

# More than micro-finance: Linking business solutions to 'bank the un-banked'

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With the UN's International Year of Micro-Credit now underway, attention shifts to the exchange and understanding of practical examples and initiatives. In this article the World Business Council for Sustainable Development profiles the business case for micro-finance, as well as showcasing examples of work in practice.

Micro-finance is regarded as one of the success stories of development. It has demonstrated the capability of communities to look for solutions that create wealth rather than relieve poverty. However, for micro-finance to unleash its full potential, and operate at scale, it needs to operate as a business that can compete for capital and not be dependent on free or low interest funds to make it viable. It needs new technologies and new impetus with demand for micro-credit, savings and insurance being created from other businesses. This will create the economic virtuous cycle of development that builds the capital of the poorest communities.

## Finance is essential...for everyone

For thousands of years trade has been a source of development – both in sheer economic terms and through the related exchange of thoughts and ideas. It might be argued that in the current era of growing insecurity and poverty the beneficial exchanges brought about through movement of goods, people and ideas are more important than ever. Flourishing trade requires flourishing finance: Exchangeable currencies; savings as security and loans for investments. These notions apply to the 2.8 billion people on the planet who live on less than \$2 per day, just as much as they apply to the richer parts of the population.

## Business solutions to poverty

Member companies of the World Business Council for Sustainable Development (WBCSD) are leading the way in developing an understanding of the opportunities generated by Sustainable Livelihoods business. That is business which benefits low-income communities, whilst simultaneously



Figure 1. Delivering micro-finance can take many different forms.

providing new avenues of growth for companies. It involves putting the poorest communities at the heart of business thinking to identify opportunities for them to become sources of supply or of innovation. It involves considering how to include and consider everyone as potential employees and customers of the future in a way that

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makes good business sense. Solutions that engage the poor in local economic activities are likely to be sustainable over the long term and provide growing income and secure livelihoods.

The approach to Sustainable Livelihoods business is strictly businesslike because the rigors of a business approach are most likely to yield benefits that are enduring. Business wants to stay in business and in the process can provide employment,

can deliver goods and services including basic needs such as water and energy. Moreover business creates opportunities for entrepreneurs as suppliers and distributors – thus driving the virtuous circle of economic growth and sustainable development.

## What lies beyond micro-finance?

Micro-finance lies at the heart of this, since 99 per cent of business starts small and most stays small. Aspiring customers and local entrepreneurs alike often depend on initial start-up capital to enter the marketplace. As we enter the international year of micro-credit, the time has come to think beyond the conventional success stories of micro-credit. There has been much success and many lessons learnt from micro-credit institutions, which often using foundation or aid capital have proven that group risk mitigation is a viable technique and that provision of training in basic business skills has to go hand in hand with distribution of credit.

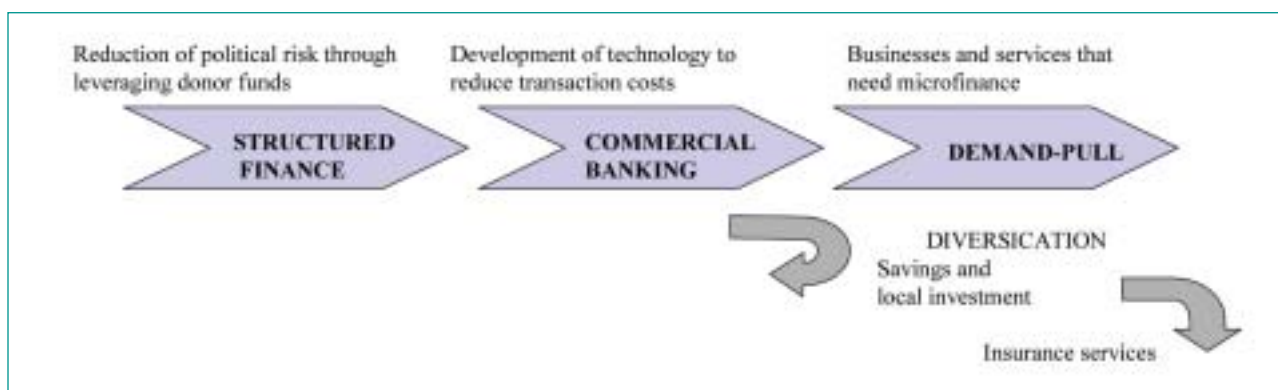


Figure 2. The Microcredit Value Chain – Where business sectors connect.

The Grameen Foundation who pioneer and are experts in micro-finance reported that the global magnitude of micro-finance lending at the end of 2002 was just \$4 billion to 62 million customers. This must be a small fraction of the potential demand, if we assume that at least 1 billion adults are currently “un-banked”. A loan of just \$100 to each would correspond to a market of \$100 billion.

Consideration of micro-finance as a business leads to analysis of the value chain, (see Figure 2).

### Three key questions

There are roles for many players to ensure that micro-finance can flourish and play its full role in development. Three critical issues need to be addressed:

- What does it take to ensure micro-finance is sustainable as a business?
- What is needed to ensure demand-pull and investment in micro-finance?
- How does this apply to micro-savings and micro-insurance as well as credit?

