

Social Entrepreneurship, Innovation & Industry Analysis of the Micro Banking Sector in the South East Asia



Munish Thakur & Ram Kumar Kakani
XLRI Jamshedpur

|| “Money, says the proverb, makes money. When you have got a little, it is often easy to get more. The great difficulty is to get that little.” - Adam Smith from ‘The Wealth of Nations’ ||





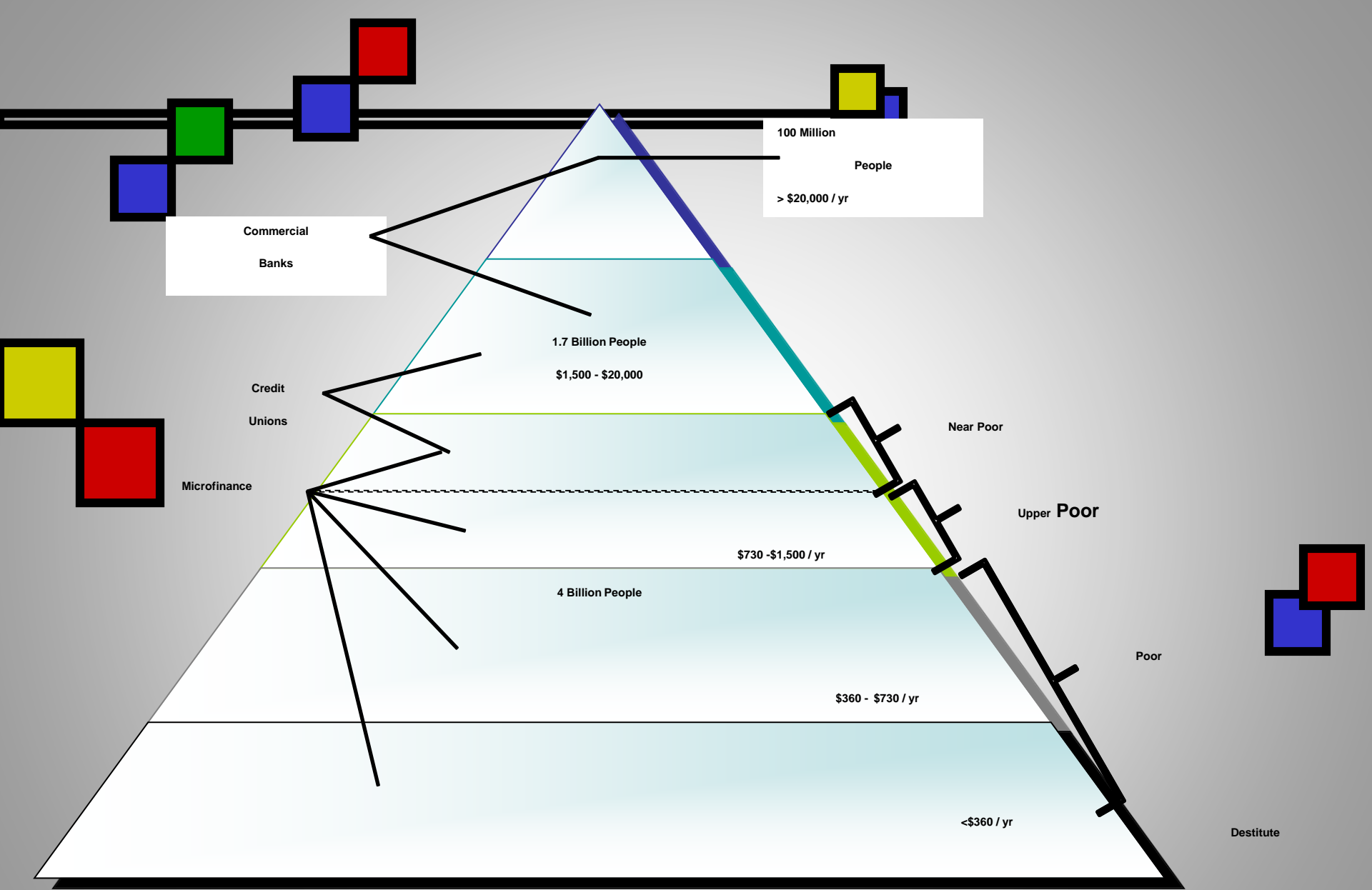
198 2 3



'98 128

South Asia Background ...

