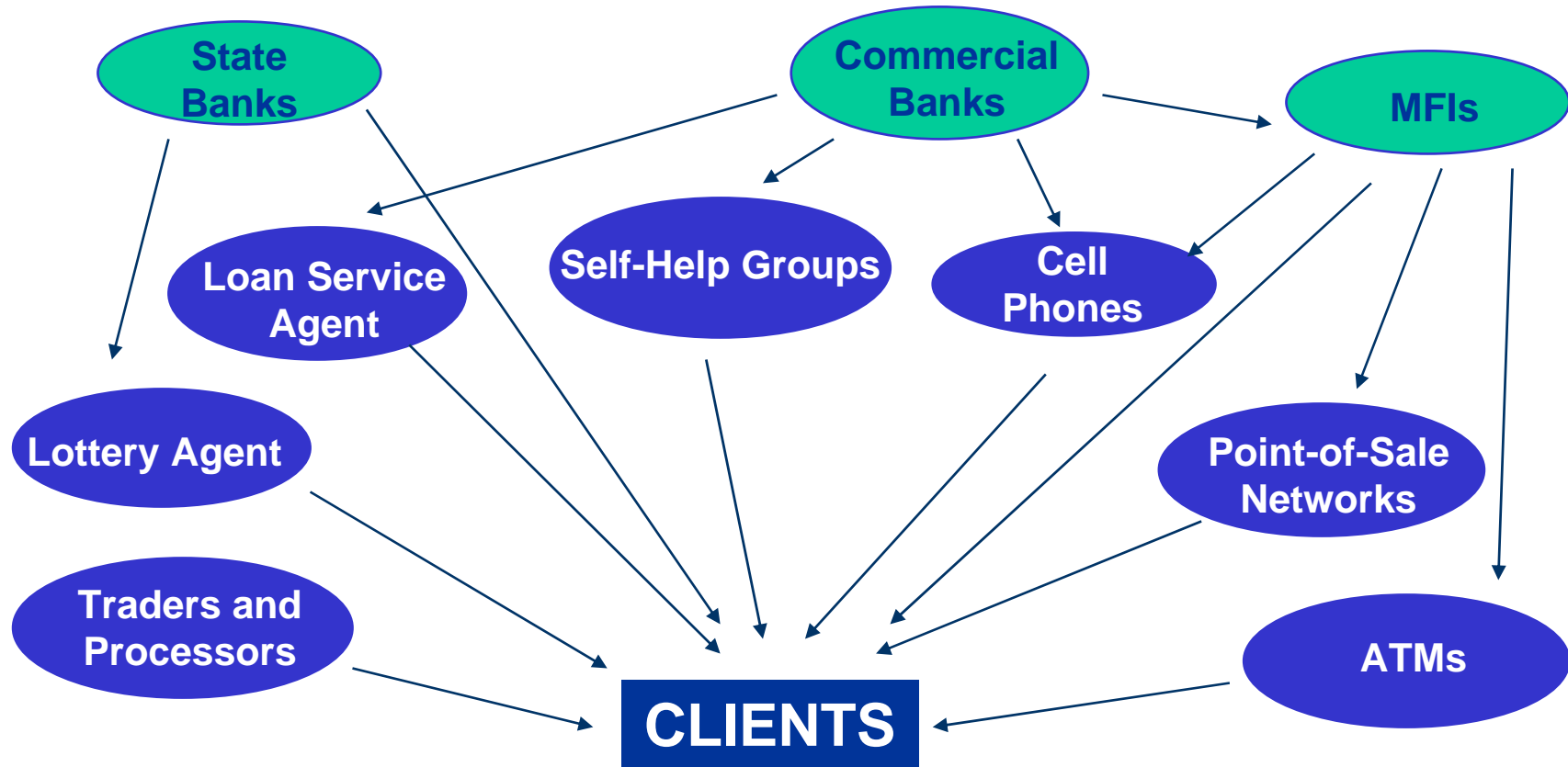
# Microfinance Borders are Blurring

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# Access points are multiplying

