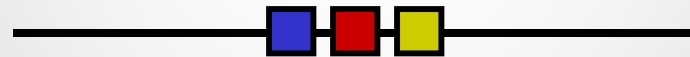


# Managing Innovations and Generic Strategies in the Banking Sector for the Poor of the South East Asia



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# Informal Finance

What is informal finance?

- What are the basic virtues of informal finance?
- Slashed transaction costs
- Supply of not just loans but also implicit insurance
- Services sensitive to constraints faced by specific members
- Substitution of confidence in character for physical collateral
- Self-enforced contracts
- Sequences of repeated transactions ~ sense of smell

# Value chain for Safesave



# Responsive Vs Standardized Microfinance Products

Behaviour	Responsive Product ( <i>SafeSave</i> )	Standardized Product (Grameen in 1990s)
Domain Saving Behaviour	<ul style="list-style-type: none"> <li>- Save frequently or occasionally</li> <li>- Save sums of a similar or differing value at regular or irregular intervals</li> <li>- Save without borrowing</li> </ul>	<ul style="list-style-type: none"> <li>- Compulsory saving in regular equal amounts</li> </ul>
Withdrawal Behaviour	<ul style="list-style-type: none"> <li>- Withdraw frequently or rarely, or store for the very long term</li> </ul>	<ul style="list-style-type: none"> <li>- Withdrawal restrictions</li> </ul>
Borrowing Behaviour	<ul style="list-style-type: none"> <li>- Choose not to borrow</li> <li>- Borrow regularly or irregularly at any interval</li> </ul>	<ul style="list-style-type: none"> <li>- Borrow continuously at regular intervals</li> </ul>
Repayment Behaviour	<ul style="list-style-type: none"> <li>- Quickly or slowly, with no fixed term</li> <li>- In installments or in lump sums</li> <li>- At regular or at irregular intervals</li> </ul>	<ul style="list-style-type: none"> <li>- Repay in regular equal installments amortizing loan within a fixed time period</li> </ul>
Effect of Borrowing on Savings Behaviour	<ul style="list-style-type: none"> <li>- Discontinue saving while holding a loan, or</li> <li>- Save at the same or at an increased pace</li> </ul>	<ul style="list-style-type: none"> <li>-No effect</li> </ul>

Source: Rhyne, 2001

<b>Operational Indicators</b>	<b>ASA</b>	<b>BRAC</b>	<b>Grameen</b>	<b>SafeSave</b>
<b>Financial Year ==&gt;</b>	FY2007	FY2007	FY2007	FY2007
<b>Borrowers per staff</b>	216	184	322	80
<b>Clients per staff</b>	265	212	373	120
<b>Staff for each branch</b>	8	12	8	13
<b>Business generated per staff</b>	239,244	402,227	366,804	109,000
<b>Profit generated per staff</b>	117,413	38,059	5,779	10,000
<b>Assets per staff</b>	1,146,905	1,726,787	3,724,425	403,000
<b>Loans outstanding per staff</b>	983,204	991,734	2,027,979	300,000
<b>Deposits and savings per staff</b>	397,771	389,311	2,812,898	219,000
<b>Non-interest expense per staff</b>	102,925	na	199,255	80,000
<b>Business generated per client</b>	902	1,901	983	908
<b>Profit generated per client</b>	443	180	15	83
<b>Assets per client</b>	4,324	8,163	9,981	3,358
<b>Loans outstanding per borrowers</b>	4,555	5,399	6,302	3,750
<b>Deposits and savings per client</b>	1,363	1,840	7,538	1,742
<b>Non-interest expense per client</b>	388	na	534	667
<b>Average size of group</b>	27.8	28.3	6.4	na