### Encouraging signs of expansion

#### Accessing private investors capital

A number of players are active in work around this value chain. For instance Deutsche Bank, alongside the United States Agency for International Development and the British Department for International Development have used their core banking skills to develop a \$50 million dollar micro-credit development fund which can lend money to commercial banks and micro-credit institutions. The role of the development agencies is to “backstop” losses that commercial investors would not take. For the agencies, and indeed the taxpayers who fund the agencies this is an effective way of leveraging donor money to provide private capital and management advice that would otherwise not be available.

#### Reducing transaction costs

Further along the value chain, WBCSD members Hewlett Packard and Vodafone alongside the information systems company Oracle are looking to see how their respective technologies can be applied to delivering micro-finance services. HP has been active in providing access to low cost computer equipment through their e-inclusion and i-community programmes in India, South Africa and Uganda. Vodafone wants to build on its experience through its venture with Vodacom in South Africa and Safaricom in Kenya to see how pre-paid technologies and their core skill in managing large back-office billing systems can be extended to southern and eastern Africa. Visa International and WAY System recently showcased a new technology that allows for transactions to be executed at point of sale (typically taking place outdoors or in local markets in developing countries) through a pocket size Mobile Transaction Terminal. Combining the features of wireless communication with a Visa debit card that allows for tiny amounts to be deposited enables both merchants and customers to complete a secure transaction at minimum cost.

#### Enabling affordable access to basic needs

Shell in Sri Lanka have recognised that whilst solar power is a good thing – low in running costs, non-polluting and reliable – the up-front capital cost can prohibit ownership of a simple lighting system that might cost as much as a year’s income. They have partnered with a local micro-finance institution, SEEDS, and developed an offering to meet demand.

#### Delivering and helping understanding of financial services

Some companies, such as ABN Amro are working directly to develop micro-finance banking arms, whilst others are developing business models, which are

likely to stimulate demand. For instance Rabobank have developed financial products to take the risks out of uncertain prices paid to rural farmers in West Africa. This helps bring an appreciation of financial services into the poorest communities and provides a chance for financial institutions to prove their integrity and capability in serving multiple small transaction customers.

For an energy company such as BP, a partner in the Baku-Tbilisi-Ceyhan pipeline project, working with FINCA, the micro-finance institution in Azerbaijan is an effective way of ensuring that small businesses can develop along the route of their pipeline. Through such a scheme traditional community investment can begin to metamorphose towards long term business focused development. The repayment rate for the BTC-funded part of FINCA’s portfolio has to date been 100 per cent amongst 4380 clients.



Figure 3. Employing mobile technology to mobilise finance.

### Providing security, when bills are valued

The work of many utility companies in bringing water and electricity to informal settlements – where residents have tenure by dint of being there, rather than through formal title is another important step. Often a bill or invoice for provision of services is the first step in proof of tenure – which can lead to the resident being able to borrow money to improve his or her property or start a business using property as security on the loan.

### Mobilising savings

A natural extension of the technology and the infrastructure for micro-finance is to extend it to providing much lower cost and more acceptable transmission of remittances from the diasporas overseas to their homes, and for micro-credit institutions to be allowed and capable of acting as savings institutions. In this way communities can have a stake in their own future and governments can avoid the pitfalls of overseas debt repayments that escalate with sliding exchange rates.

### Conclusions

Recent events in Asia have shown not only the vulnerability of populations who have been unable to invest in durable housing, but how whole communities are destroyed through inadequate infrastructure. Micro-finance is no panacea, and the private sector is certainly not the single actor that will prevent poverty and crisis.



Figure 4. Azizov Fahri – videocassette seller in Goranboy.

However, in a world of six billion people, of which nearly half live far below any commonly accepted standard of decent living, there is growing realisation that the dynamics and motivations of business are the drivers of long term development and security.

If set within a fair regulated framework for commerce, business transactions reward efficiency; business delivers essential services such as water, energy and foodstuffs; business creates jobs and income.

Looked at another way, as the world population is predicted to increase to nine billion by 2050, the poorest three billion going on six billion are the

employees, the customers and the entrepreneurs of the future. Micro-finance warrants investment and support from all stakeholders to ensure the technology and the regulatory environment is developed to provide products that are affordable, accessible and available at a scale that will make a difference.

There are many opportunities if we invest in “banking the un-banked”.

#### ABOUT THE AUTHOR

Cameron Rennie is Director of the WBCSD's Sustainable Livelihoods project.

Sustainable Livelihoods – the business connection aims to identify models of core business that serve business operations in the developing world and simultaneously create opportunities for the poorest communities to prosper.

Cameron is on a three-year secondment from BP. Of his 19 years with BP, he has spent seven resident in emerging market countries, delivering investments “on the ground” in Saudi Arabia, Sierra Leone and Tanzania.

Prior to his arrival at the WBCSD, Cameron had a role in the corporate centre of BP in developing and implementing revised procedures for the company's internal capital investment governance to ensure the optimal productivity of each dollar of capital spend, which currently totals around \$13 billion per annum.

#### ABOUT THE ORGANISATION

The World Business Council for Sustainable Development (WBCSD) is a coalition of 170 international companies united by a shared commitment to sustainable development via the three pillars of economic growth, ecological balance and social progress.

Members are drawn from more than 35 countries and 20 major industrial sectors. It benefits from a global network of 50 national and regional business councils and partner organisations involving some 1,000 business leaders globally.

The WBCSD's activities reflect its belief that the pursuit of sustainable development is good for business and business is good for sustainable development.

Its mission is to provide business leadership as a catalyst for change toward sustainable development, and to promote the role of eco-efficiency, innovation and corporate social responsibility.

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