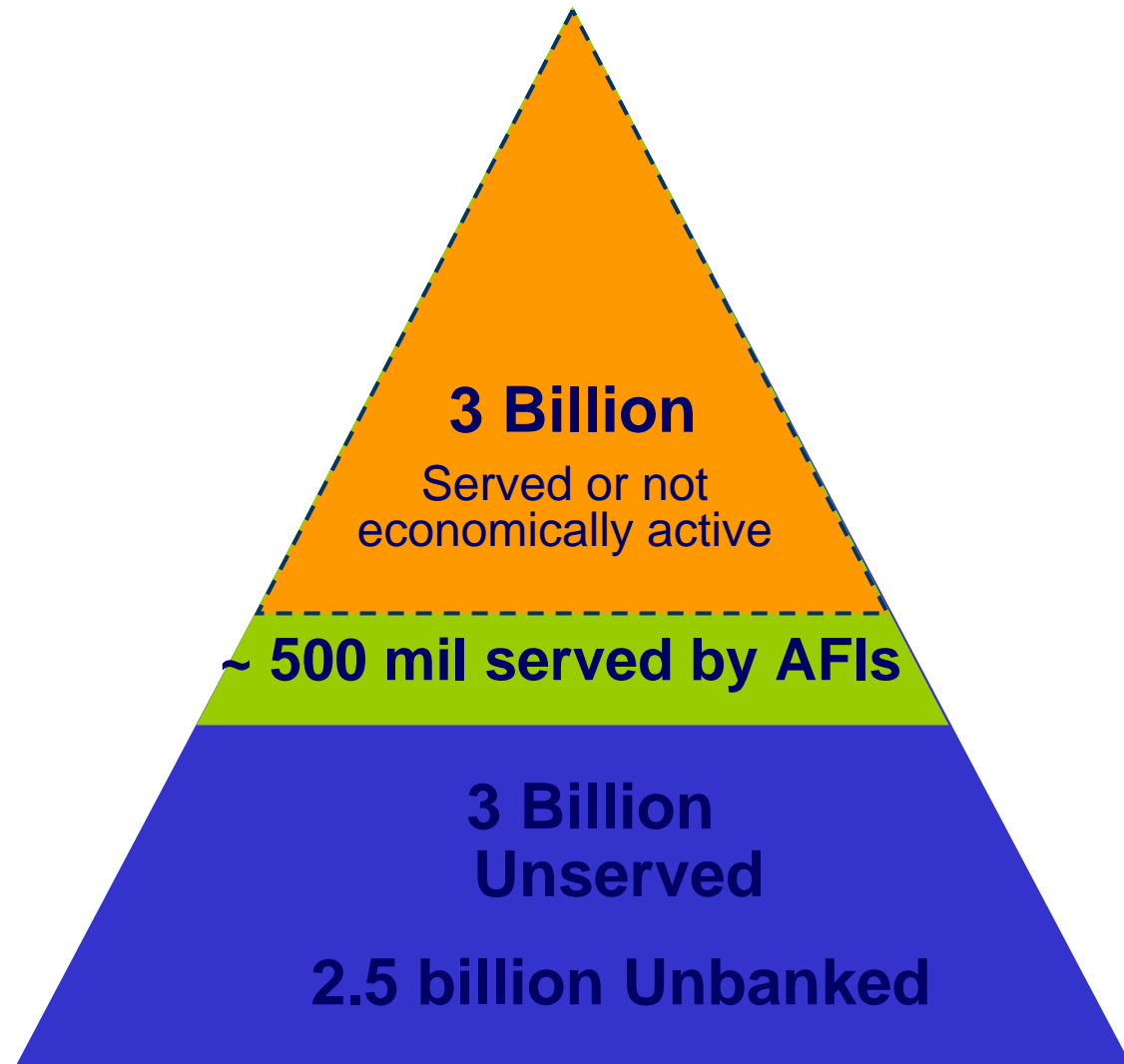
Institutions are leveraging existing and new infrastructure to offer clients multiple points of access



# Market is Big

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**83% of global market yet to be tapped**



Source: CGAP, Financial Institutions with a Double Bottom Line (2004).

