

banking on the

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poor

by John Elkins

Big problems need big solutions, or so the traditional thinking goes. Four billion people living on less than \$2 a day, over one billion people without access to clean water, and millions of people dying every year from preventable diseases or famine. Soil erosion, loss of biodiversity, global warming — the list goes on and on. Mohammed Yunus, who was recently awarded the Nobel Peace Prize for his pioneering work in microfinance, took a different tack — empowering individuals with small loans to create economic opportunities for themselves and their families. It is a potential global solution starting with small steps solving individual problems.

By providing financial services to underserved markets, microfinance can serve as the cornerstone of economic development, stimulating real growth and making a significant contribution toward the achievement of the Millennium Development Goal on poverty eradication. It provides the power and opportunity to tap into the spirit of entrepreneurship existing in low-income communities all over the world. And it can start a virtuous circle of better health, better education and more opportunities for the next generation.

Big problems can seem intractable. Small problems, however, seem possible to solve and the business community likes to act, to see tangible progress: The buzz-words often heard on Wall Street — “beating expectations”, “delivering value” and “accountability” — are a reflection of the business community’s focus on results. Taking the energy, focus, discipline, and capabilities of business and putting this to work to solve some of the toughest and most intractable global problems, was the key premise in the economist C.K. Prahalad’s groundbreaking book *The Fortune at the Bottom of the Pyramid*. Active engagement by the business community improves people’s lives — and there can be new, commercially viable and scalable business opportunities reaching into these new markets, and benefiting everyone.

Companies may not seek tremendous profits from the bottom of the economic pyramid — indeed, it might be unethical to do so — but they do have a responsibility to bring their expertise and knowledge to bear to try and solve problems. This approach bridges the vision of Prahalad’s ‘bottom of the pyramid’ strategy and the reality of the focus of most commercial enterprises. Our expertise at Visa is building efficient and secure payments networks. Our natural role, therefore, is to bring this to the microfinance community and work closely with it, allowing more of their capital to be invested in small loans and less in the infrastructure and information systems needed to manage the business.

Visa’s currently small portfolio of microfinance programmes should be considered to be a start. Engagement with grass-roots organizations actively working in local communities, together with a willingness to learn, is the key to building the for-profit business case. This transition to ‘enlightened self-interest’ — adjusting our business models to be able to utilize existing infrastructure for this market opportunity in a commercially viable and sustainable way — is the necessary next step for broader investment and activity.

The clear alignment of Visa’s capabilities with the unmet needs of the growing microfinance community will translate into a business case and improve the ability to bring the benefits of microfinance to scale. There are clear benefits to three important stakeholders in moving away from cash towards greater use of electronic payments:

The Client: The majority of microfinance loan recipients are women; they typically receive their loans in a lump sum and in cash, making them highly vulnerable to theft and fraud. Rather than cash, these women have a prepaid or debit Visa card in their pockets. Their funds are safe from theft and they can

access them when and as they need them. Research in a pilot programme in Guatemala showed that an increased sense of security was one of the main reasons the microfinance clients liked having a Visa card.

The Microfinance Institution (MFI): Migrating to electronic disbursement and collection of loans can reduce the burden of collecting, distributing and managing lots of small cash loans. Improving the MFIs’ efficiency is going to be important if they are to reach the estimated 300 million people who could benefit from access to microfinance. It allows them to serve their customers better, manage their resources more efficiently, offer new products, and extend the benefits of microfinance to a larger percentage of people. And in some competitive microfinance markets, it can serve to differentiate one MFI from another.

The Financial Institution: Banks have the electronic payments infrastructure but lack the experience and ability to manage risk and train the target market. MFIs have the one-to-one consumer relationships but no access to electronic payment infrastructure to get to scale. Local commercial banks can benefit in various ways from commercial microfinance opportunities. They gain access to a new customer segment, can cross-sell non-competitive products and also benefit from new deposits and new income streams from the increased use of Visa debit, credit and prepaid cards at the point-of-sale.

Visa’s strategy, therefore, is to encourage bank partnerships with MFIs, thus uniting the convenience and security of cards and electronic payments with their powerful grassroots outreach. All of this supports our global efforts to bank the un-banked and increase access to the formal financial sector for low income consumers.

It is sometimes easy to get caught in intellectual arguments about different approaches to the big issues of the day — to ruminate on Jeffrey Sachs’s or William Easterly’s divergent views on meeting the Millennium Goals for eradicating poverty, for example. Or to discuss whether commercial enterprises have a helpful and worthwhile role to play in expanding the role of microfinance or are simply profiting from it, at the expense of the poorest in the world.

The reality, as in most things, lies somewhere in between. There are going to be situations where not only are there no viable business cases, but no ethical system that could support a for-profit business model at the very base of the pyramid. There is always going to be a role for philanthropy, whether private or governmental. However, there are also going to be plenty of opportunities for the business community to deploy its expertise and capital, to build a sustainable business case, and empower individuals to change their lives for the better while enabling a more targeted use of philanthropic funds for those for whom this is the only moral and practical way to provide assistance.

Just as Dr. Yunus didn’t get overwhelmed by the sheer size of the problem but focused on small solutions that can be scaled up, we shouldn’t get distracted by these theoretical discussions. Microfinance works, and where business can play a constructive role in increasing efficiency and effectiveness by bringing their core competencies and expertise to this opportunity, it can and should benefit. Visa is certainly committed to extending its infrastructure, products and expertise to address this important market opportunity while improving the lives of the millions of underserved people around the world. 