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**Eradicating
Poverty
through Profit**

Making Business Work for the Poor



An International Conference on the Private Sector & the Public Good

Session Summary Reports: Track 2

The Financial Services Sector and the BOP
(Coordinator: Matthew Gamser, Development Alternatives Inc.)

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Summary:

The profits available in “financing the poor” have been demonstrated in the rapid expansion of microfinance services worldwide. But microfinance, by and large, has been the domain of NGOs and small, specialized financial institutions. What has been less evident, but which now is clearly emerging, is the potential profitability of the BOP for large commercial financial sector institutions, and also for large firms providing services to the financial sector. The six sessions in this track examined some of the most outstanding examples of such firms generating strong returns while providing valuable new financial services to BOP markets, and considered the implications of these examples for wider international financial sector involvement with the BOP. The major finance industry firms whose initiatives were discussed include large national and international commercial banks (Khan Bank Mongolia, ICICI Bank India, Standard and ABSA banks South Africa, Citibank, ABN Amro), one of the world’s largest credit information services (Equifax), and one of the world’s major information technology companies (Hewlett Packard).

Session 1a: *From rags to cashmere: The BOP success of Khan Bank Mongolia*

Moderator: Matthew Gamser, *Director, Organizational Learning, Development Alternatives Inc.*

Panelist: J. Peter Morrow, *Chief Executive Officer, Khan Bank*

Panelist: Sukhbold Sandag, *Branch Executive, Khan Bank*

After many years of operating deficits, loan losses, and a failed attempt at privatization, the government-owned Agricultural Bank of Mongolia (XAAH, or “Khan” Bank, in Mongolian) was placed in receivership in 1999. Today it is a thriving financial institution, posting the highest return on equity of any Mongolian bank in 2003. Serving the Mongolian masses is the bank’s core business strategy. **Khan Bank** now operates a network with 379 points of service throughout Mongolia, much greater than any of the other 16 banks operating in the country (and up from 269 when new management took office). One out of every 2 Mongolian households today is a client of Khan Bank. In March 2003, HS Securities of Japan, a leading global investment operation, bought Khan Bank from the Government of Mongolia for \$6.85 million, and is continuing to expand its branch network and services. The bank’s CEO described what it takes to successfully “bank the masses”.

Session 1b: *Achieving breakthroughs in the scale of microfinance: Emerging lessons from an HP-led pilot in Uganda*

Moderator: Janine Firpo, *Director, Global Multisector Initiatives, Hewlett-Packard*

Panelist: James Dailey, *Technical Project Manager, Grameen Technology Center*

Panelist: Roy Jacobowitz, *Vice President, Accion International*

Panelist: Beth Porter, *Vice President, Technical Operations, Freedom from Hunger*

With funding from the US government, Hewlett-Packard and a group of seven leaders in the microfinance industry have developed, tested and is implementing a **new technology solution** in Uganda. The technology is being tested in three institutions, each of which has a different business model. The key is to find a way to reduce the costs of linking information between rural and urban areas, so that rural customers can enjoy the same easy access to finance as their urban counterparts, thereby allowing financial institutions to operate profitably while servicing rural markets. Technological innovation is also vital to extending the range of financial products which can be offered profitably to rural consumers. This session focused on the paradigm shifts that have



occurred in thinking as a result of the Uganda collaboration. Microfinance institutions need to stick to the “people stuff”, which they’re good at, and get the serious technology players more involved with innovation. Both can reap the rewards. The key is taking microfinance out of its ghetto, and integrating it more fully with global, mainstream financial services.

Session 2a: South Africa's Financial Sector Charter: How the private sector is organizing to bank the unbanked

Moderator: Gerhard Coetzee, *Director, Development Finance, ECI Africa Pty Ltd*

Panelist: Jonathan Dixon, *Chief Director, Financial Sector Policy, National Treasury, South Africa*

Panelist: Lincoln Mali, *Director, Convenience Banking, Standard Bank*

Panelist: Bheka M Manana, *General Manager, Africa & Emerging Market – FBS, ABSA Bank*

Panelist: David Porteous, *Managing Director, Recap International LLC*

While South Africa has a thriving “first world” financial sector, the vast majority of South Africans, particularly the poor and black, do not have access to banking services. However, the country’s bankers and other financiers have undertaken a collective effort to redress this legacy of the apartheid era, producing a “**charter**” that commits to developing a financial sector and services that better reflects the country’s demographics. Part of this commitment is working together to develop more viable business models for BOP markets, such as the new **Mzansi** (literally “South”) nationally-offered savings account, which signed up 100,000 new banking customers in the first 3 weeks of its introduction in late October 2004. Another example is the “EBank” model, which offers a savings account, debit card and transaction services in partnership with leading retailers and cell phone providers to some 3 million customers. Technological innovation has opened up further possibilities. For example, today more than one out of every five unbanked persons has a cell phone that might be used for financial services, and subscriber numbers are increasing by leaps and bounds. Representatives from the banking sector, the government and the services sector described progress to date, and potential not only for South Africa, but for the wider sub-Saharan Africa region.