# Banking in Developed Economies

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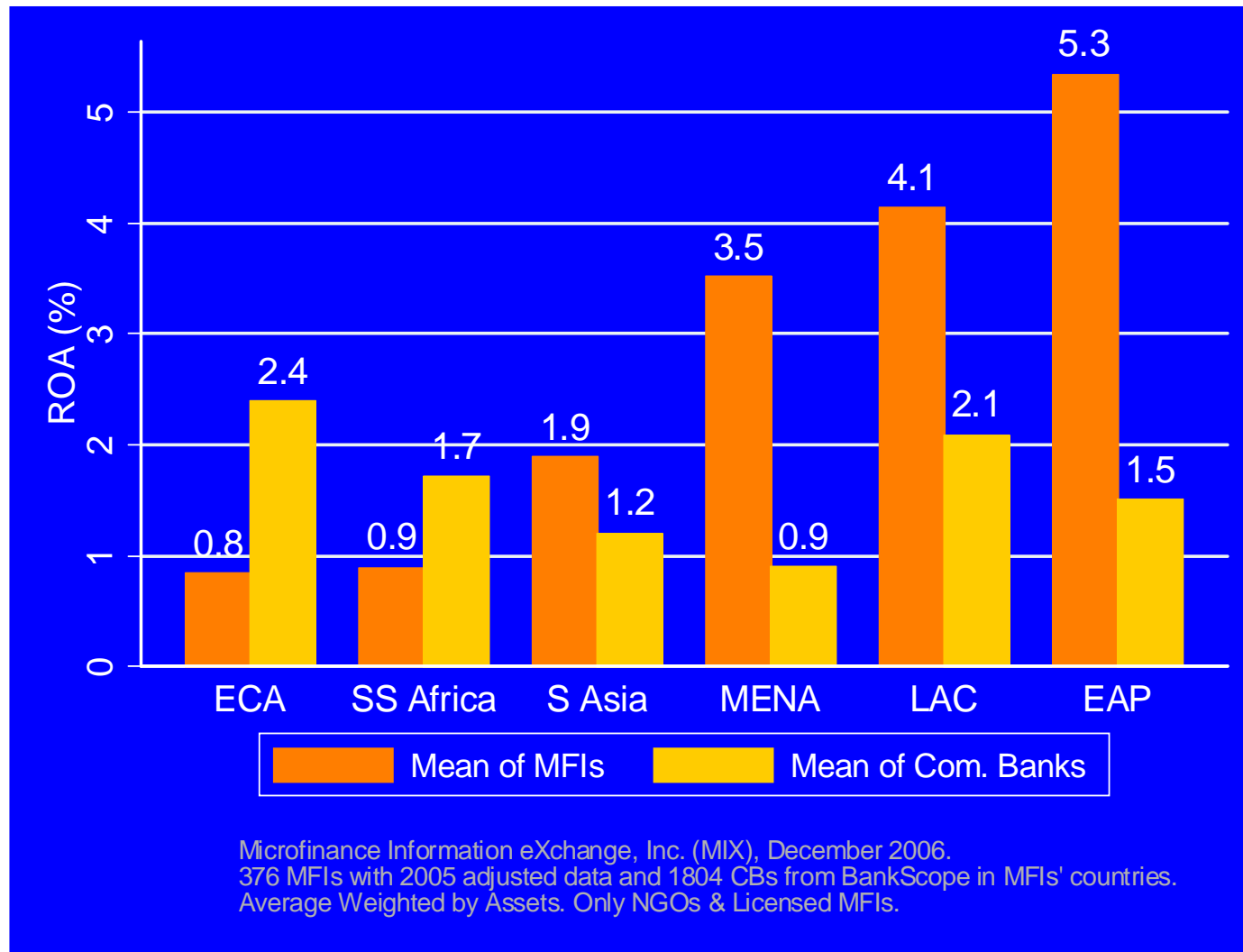


**Retail and small business clients can lead profits for banks**

- **Wells Fargo: 4<sup>th</sup> Largest US bank with business model built on mass retail**
- **Citibank North America: + 50% of 2003 profits from consumer/SME loans**
- **Société Générale: Retail operations helped support 600% growth in total shareholder returns since 1990**
- **Rabobank: Serves half the population and businesses in Netherlands**