- Poor Economies
- Large Population
- Huge Poverty
- High Difference between haves and have nots
- For example, Bangladesh with population of 16 Crores remains one of the least developed countries at the beginning of the new millennium → ~ 50% are below poverty line



Source: VISA International and World Bank

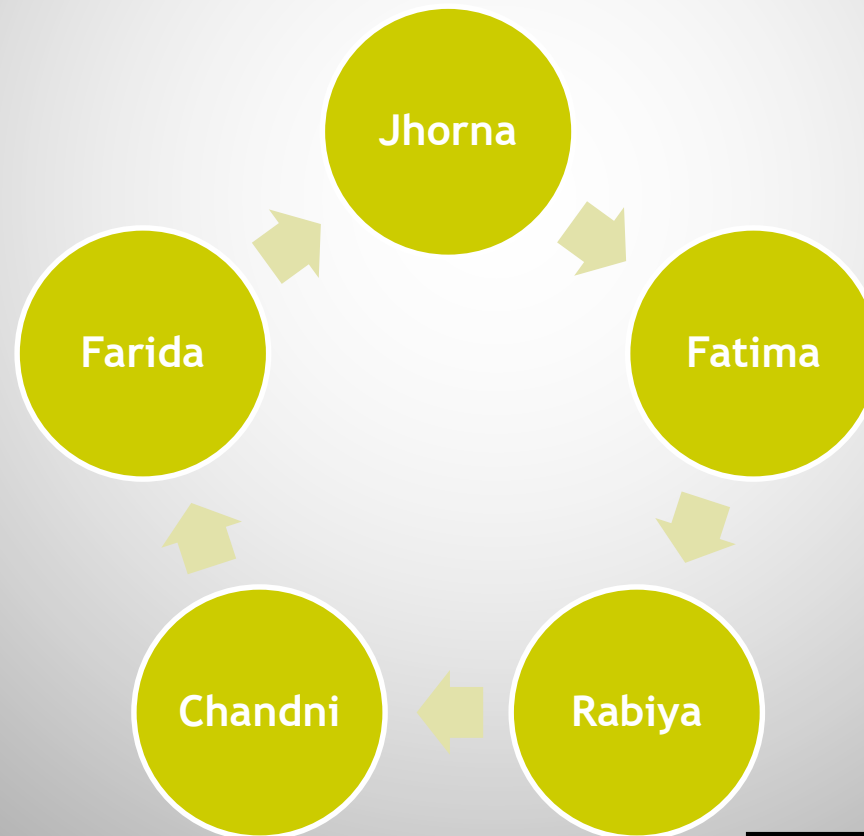
