

Opportunities: Big institutions learn to think small

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The world has recently lost its faith in the global financial system as an engine of prosperity, but there is one area that shines through as a success.

Microfinance, pioneered by economics lecturer (and now Nobel laureate) Mohammed Yunus in the 1970s, has improved the lives of millions of people by lending them tiny sums that enable them to take the first step on the road to financial inclusion.

The sector has developed from Professor Yunus's first loan of \$27 in a Bangladeshi village to be embraced around the world. While those first loans came out of Prof Yunus' own pocket, the poorest people in the world are now, indirectly, receiving money from some of the biggest banks in the world and – through specialist investment firms such as BlueOrchard – some of the world's wealthiest individuals.

Microfinance ticks many boxes for the large institutions. "It has high social impact, it is commercially viable and it helps people to become our customers," says Maggie Crompton, head of sustainable business development at **HSBC**. Many banks see bringing the unbanked into the financial system as a long-term business opportunity but prefer to lend to microfinance institutions (MFIs) rather than individuals.

This is because serving the unbanked and underbanked is not easy, says Prashant Thakker, head of microfinance at **Standard Chartered**. The size of individual loans is small, the number of loans is high and it is very labour-intensive, he says, which is why the bank has taken a wholesale approach of investing in MFIs, which have the local knowledge and the manpower needed.

"We are sowing seeds," says Marcus Agius, chairman of **Barclays**, which is providing microfinance to Khmer communities in Vietnam as part of a £10m partnership with CARE International. At one end of the spectrum, there will be business for Barclays, he says. While at the other end: "We are trying to help people in a way that is good for them and intelligent for our shareholders."

There is a critical role for mainstream commercial banks in microfinance, says Jon Williams, a partner in PwC's sustainability and climate change team. "I am very pleased this has moved out of CSR departments to be seen as a customer segment like any other." Banks need to be realistic about profit margins available, but the sector is definitely self-financing, he adds.

Sava Dalbokov, chief executive of good.bee holding, an initiative by Austria's Erste Bank, which is rolling out mobile banking in Romania and Ukraine, adds: "We do not expect to make huge amounts of money, although it must be economically sustainable. But one day, the people we help now will be good bank customers."

While the initial focus was on loans, microfinance is now about more than lending, says Mr Thakker. "It is about developing a full commercial banking relationship." To this end, Stanchart helps client MFIs with payment and collection mechanisms and with access to the capital markets. It has recently helped one organisation with foreign currency syndication and helped another to raise money on the bond markets.

However, to be successful, banking for the unbanked needs more than just financial products, says Jo Crawshaw of consultancy africapractice. "The right technologies and appropriate infrastructure is necessary before services can reach the unbanked."

Mobile phones are seen as a promising tool for spreading access to banking to areas that do not have any physical banking infrastructure. By 2012, there are expected to be 5bn mobile phone subscribers, with growth largely from developing countries that have the biggest unbanked populations.

In Nigeria, for example, says Matthew Talbot, vice-president of mcommerce at mobile messaging service provider Sybase 365, eight out of 10 people do not have a bank account. "A consumer's first experience with technology is likely to be the mobile phone."

Customers can add money to their Sim card by buying credits at mobile phone shops and they then have the ability to buy goods, pay bills or transfer money to someone else.

There are parallel initiatives to make it easier for foreign workers to send money home. **Citigroup** has developed a system for a large construction company in the Middle East where workers can have payments deducted and remitted home automatically, saving them having to queue for hours at a money transfer bureau – and saving them transfer costs.

Improving access to finance will aid development, reduce poverty and open up new markets and opportunities as more people become financially independent, says StanChart.

As EU Development Commissioner Louis Michel said at a recent conference: "The poor are not destined to remain poor forever. If they are offered opportunities, they can be entrepreneurs and consumers."

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