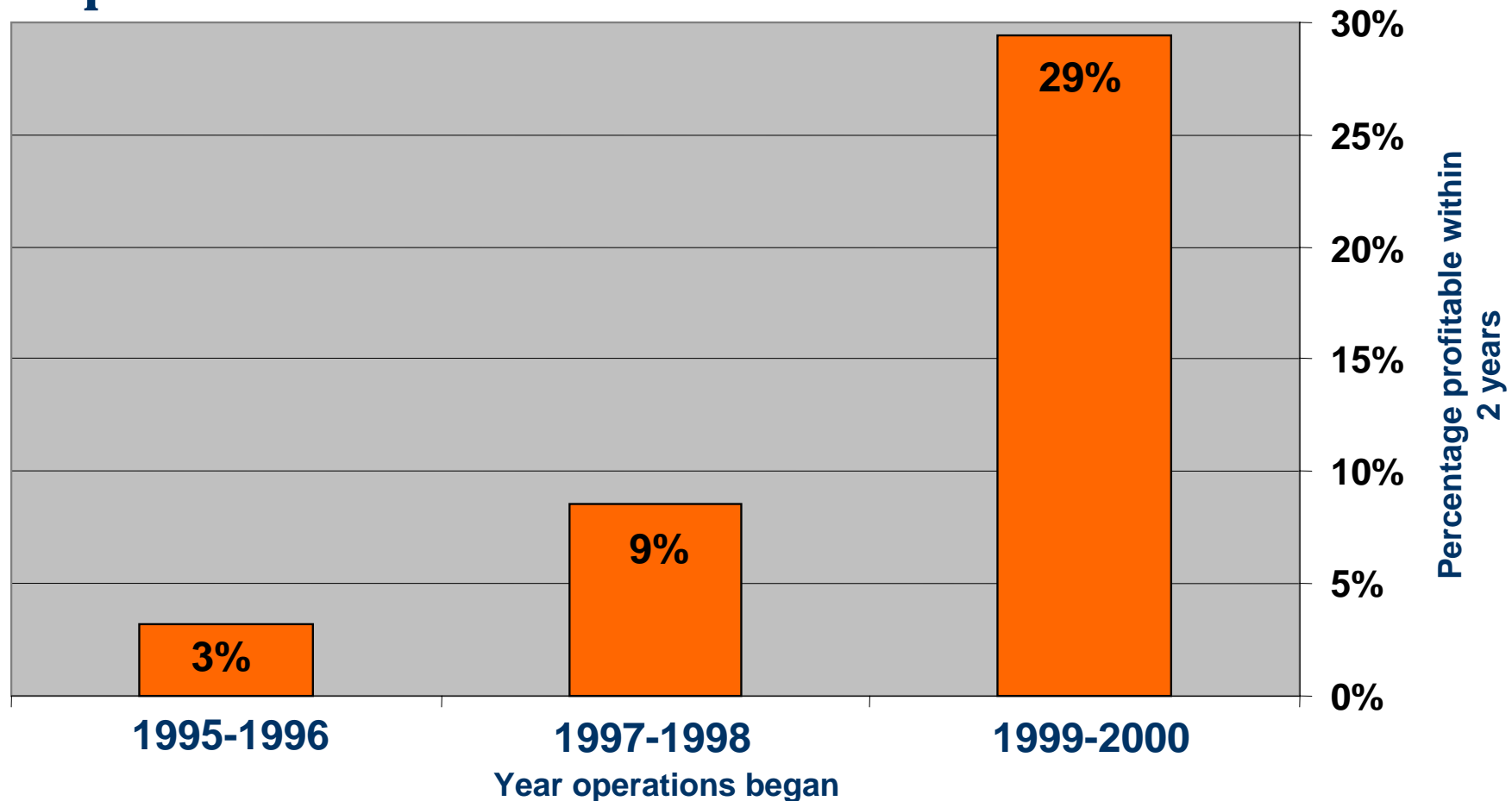
# Microfinance is Profitable

MFIs more profitable than commercial banks in 4 of 6 regions



# Evolution of Microfinance: Increase in Profitability

Percentage of MFIs becoming profitable within 2 years of inception



Microfinance Information Exchange (MIX), December 2006.  
Combined MIX & MCS data