Poverty Pyramid

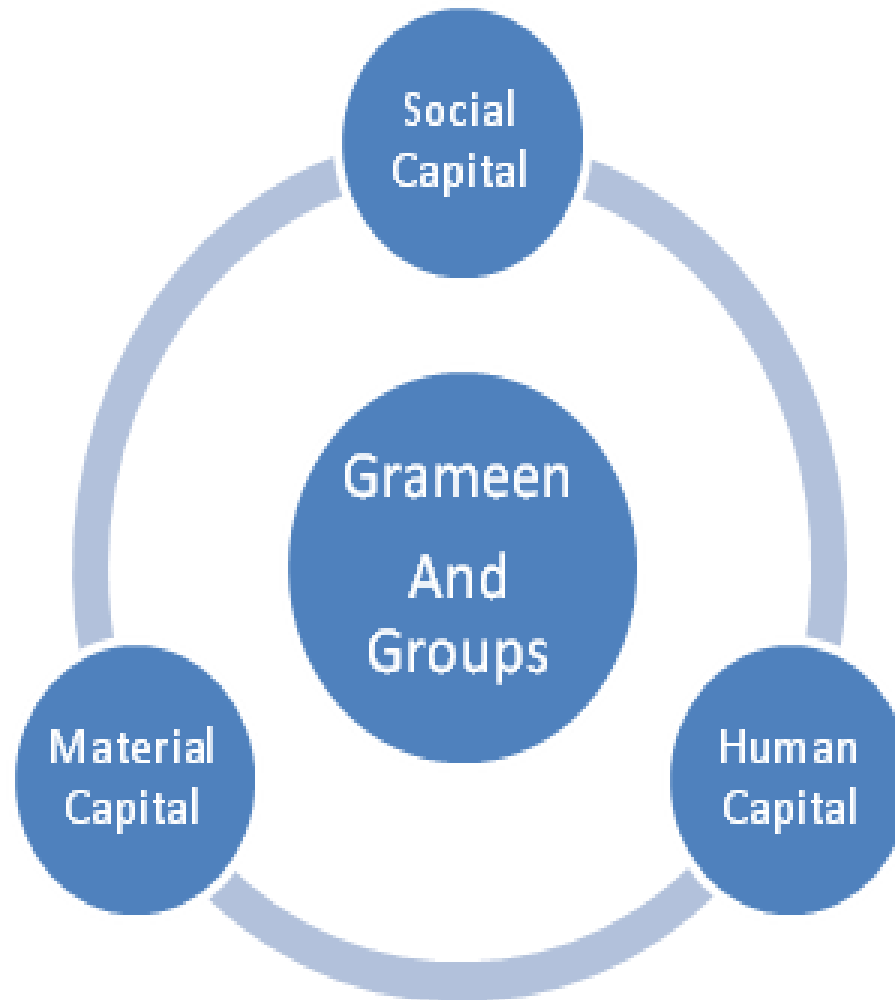
Questions

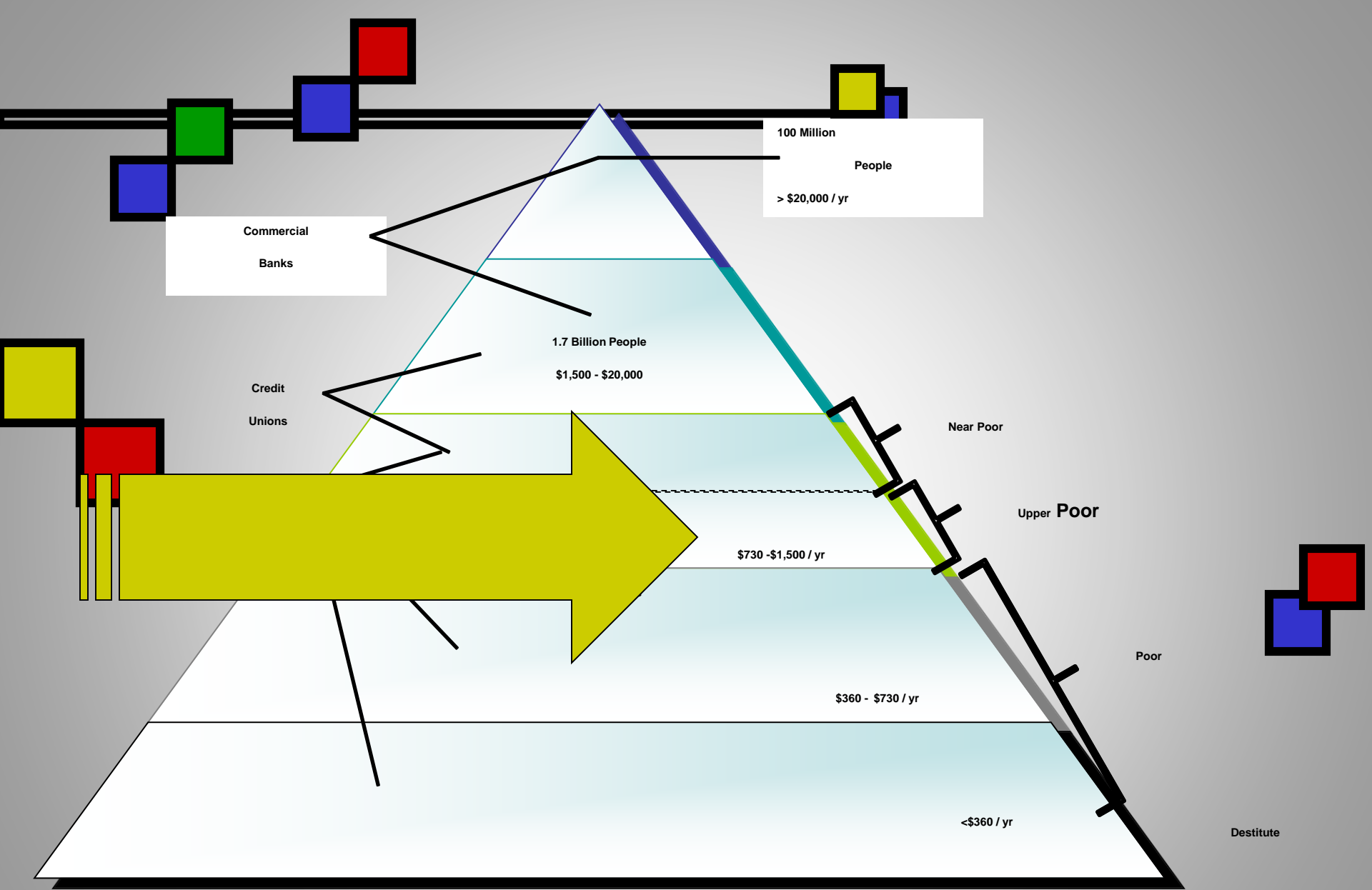
- What is Poverty?
- Should we come out of it !! If yes, how?
- What have been the reasons for success of Grameen Bank?
- What parameters measure the success of a social entrepreneurship venture?
- What were the problems with the Grameen Model?