Session 2b: Migrants & Remittances: Products and business opportunities in host and sending countries

Moderator: Cerstin Sander, *Principal Consultant, Bannock Consulting Ltd.*

Panelist: Robert Annibale, *Global Director, Citigroup's Microfinance Group*

Panelist: Nachiket Mor, *Executive Director, Corporate Banking, ICICI Bank Ltd.*

The International Monetary Fund reports that at least \$116 billion a year is sent to developing countries from migrants supporting family and friends back home. As much as that again may be arriving without being legally counted and reported. In many countries these private remittances amount to many times the value of official government-to-government aid flows. Remittances are the second most important product for the BOP market, behind savings accounts. Once almost the sole domain of Western Union and informal “money movers,” the money transfer industry is seeing many new entrants and business models. Traditionally banks have not had a significant share of remittances, due to their ID requirements and other administrative procedures for establishing accounts. But this is changing, as is evidenced by Citibank’s and VISA’s recent investments in this area. Experiences in India show that different products are needed for rural and urban customers, with additional technological innovation



necessary to make headway into rural markets. Encouraging new initiatives include **low-cost ATMs** and multi-service “Internet kiosk” franchises. This session focused on how new business models are offering the poor better prices and more options for funds transfer, and how better service can provide greater profits by integrating remittances more fully into financial services offerings for migrants and their families.

Session 3a: *India's banks & microfinance: Public and private financial institutions joining up to reach rural customers*

Moderator: Sukhwinder Arora, *Financial Sector Development Advisor, Department for International Development UK*

Panelist: Geoff Davis, *Chief Executive Officer, UNITUS*

Panelist: Nachiket Mor, *Executive Director, Corporate Banking, ICICI Bank Ltd.*

Panelist: Moumita Sen Sarma, *Vice President, Head - Microfinance, India, ABN AMRO Bank*

Despite a national network of more than 80,000 bank branches, many of India’s poor do not have access to basic banking services. Until recently, BOP-oriented financial services were dominated by heavily subsidized, government-run schemes which left banks with huge losses and yielded little benefit to the poor. The last decade has seen a new, more business- and profit-driven approach emerge, which is proving far more successful at getting basic credit and savings services to poor households. The successes of non-government organizations and specialized microfinance institutions have attracted commercial banks and other financial institutions into the Indian microfinance market. However, the current NGO-led models lack scalability, and don’t appeal to commercial partners. The key is linking the non-bank microfinance institutions profitably to mainstream financial institutions. The recent entry by India’s largest private bank (**ICICI**) and a major multi-national bank (**ABN-AMRO**) into this market demonstrates the vast BOP finance potential. New partnership models are proving profitable both for the microfinance specialists and for the commercial banks. This session brought a number of these large national and international financiers to the table to explain why they see “progress with profits” in investing in Indian microfinance.

Session 3b: *Credit bureau development in Latin America: New financial services for the poor*

Moderator: Robin Young, *Senior Development Specialist, Development Alternatives, Inc.*

Panelist: Monica Hernández de Phillips, *Executive Vice President, Banco Solidario*

Panelist: Luis Armando Montenegro Monterrosa, *Superintendent of the Financial System, El Salvador*

Panelist: Rodolfo O. Ploder, *Group Executive, Equifax Latin America*

One of the main reasons small businesses and poor households can’t get bank loans is the absence of the basic client information that banks need to make credit decisions. Individual banks simply cannot afford to understand these BOP markets in sufficient detail to expand credit services. Credit bureaus offer a way around this problem by providing a central information database available to all subscriber banks. While a common resource in rich countries, it is only recently being discovered that CBs are good business in emerging markets, too. They bring profits to both the bureaus and subscriber banks, and make it possible to offer credit to many more BOP households. They also open up new opportunities for consumer products companies and major retailers to offer credit to BOP customers. **Equifax**, one of the world’s largest credit information service providers, has built a database of over 56 million records in Latin



America which generates more than 2 million credit inquiries a year. Its returns are also equal or better than the company's markets in other regions. Equifax's credit information operation in Peru, begun in 1999, has grown in volume to over 388,000 inquiries per year (2003), with 102 client subscribers. Clients have increased over 100 percent from 2002 to 2003, the last year for which data was available.