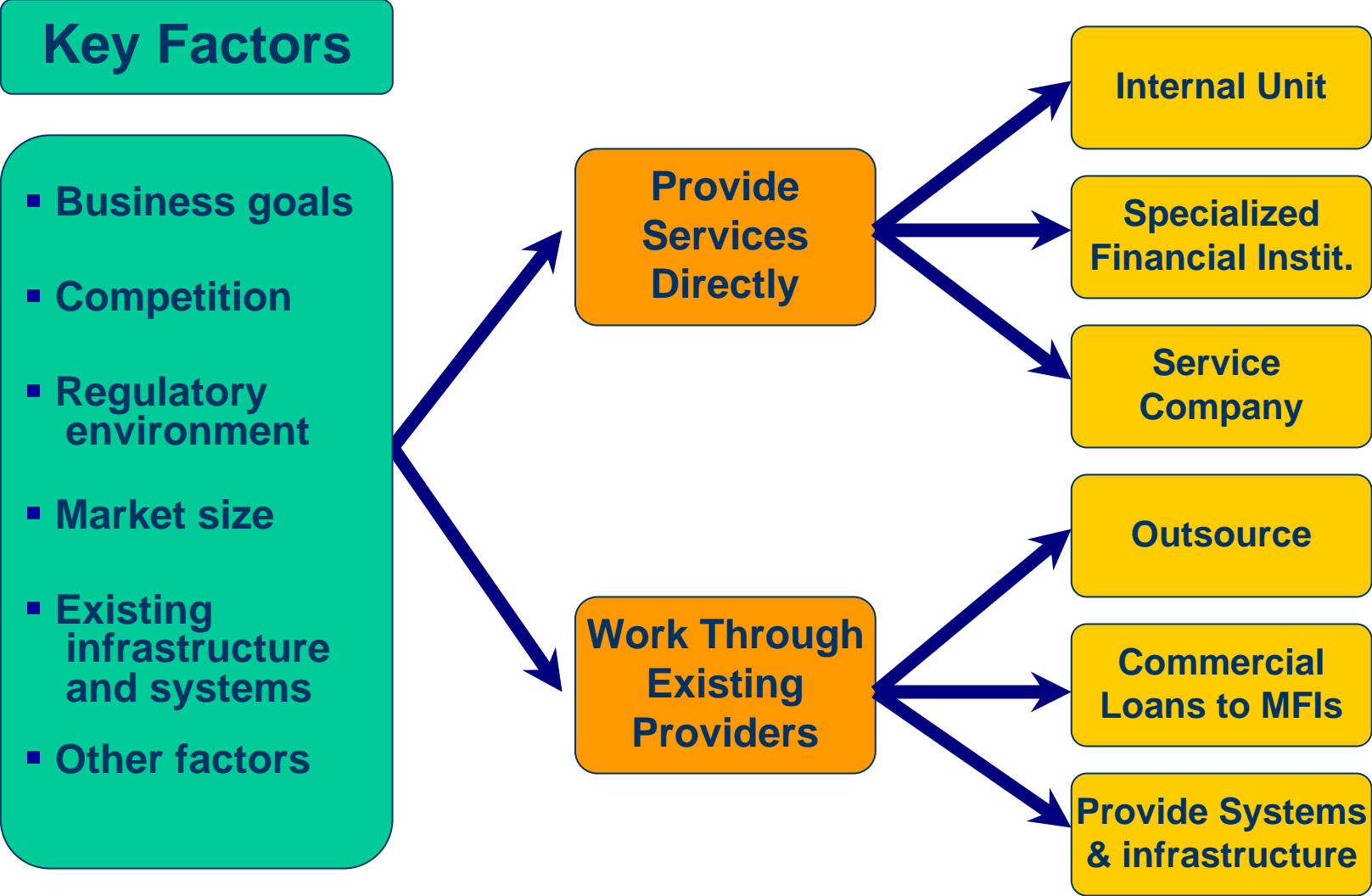
# Quality is High

Institution	PAR > 30 days	Gross Loan Portfolio (USD mil)	Number of Borrowers
SHARE (India)	0,19%	40,2	368 996
Compartamos (Mexico)	0,56%	101,1	309 637
Banco Solidario (Ecuador)	1,54%	177,1	72 787
ASA (Bangladesh)	1,68%	201,1	2 772 719
PADME (Benin)	1,81%	44,1	37 661
NovoBanco (Mozambique)	3,38%	6,9	11 350
Centenary Bank (Uganda)	4,21%	44,6	52 682
CMS (Senegal)	4,21%	40,7	33 598

Data end 2004. Source: The MIX



# Commercial banks increasingly engaged



Source: CGAP, Commercial Banks and Microfinance: Emerging Models of Success (2005).

# Microfinance Today: Service Providers/Commercial Banks

## High level of engagement



**Commercial bank specialized in microfinance**

**Equity Bank, Kenya**  
Serving poor clients is a main business line

**Bank creates loan service company**

**Sogebank, Haiti**  
Created loan service company Sogesol in 2000

**Bank invests equity in MFI**

**Jammal Trust Bank and Credit Libanais, Lebanon**  
Have equity stake in Ameen, a CHF microfinance program

**Bank buys MFI portfolio and/or contracts MFIs**



**ICICI Bank, India**  
Contracts microfinance operations with self-help groups and MFIs

**Wholesale lending**

**Raiffeisen Bank, Bosnia**  
Lends to multiple MFIs in Bosnia

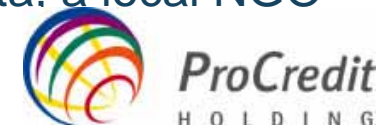
**Sharing/renting facilities**

**Garanti Bankasi, Turkey**  
Provides front office functions through branch network to Maya Enterprise for Microfinance

**Bank provides front or back office functions**

**ProCredit Bank, Georgia**  
Rents space in its offices to Constanta, a local NGO

## Lower level of engagement



# Can Banks Beat The Mattress?

	Price	Access	Product Features (Security)	Service Quality	Value Placed on Client	NET
<b>Mattress</b>	+ (free)	+ (anytime banking)	-- (easily stolen, ruined)	0 (self-serve)	0	0
<b>Bank account</b>	-- (fees, minimum balances)	- (hours or days)	+	- (intimidating)	?	---