- Should there be attempts to come out of poverty!! If yes, how?
- In Bangladesh, over fifty organizations providing microfinance services with more than 10,000 memberships.
- The landscape was dotted by three dominant players, namely, ASA, BRAC, and Grameen.



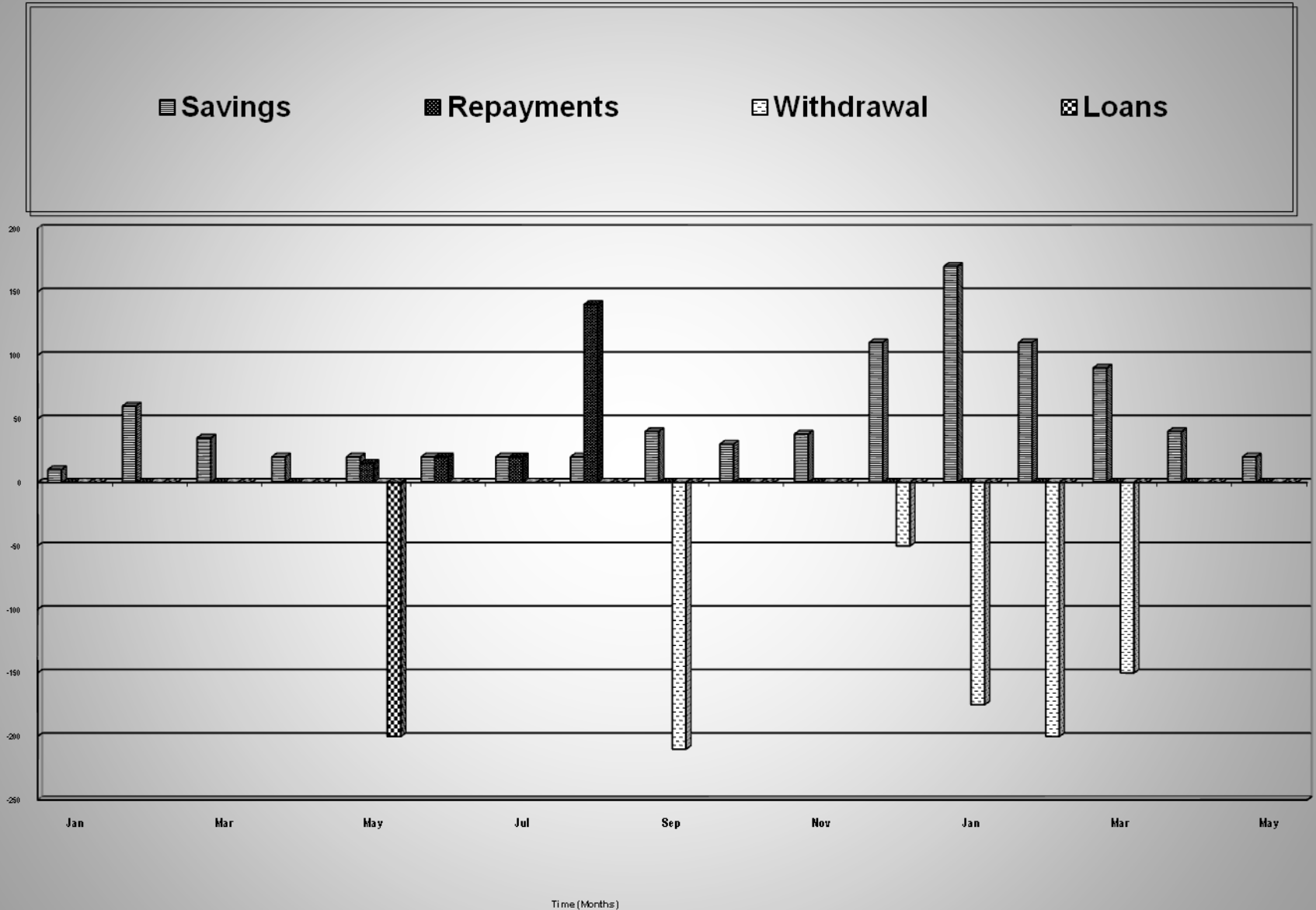




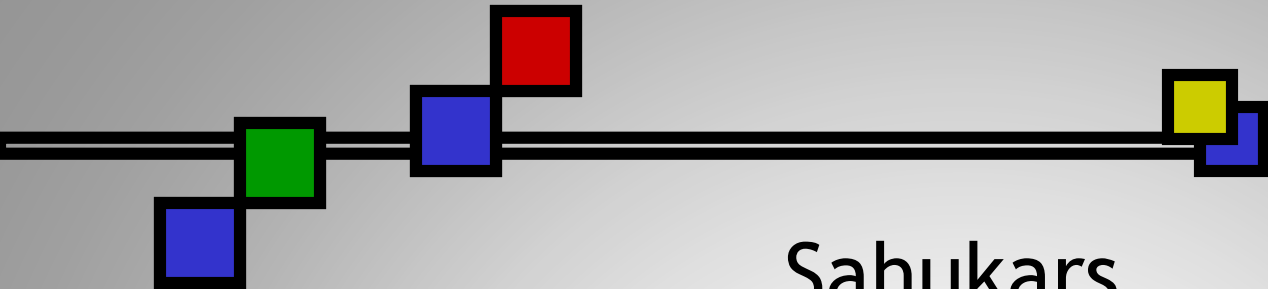
Source: VISA International and World Bank

Poverty Pyramid

Monthly Ins and Outs of Yasmin's Account

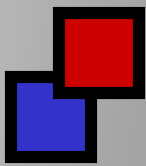


