

Exponential Growth In Microfinance Through Technology: Experiences from South America

Robert Peck Christen
The Boulder Institute of Microfinance

Beijing, China
March 24th, 2006

Boulder Institute Microfinance – MFT 2005, ILO, Turin

1

Microfinance is Profitable

AROA	Worldwide	Asia
INDIVIDUAL	3.5	
SOLIDARITY	5.6	
VILLAGE BK	1.9	
LOW	2.8	
BROAD	3.0	
HIGH	1.4	

Boulder Institute Microfinance – MFT 2005, ILO, Turin

2

We Achieve Profitability by Higher Interest Rates on Smaller Loans

	INTEREST	OPER. COSTS	OSS
Low End	46	32	108
Broad	31	18	121
High	22	11	135
Small Business	16	8	121

Boulder Institute Microfinance – MFT 2005, ILO, Turin

3

Productivity Isn't Getting Any Better

Borrowers Staff	1997	2003
	#	#
Individual	112	120
Solidarity	102	136
Village Bank	203	153

Boulder Institute Microfinance – MFT 2005, ILO, Turin

4

Costs per client are actually increasing

Cost per Borrower	1997	2003
	Us\$	Us\$
Individual	217	225
Solidarity	96	107
Village Bank	41	71

Boulder Institute Microfinance – MFT 2005, ILO, Turin

5

Critical Binding Constraint

Edges of commercial microfinance are defined by cost structures of current delivery technologies

Boulder Institute Microfinance – MFT 2005, ILO, Turin

6

Rigid Microfinance Techniques

- We tend to use
 - Village banking or SHG for 50-200 dollar loans
 - Solidarity Groups for 300 -500 dollar loans
 - Individual loans above 1,000 dollars
- Its not easy to profitably apply a lending technique across market segments

Boulder Institute Microfinance – MFT 2005, ILO, Turin

7

Big Cost Areas

- Cost of borrower selection, repayment enforcement
 - *soft technologies*
- Transaction costs associated with disbursement and payments
 - *hard technologies*

Boulder Institute Microfinance – MFT 2005, ILO, Turin

8

Lack of information on borrowers drives our lending costs

- We must use peer group techniques
 - Pass 'transaction' costs on to borrowers
- We must visit clients to assess, and pressure repayment
 - Slows down service when compared to moneylenders, adds significant costs

Boulder Institute Microfinance – MFT 2005, ILO, Turin

9

Innovations in Latin America to drive down cost of credit decision

- Credit bureaus that lead to behavioral scoring
- Entrance of suppliers personal credit based on retail purchases history

Boulder Institute Microfinance – MFT 2005, ILO, Turin

10

Credit Bureaus in Chile

- In 1985, consumer credit was practically non existent, data bases did not include virtually any information on informal sector clients. Loans to Micro needed to be based on traditional 'solidarity' mechanisms. Perhaps 300,000 upper middle income clients had consumer credit loans.
- (ME loans numbered about 2,000 - 3,000)

Boulder Institute Microfinance – MFT 2005, ILO, Turin

11

Credit Bureaus in Chile

- By 1995, growth in retail credit industry, consumer lending, banking for lower middle income families had extended services out and down, but not to ME sector. Loans to salaried employees could be based on data bases with negative info on bill payments, store credits, bad checks, consumer loans, and positive info on bank debt.
- Grew in ten years to about 3 million consumer credit clients out of total working population of 6 million.
- ME loans numbered about 10,000

Boulder Institute Microfinance – MFT 2005, ILO, Turin

12

Credit Bureaus in Chile

- In 1995 Gov't moved MF into banks through an auctioned subsidy program. Several banks got involved, while traditional NGOs have not grown.
- (TODAY, 2006 there are 300,000 ME loans offered, in their majority by specialized ME subsidiaries of commercial banks)

Boulder Institute Microfinance – MFT 2005, ILO, Turin

13

Personal Credit – Consumer Lenders

- Bco Trabajo, Peru – Consumer loans division, half clients (100,000) are Micro
- Bco Santander, Chile – 40,000 Micro clients out of its consumer loans subsidiary
- Paraguay, consumer finance companies dominate the market in Micro loans

Boulder Institute Microfinance – MFT 2005, ILO, Turin

14

Personal Credit - Retailers

- Banco Azteca in Mexico now reportedly finances more than 2 million informal sector clients – working off data base of white goods company 'Electra'.
- Fastest growing provider of finance to informal sector in Brazil are probably finance companies, private label credit cards (store cards) and banks through checking accounts with overdraft privileges.

Boulder Institute Microfinance – MFT 2005, ILO, Turin

15

Personal vs Business Credit

What is the role of microfinance in this environment? We better understand cash flows and can make bigger loans to ME.