<b>Grameen</b>	<b>FY04</b>	<b>FY07</b>	<b>BRAC</b>	<b>FY05</b>	<b>FY07</b>
<b>Assets</b>			<b>Assets</b>		
Cash & Cash Equivalents	2%	1%	Cash & Cash Equivalents	4%	8%
Loan Outstanding	62%	54%	Loan Outstanding	54%	57%
Investments, Deposits and Other Current A	33%	43%	Deposits and Other Current Assets	27%	26%
Fixed Assets	3%	2%	Fixed Assets	15%	9%
<b>Total Assets</b>	<b>100%</b>	<b>100%</b>	<b>Total Assets</b>	<b>100%</b>	<b>100%</b>
<b>Liabilities &amp; Net Worth</b>	<b>FY04</b>	<b>FY07</b>	<b>Liabilities &amp; Net Worth</b>	<b>FY05</b>	<b>FY07</b>
<b>Liabilities</b>			<b>Liabilities</b>		
Client Savings	21%	33%	Client Savings	0%	0%
Member Savings	41%	43%	Member Savings	29%	22%
Borrowings	9%	3%	Borrowings	32%	41%
Provisions and Other Liabilities	15%	13%	Provisions and Other Liabilities	8%	14%
<b>Total Liabilities</b>	<b>86%</b>	<b>91%</b>	<b>Total Liabilities</b>	<b>69%</b>	<b>78%</b>
<b>Net Worth</b>			<b>Net Worth</b>		
Grants & Similar Items	13%	8%	Capital fund (unrestricted)	30%	22%
Retained Earnings / Accumulated Deficit	0%	0%	Capital fund (restricted)	1%	1%
Share Capital	1%	0%	Share Capital	na	na
<b>Total Networkth</b>	<b>14%</b>	<b>9%</b>	<b>Total Networkth</b>	<b>31%</b>	<b>22%</b>
<b>Total Liabilities &amp; Net Worth</b>	<b>100%</b>	<b>100%</b>	<b>Total Liabilities &amp; Net Worth</b>	<b>100%</b>	<b>100%</b>
<b>Income</b>	<b>FY04</b>	<b>FY07</b>	<b>Income</b>	<b>FY05</b>	<b>FY07</b>
Income from Customers	100%	100%	Income from Customers	100%	100%
Bank Interest	19%	44%	Bank Interest	7%	6%
Non Operating Income	16%	13%	Non Operating Income & Unidentified Adjustment	48%	47%
<b>Total Income</b>	<b>135%</b>	<b>157%</b>	<b>Total Income</b>	<b>156%</b>	<b>154%</b>
<b>Costs</b>			<b>Costs</b>		
Interest expense (all)	45%	66%	Interest on Clients Savings	na	na
Provisions for Loan Loss	29%	34%	Interest on Borrowings	na	na
Staff Salaries	36%	36%	Provisions for Loan Loss	na	na
Other Administrative Costs	12%	18%	Staff Salaries	na	na
<b>Net Profit</b>	<b>12%</b>	<b>2%</b>	Other Administrative Costs	na	na
Tax	0%	0%	<b>Profit Before Adjustments</b>	<b>21%</b>	<b>10%</b>
<b>Net Profit includes other income</b>	<b>12%</b>	<b>2%</b>	Tax	<b>0%</b>	<b>0%</b>
			<b>Net Profit includes other income</b>	<b>20%</b>	<b>9%</b>