|| “... the microfinance industry has ossified! It promotes group-based micro enterprise loan products and is obstructing the development of full range of services and products that poor people want and need - flexible savings, contractual savings, loans for education and health, micro insurance and lines of credit.” - David Hulme (co-author of ‘Finance against Poverty’) ||

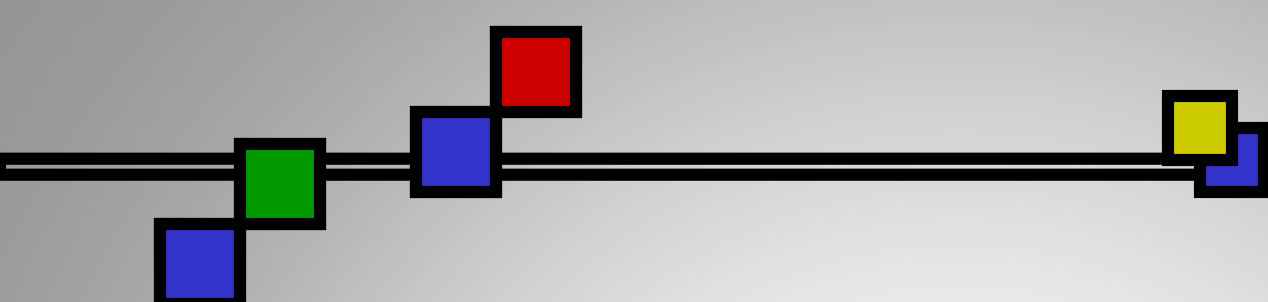
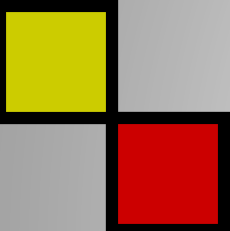
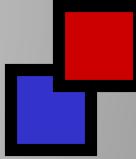