Bank accounts = weak value proposition

# Challenges

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Scale



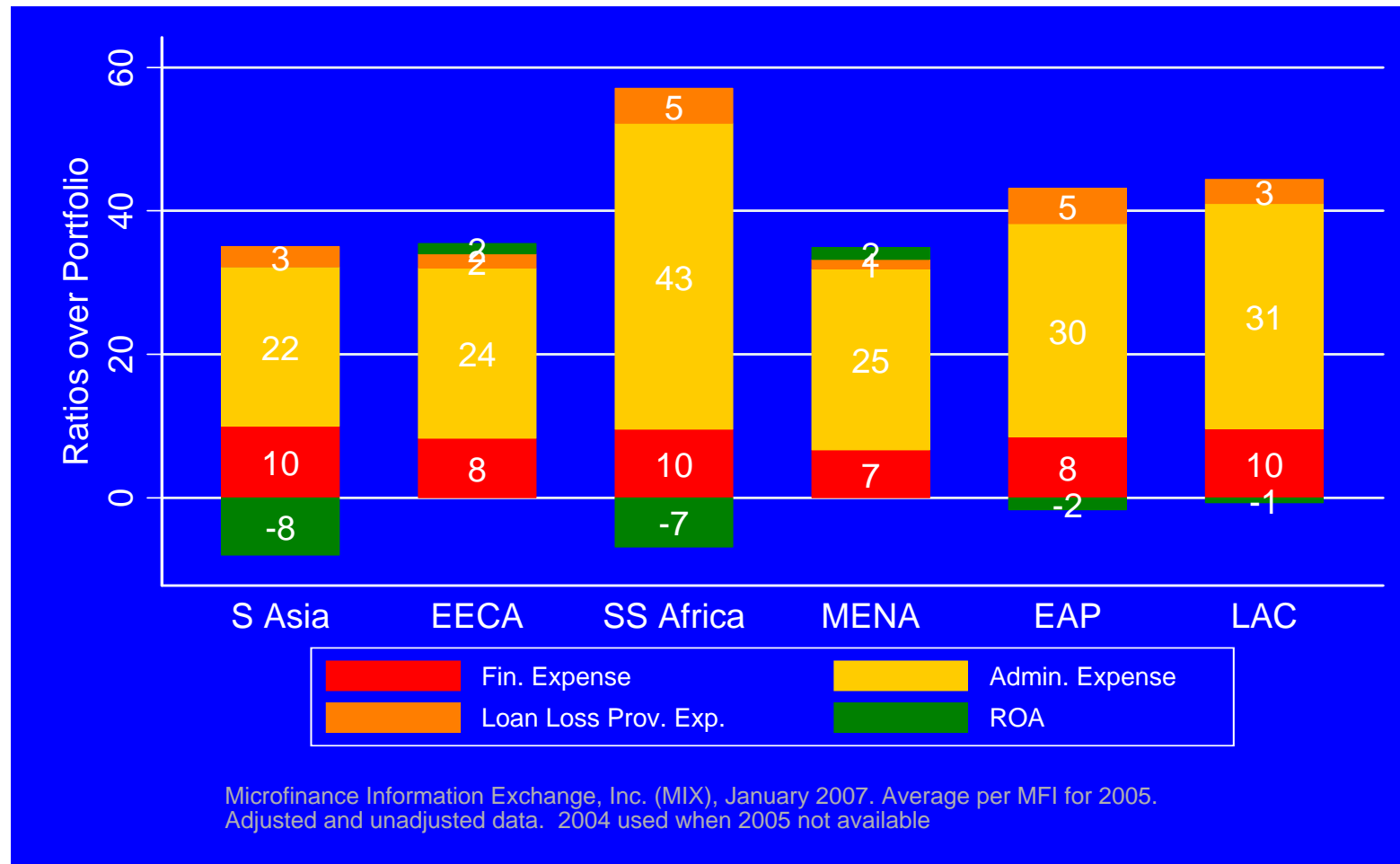
Depth



Cost

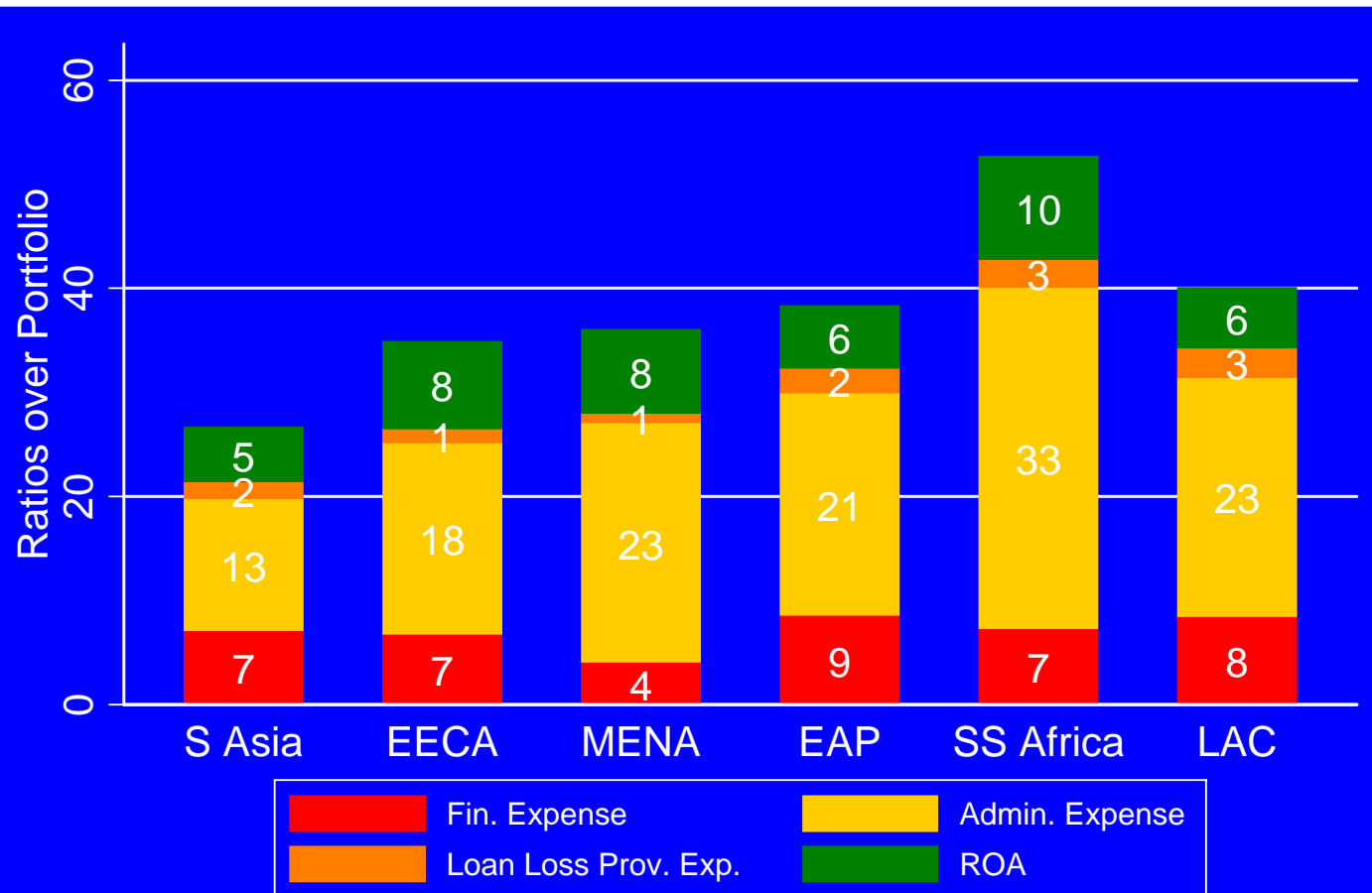
# Costs by Region

Administrative costs = main cost component



## Costs by Region (cont)

Administrative costs are highest even for Operationally Sustainable MFIs



Microfinance Information Exchange, Inc. (MIX), January 2007. Average per MFI for 2005. Adjusted and unadjusted data. 2004 used when 2005 not available

# Branchless banking: how does it work?

*Payment technology (mobile, point of sale terminal) is paired with a retail outlet which acts as agent of provider for account opening and cash-in / cash-out*

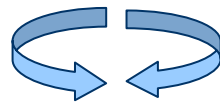
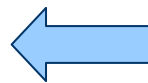


## Provider



*Sample withdrawal transaction*

1. Agent balance

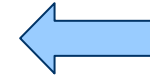


4. Settle accounts

## Agent



2. KYC docs



3. Cash + receipt

## Client



# Benefits along the value chain

## Provider



- Change economics of serving low-income clients
- Leverage agent infrastructure to reduce capex to expand
- Enable rapid drive to volume

Brazil banks: 6 mil new clients via agents in 6 yrs

## Agent



- Increase walk-in business
- Decrease cash-on hand
- Fee revenue from bank
- Differentiated service offer