SafeSave	FY04	FY07	ASA	FY04	FY07
<b>Assets</b>			<b>Assets</b>		
Cash & Cash Equivalents	7%	5%	Cash & Cash Equivalents	7%	6%
Loan Outstanding	81%	74%	Loan Outstanding	72%	86%
Deposits and Other Current Assets	10%	18%	Deposits and Other Current Ass	19%	6%
Fixed Assets	2%	3%	Fixed Assets	1%	3%
<b>Total Assets</b>	<b>100%</b>	<b>100%</b>	<b>Total Assets</b>	<b>100%</b>	<b>100%</b>
<b>Liabilities &amp; Net Worth</b>	<b>FY04</b>	<b>FY07</b>	<b>Liabilities &amp; Net Worth</b>		
<b>Liabilities</b>			<b>Liabilities</b>		
Client Savings	53%	50%	Client Savings	9%	16%
Member Savings	0%	2%	Member Savings	18%	16%
Staff Savings	3%	2%	Staff Savings	2%	3%
Borrowings	40%	10%	Borrowings	20%	3%
Provisions and Other Liabilities	1%	3%	Provisions and Other Liabilities	1%	0%
<b>Total Liabilities</b>	<b>97%</b>	<b>68%</b>	<b>Total Liabilities</b>	<b>49%</b>	<b>38%</b>
<b>Net Worth</b>			<b>Net Worth</b>		
Grants & Similar Items	0%	25%	Members Fund / Capital Fund	43%	58%
Retained Earnings/ Accum. Deficit	0%	4%	Reserve for Claims, etc.	7%	4%
Share Capital	3%	3%	Share Capital	na	na
<b>Total Networkth</b>	<b>3%</b>	<b>32%</b>	<b>Total Networkth</b>	<b>51%</b>	<b>62%</b>
<b>Total Liabilities &amp; Net Worth</b>	<b>100%</b>	<b>100%</b>	<b>Total Liabilities &amp; Net Worth</b>	<b>100%</b>	<b>100%</b>
<b>Income</b>	<b>FY04</b>	<b>FY07</b>	<b>Income</b>		
Income from Customers	100%	100%	Income from Customers	100%	100%
Bank Interest	3%	5%	Bank Interest	4%	3%
Non Operating Income	0%	3%	Non Operating Income & Unide	1%	2%
<b>Total Income</b>	<b>103%</b>	<b>107%</b>	<b>Total Income</b>	<b>105%</b>	<b>105%</b>
<b>Costs</b>			<b>Costs</b>		
Interest on Clients Savings	8%	10%	Interest on Clients Savings	3%	3%
Interest on Staff Savings	0%	1%	Interest on Staff Savings	0%	0%
Interest on Borrowings	0%	3%	Interest on Borrowings	9%	5%
Provisions for Loan Loss	9%	8%	Provisions for Loan Loss	1%	4%
Staff Salaries	66%	50%	Staff Salaries	23%	36%
Other Administrative Costs	19%	23%	Other Administrative Costs	4%	7%
<b>Profit Before Tax</b>	<b>2%</b>	<b>12%</b>	<b>Profit Before Tax</b>	<b>66%</b>	<b>49%</b>
Tax	0%	3%	Tax	0%	0%
<b>Net Profit includes other income</b>	<b>2%</b>	<b>9%</b>	<b>Net Profit includes other incom</b>	<b>66%</b>	<b>49%</b>