Sahukars,
Mahajans,
Lalas,
Munims, ...

Village Money Lenders



INFORMAL FINANCE

- 
1. What are the basic virtues of informal finance?
 2. What is the collateral when Grameen Bank gives loan to the poor?
 3. Write the similarities and differences between ASA, BRAC, and Grameen?
 4. Is *SafeSave* doing well?
 5. What were the reasons for success of *SafeSave*?
- 
- 

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

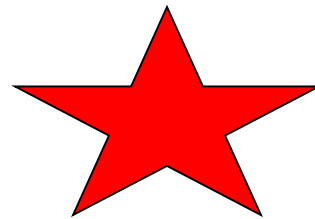
- Substitution of confidence in character for physical collateral

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

Source: Rhyne, 2001

Questions

1. Is SafeSave replicable? Is SafeSave scalable? To what extent?
 2. What are the generic strategies of ASA, BRAC, Grameen and *SafeSave*?
 3. Link these generic strategies with their financial statements!
 4. Discuss the performance metrics you will use to measure employees performance as a branch staff / manager of ASA, Grameen, and *SafeSave*?
- Which organization should Subbu target for investment?

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

Grameen		FY04	FY07	BRAC	FY05	FY07
Assets				Assets		
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%	
Total Assets	100%	100%	Total Assets	100%	100%	
Liabilities & Net Worth		FY04	FY07	Liabilities & Net Worth	FY05	FY07
Liabilities				Liabilities		
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%	
Total Liabilities	86%	91%	Total Liabilities	69%	78%	
Net Worth				Net Worth		
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	
Total Networkth	14%	9%	Total Networkth	31%	22%	
Total Liabilities & Net Worth	100%	100%	Total Liabilities & Net Worth	100%	100%	
Income		FY04	FY07	Income	FY05	FY07
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%	
Total Income	135%	157%	Total Income	156%	154%	
Costs				Costs		
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	
Net Profit	12%	2%	Other Administrative Costs	na	na	
Tax	0%	0%	Profit Before Adjustments	21%	10%	
Net Profit includes other income	12%	2%	Tax	0%	0%	
			Net Profit includes other income	20%	9%	

SafeSave		FY04	FY07	ASA		FY04	FY07
Assets				Assets			
	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%
	Total Assets	100%	100%		Total Assets	100%	100%
Liabilities & Net Worth		FY04	FY07	Liabilities & Net Worth			
	Liabilities				Liabilities		
	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%
	Total Liabilities	97%	68%		Total Liabilities	49%	38%
	Net Worth				Net Worth		
	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
	Total Networkth	3%	32%		Total Networkth	51%	62%
	Total Liabilities & Net Worth	100%	100%		Total Liabilities & Net Worth	100%	100%
Income		FY04	FY07	Income			
	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%
	Total Income	103%	107%		Total Income	105%	105%
	Costs				Costs		
	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%
	Profit Before Tax	2%	12%		Profit Before Tax	66%	49%
	Tax	0%	3%		Tax	0%	0%
	Net Profit includes other income	2%	9%		Net Profit includes other incom	66%	49%