Brazil: 54% of clients who do banking also buy goods

## Client



- Comfort of dealing with corner merchant
- Proximity of service point saves time and cost

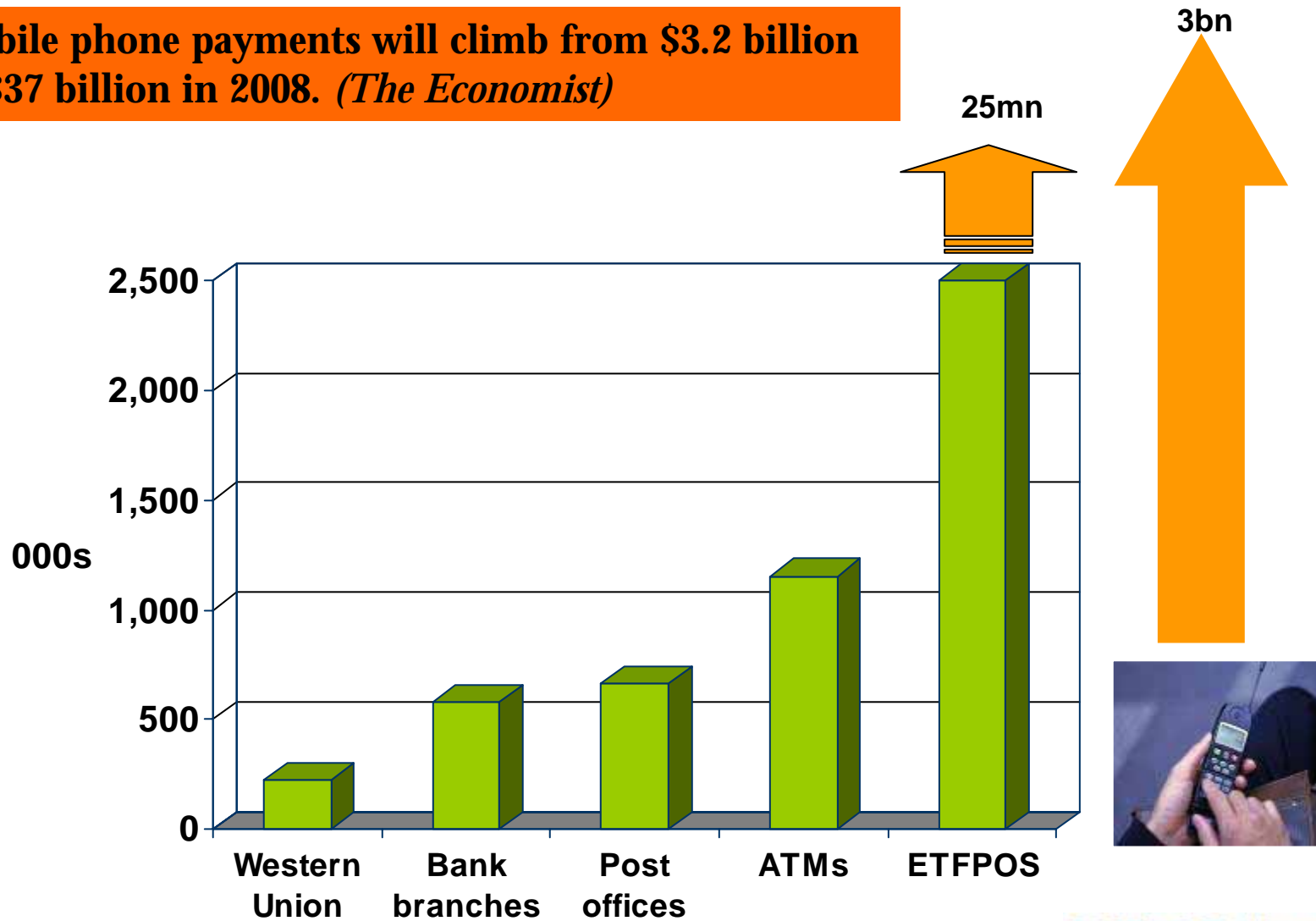
Brazil: 90% of people use banking agents

Sources: CGAP analysis, CGAP representative study of banking correspondent usage, Pernambuco state, 2008



# Mobile Phone Banking: Enormous Opportunity

Mobile phone payments will climb from \$3.2 billion to \$37 billion in 2008. (*The Economist*)



Source: WB 2005; VISA; UPU 2005

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**Terima Kasih!**

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**cảm ơn!**

**GrKuNeRcln!**

Harami Salammat Po!

**谢 谢!**

**THANK YOU!**

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