WSBI

WHAT MAKES PRO-POOR SERVICE DELIVERY SUSTAINABLE FOR WSBI PARTNER BANKS?

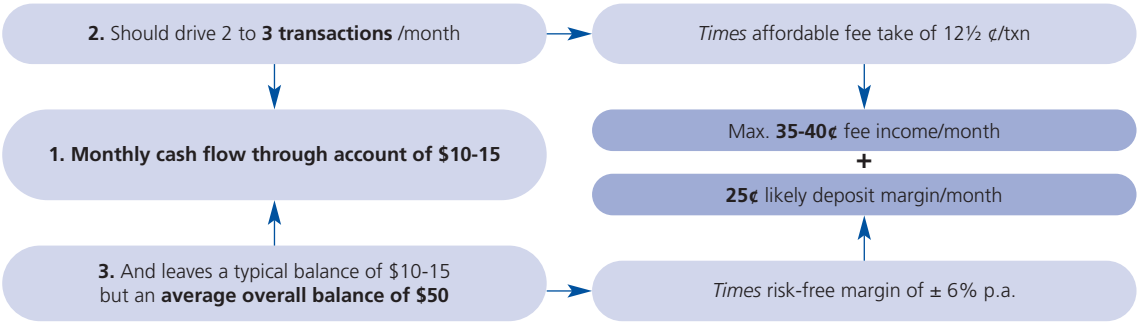
WSBI Programme "Working with savings banks in order to double the number of savings accounts in the hands of the poor"

Most elements of pro-poor service are now embedded in the product range of members participating in the WSBI Programme.

The issue addressed in **WSBI's sustainability research**[1] is whether it is possible to make that service both affordable and sustainable? It argues **sustainability should be possible at the sub-$25 monthly balances** typical of the poor **and at a really low monthly fee the poor can afford to pay out of household budgets that may be as low as $50 per month** in rural Africa **but only if the service is provided at the scale of millions of active clients**.

The dramatic growth in customer numbers is therefore vital to success. All three banks that helped with this initial study make a profit but not large enough for them to be able to cross-subsidise an expanded small balance savings business. The challenge is made all the more acute because the obvious open market space for them to grow into is adults in moderately and near poor households, so small balance savings must play a major part in rebuilding their lost market share. We use real data from the banks to draw out key issues relating to sustainability at different levels of the potential small balance business they might build (project level, individual outlet, whole institution, etc.). While results are in some ways particular to the banks concerned, they also have a wider relevance.

Note: fee element at low end of E. Africa mobile money pricing



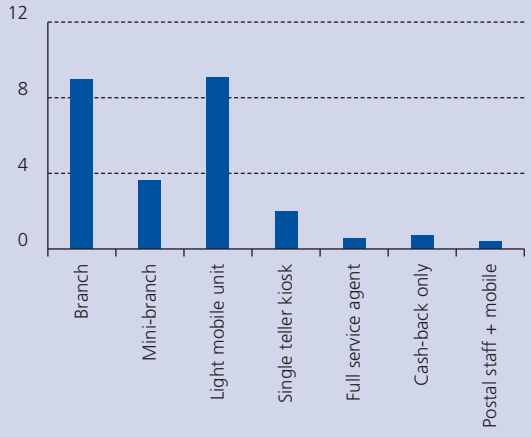
Sustainability at the level of new outlets

All three banks were looking to agency models as their prime route to reaching small-balance savers. Interestingly, **amortising the up-front investment costs is never the main issue in determining sustainability**; obviously, one must not over-invest but **not increasing operating costs is by far the bigger challenge**.

Four striking conclusions emerge:

- **payback** on any of the possible outlet types **is virtually impossible while business is still primarily cash-based** unless the fee rates are right at the top end of the rural affordability range but towards the bottom of the urban range;
- at these fee rates **the agent model can only really be deployed with** any confidence in small out of town or edge of town trading centres and large villages with **catchment area populations of ±6,000**; assuming that banks would get an account into every second household;
- even though agent models allow more cost variability, they are so finely balanced in East Africa (because of what mobile money operators charge and pay for cash-in/out) that **the slightest change in tariffs or business volume/mix quickly destroys chances of payback**;

Clients needed (thousands) to make different types of outlet sustainable



- and this is because **the agent model is not costless** for the bank to run, with own costs (IT, control, marketing, etc.) **adding up to another half on top of what must be paid to agents**.

Pricing to achieve afford ability and sustainability at a whole bank level

Despite the challenges involved in balancing affordability and sustainability at the level of individual rural outlets, we take real data from one of the banks to show how it is possible to maintain existing profit and have a tariff that still unambiguously works for the rural poor. We do this by showing how more business can be run off existing fixed costs so that average fees (in a really poor African country) for over-the-counter transactions could be as low as just 6-7 US cents. Moreover, add-on transfer business could be given away at the pure marginal cost of the messaging needed to make it happen. A bank does not have to be this aggressive in its pricing strategy but **the modelling suggests more risks can be taken with pricing to encourage increased use**.

This approach only works where the active customer base has shrunk and the bank has spare capacity at both human and IT systems levels. Moreover, tellers at many developing country retail banks are often working far below the technical limits of the systems used to transact basic over-the-counter business (particularly where these are based on card and PoS terminals); it is not uncommon for up to 80% of teller time not to be spent serving the customer at full capacity and a similar proportion of system time is often taken up with internal bank operations. Thus **risks can be taken with pricing to make a bank more relevant to lower income clients because there is so much productivity slack that extra customers can be served at virtually no extra cost**. Banks in these circumstances should consider dropping prices to bring in more low-value transactions (currently done in cash) but they need to tier their pricing to protect income from higher value business.

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