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

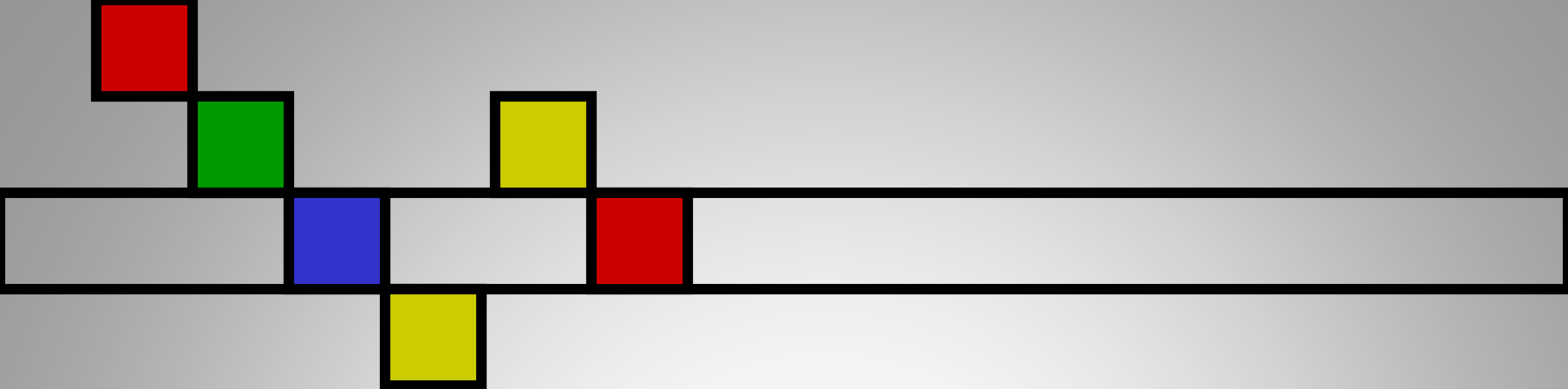
Yield on Earning Assets

Volume of Earning Assets

Non-Interst Income/aTA

Equity Multiplier

Financial Year Ending ==>			2006	2007	2006	2007	2006	2007	2006	2007
Financial Ratios			SafeSave		Grameen		ASA		BRAC	
Return on Equity			7.0%	8.1%	25.8%	1.8%	25.5%	18.1%	22.6%	10.3%
Return on Assets			2.6%	2.7%	2.7%	0.2%	14.8%	11.1%	7.0%	2.7%
Expense Ratio			31.4%	28.0%	15.4%	16.4%	10.7%	12.6%	NA	NA
Interest Expense			3.6%	4.0%	6.7%	7.0%	2.2%	2.0%	NA	NA
Cost of each liability			5.7%	6.0%	7.4%	7.7%	5.3%	5.0%	NA	NA
Cost of Customers Deposits			5.2%	5.5%	7.8%	8.7%	2.1%	2.1%	NA	NA
Cost of Borrowings			10.5%	10.0%	0.0%	0.0%	19.8%	33.3%	NA	NA
Composition of liability/aTA			72.7%	73.7%	102.4%	98.3%	44.5%	40.6%	76.2%	94.1%
Vol. Of interest bearing liabilities/aTA			69.4%	70.2%	88.8%	84.0%	44.3%	40.3%	60.9%	77.6%
Non-interest Expense			24.2%	21.5%	5.7%	5.7%	8.2%	9.7%	NA	NA
Salaries and emply. Benefits/aTA			17.3%	14.8%	3.9%	3.9%	7.1%	8.1%	NA	NA
Other expenses/aTA			6.9%	6.7%	1.8%	1.9%	1.1%	1.6%	NA	NA
Provisions for loan losses/aTA			3.6%	2.4%	3.0%	3.6%	0.3%	0.9%	NA	NA
Tax Ratio			1.0%	0.8%	0.0%	0.0%	0.0%	0.0%	0.2%	0.1%
Asset Utilization			35.0%	31.5%	18.1%	16.6%	25.5%	23.7%	51.2%	43.4%
Interest Income/aTA			34.7%	30.6%	15.4%	15.2%	25.2%	23.1%	35.1%	30.0%
Yield on Earning Assets			33.3%	29.3%	11.0%	10.2%	24.1%	22.8%	35.8%	28.0%
Volume of Earning Assets			91.5%	92.3%	96.7%	97.0%	92.1%	91.6%	83.6%	83.3%
Non-Interst Income/aTA			0.3%	0.8%	2.7%	1.4%	0.4%	0.5%	16.1%	13.4%
Equity Multiplier			2.69	3.00	9.61	10.72	1.72	1.63	3.22	3.87