Should MFIs offer similar quick loans?

Should we help retailers and consumer lenders learn how to make larger loans to ME?

Boulder Institute Microfinance – MFT 2005, ILO, Turin

16

Innovations in Latin America to drive down the transaction costs of disbursement and repayment

Use by banks of teller windows in retail chains to manage transactions

Simple contracts – fee per transaction basis

Location of POS devices in retail outlets – card based transactions

Boulder Institute Microfinance – MFT 2005, ILO, Turin

17

Deals between Banks and Retail

– Cost per transaction at the teller window (Latin America)

– Medium sized MFI	3.00
– Commercial bank	1.00
– Postal Savings, other small retail	0.30
– Electronic transfers	0.03

– Cost of administering \$500 account for one year with 24 transactions (+overhead 50%)

– MFI	\$108
– Commercial bank	\$ 36
– Postal savings, other small retail	\$ 11

Boulder Institute Microfinance – MFT 2005, ILO, Turin

18

Banco Nordeste and the Post Office

- BN is development bank with 175 branches
- Reached agreement with Post Office to access 2,500 branches in same market
- Moved xxx transactions, for a total cost savings of xx dollars
- Even more important are huge cost savings for clients who now have services in their neighborhoods – unquantified, but greater than BN

Boulder Institute Microfinance – MFT 2005, ILO, Turin

19

(put in photo of POS Guatam)

Boulder Institute Microfinance – MFT 2005, ILO, Turin

20



POS Device is:

Small

Handheld

On line, real time

Card based (works off national ID, or bank issued card)

Boulder Institute Microfinance – MFT 2005, ILO, Turin

21



POS is placed in retail shop:

Staffed by retailer

Furnished by bank

Boulder Institute Microfinance – MFT 2005, ILO, Turin

22

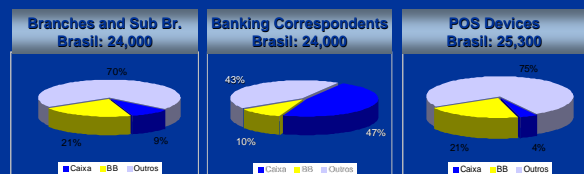
POS System

- 1 – client swipes card (ID or bank card), selects type of transaction, and keys in values
- 2 – client carries out transaction with teller, using the printed 'receipt' from the POS
- 3 – funds are cleared from retailer's account with the issuing bank in real time

Boulder Institute Microfinance – MFT 2005, ILO, Turin

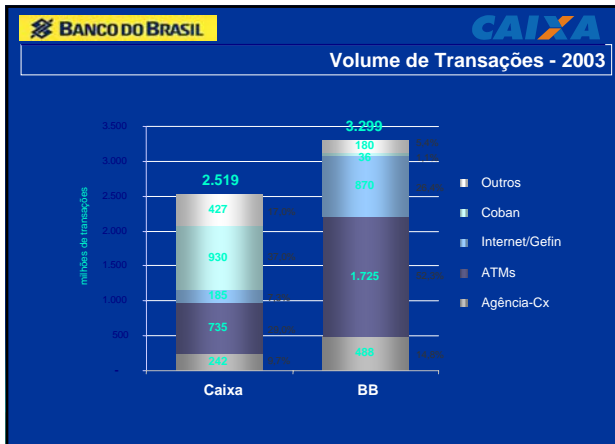
23

Number of Bank Branches, Correspondents, POS in Brasil



Boulder Institute Microfinance – MFT 2005, ILO, Turin

24



Brasil: Point of Service (POS) Access Initiative

- Accomplishments First 2 Years (May 2005)
 - Points of service (three leading banks)
 - CEF (agências lotéricas) 12,027
 - Bradesco (agências dos correios) 5,490
 - Lemon Bank 3,242
 - Numbers Transactions (three leading banks)
 - Payments 783 million
 - Savings accounts opened 7.4 million
 - Credits 0.8 million
 - Coverage
 - All 5,800 municipalities in Brasil (added 1,600 had no prior service)

Boulder Institute Microfinance – MFT 2005, ILO, Turin 28

Breaking Down Barriers to Access in Brazil

In 75 municipalities where the only means of access is by boat, ship, or private plane

140 km da Agência Manaus AIM (14 hours by boat)

500 km from Agência Rio Branco AC (access by air)

Boulder Institute Microfinance – MFT 2005, ILO, Turin 27

Transactions cost key to reaching down

The final solution for providing access to the world's poorest must necessarily pass through commercial alliances with large scale retail infrastructure in order to drive transactions cost to clients low enough to sustain the viability of very low balance accounts held by very poor or dispersed populations.

Boulder Institute Microfinance – MFT 2005, ILO, Turin 28