## Financial Ratios

### Return on Equity

#### Return on Assets

#### Expense Ratio

#### Interest Expense

#### Cost of each liability

#### Cost of Customers Deposits

#### Cost of Borrowings

#### Composition of liability/aTA

#### Vol. Of interest bearing liabilities/aTA

#### Non-interest Expense

#### Salaries and emply. Benefits/aTA

#### Other expenses/aTA

#### Provisions for loan losses/aTA

#### Tax Ratio

### Asset Utilization

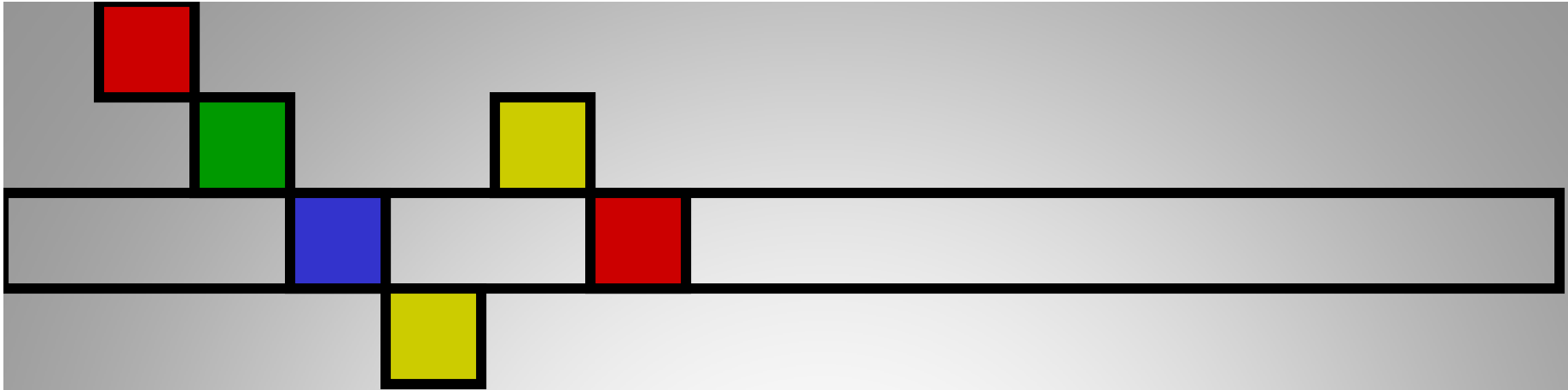
#### Interest Income/aTA

#### Yield on Earning Assets

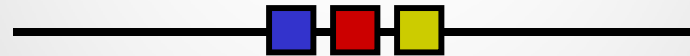
#### Volume of Earning Assets

#### Non-Interst Income/aTA

### Equity Multiplier

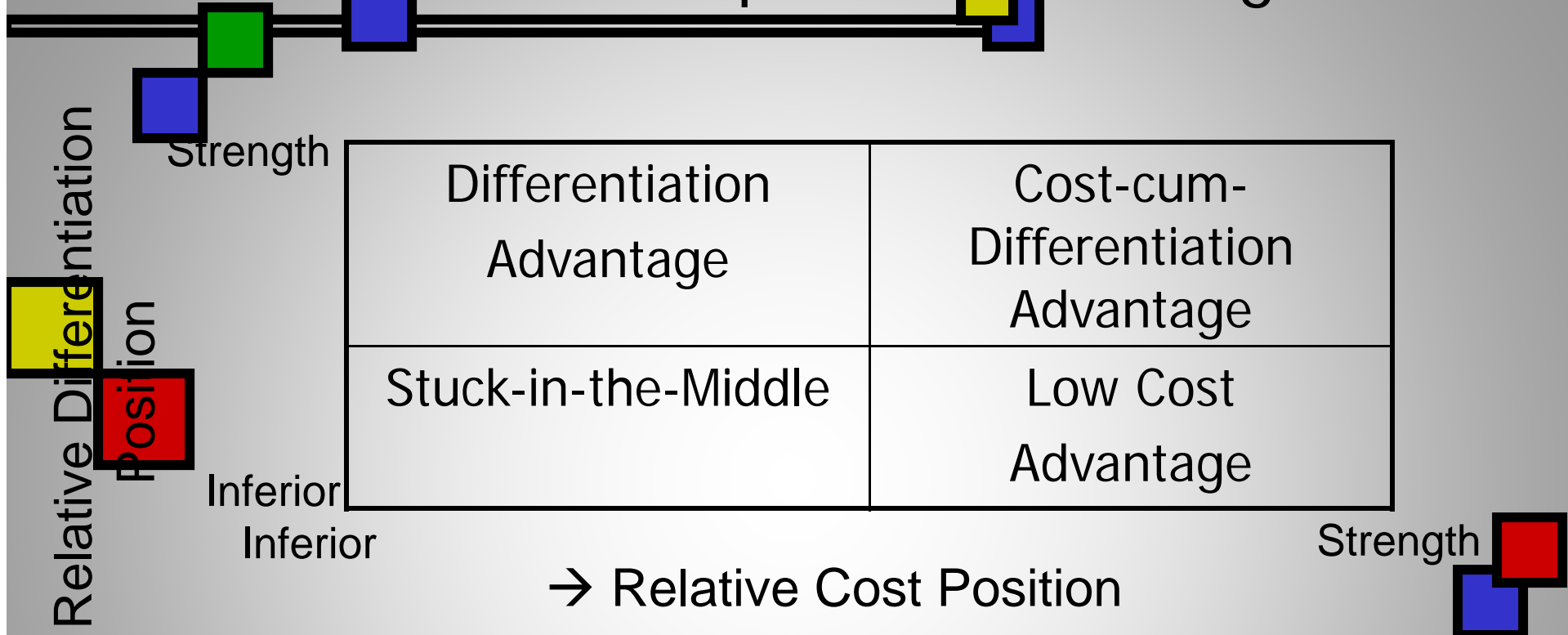


*Michael Porter's* Framework  
on  
GENERIC STRATEGIES



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# Basis for competitive advantage



- These are also known as Generic strategies
- Some times they are divided into three: Low Cost, Differentiation, and Focus
- While the first two can be industry wide the third one is for a particular segment only

# Few Learning Objectives...

- Inputs on Social Entrepreneurship
- Importance of hands on experience of working, for innovation
- How innovations change with context (i.e., site of action)
- How to build and nurture sustainable entrepreneurship ventures
- How innovations & local entrepreneurship can change the view of commercial organizations
- All other learnings of .... Generic Strategies