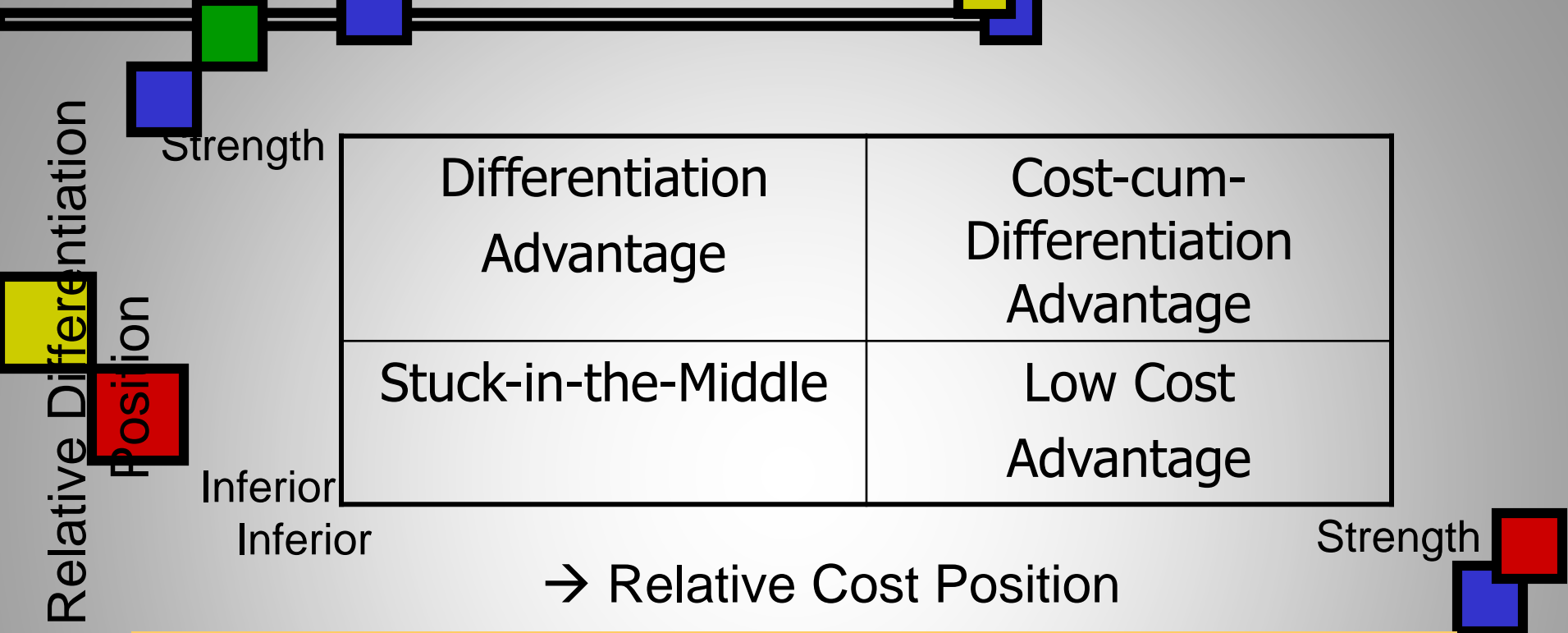


Michael Porter's Framework
on
GENERIC STRATEGIES



Munish Thakur & Ram Kumar Kakani
XLRI Jamshedpur

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

Differentiation

Low Cost

Differentiation

Cost Leadership
(ASA)

Stuck in the
Middle
(Grameen, BRAC)

Focussed
Differentiation
(SafeSave)

Focussed Cost
Leadership

S
c
o
p
e

Generic Strategies for different MFIs in Bangladesh

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 & Solid Financial Analysis



Other Experiments ...

- Among small players, there are a few interesting experiments done in Bangladesh that were changing the way banking services were modeled for the poor – like *SafeSave*.
- In India, Andhra Pradesh and Karnataka have few interesting experiments going ...
- BASIX is doing a wonderful job ...