



BEYOND SAVINGS TOWARDS INCLUSIVE GROWTH

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The Financial Inclusion Challenge – A Bankers' Perspective

London, 5 December 2016



Agenda

1. 200 years of Sparkassen in Germany
2. How Banks earn Money
3. Financial Inclusion – or not
4. Project Example: Tanzania

1. 200 years of Sparkassen in Germany

Sparkassen today: professional with a social mandate

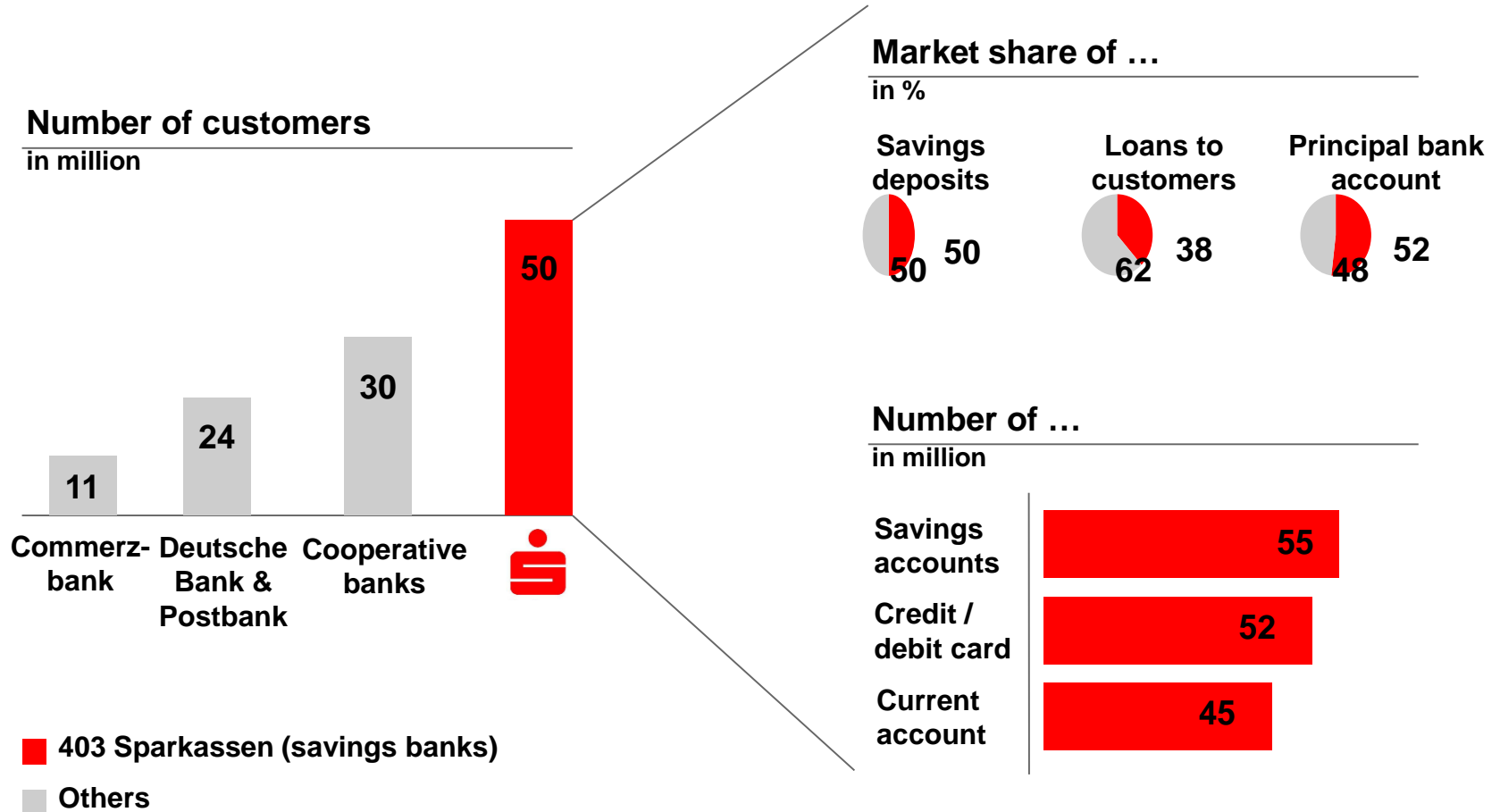
Sparkassen are ...

- **Banks ...**
 - German Banking Act
 - Supervision by ECB
 - Full regulatory requirements for banks
- **... with a Social Mandate**
 - Defined in state laws and statutes
 - Objectives:
 - Provide financial services to all segments of the population, everywhere in the country (“account for everyone”)
 - Provide SMEs with loans and other services
 - Promote local entrepreneurial activity
 - Promote social and cultural development

Profitability is a necessary prerequisite for sustainable development

1. Sparkassen today

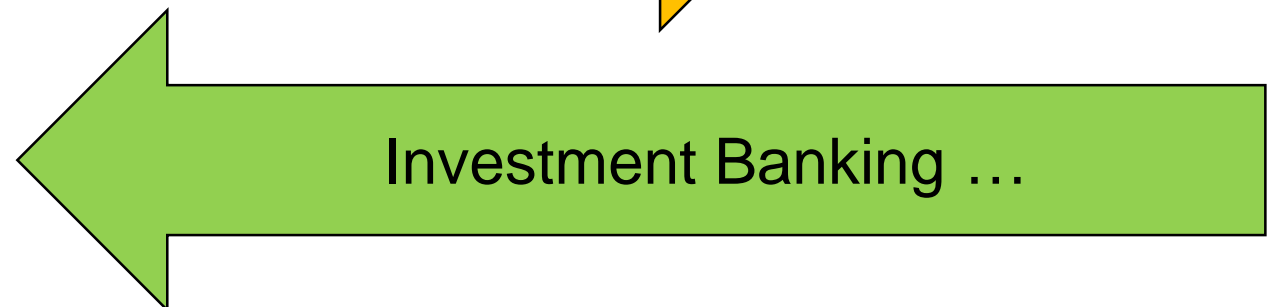
Core figures (group of 403 local banks)



*Germany's total population: 81 million

2. How Banks Earn Money

Sources of Income



2. How Banks Earn Money

Interest Rates for Small Loans - Components

typical range ...

(Ø 2.6 %)

10 - 30 %
(Ø 14,0 %)

2 - 20 %
(Ø 3.6 %)

5 - 20 %
(Ø 7.8 %)

components ...

Expected Profit ?

Operating Expense
(e.g. staff, equipment,
rent, taxes)

Loan Losses

Cost of Funds

(if in Forex:
incl. exchange rate risk)

influenced by ...

type of institution

efficiency

professionalism

donors,
savings business,
lending currency,
inflation rate ...

3. Financial Inclusion – or not

Challenge 1: costs per loan

Challenge: most operational costs are fixed (e.g. salaries, rent, IT)

Result: higher costs for small loans (as percentage of loan amount)

⇒ higher interest rates for smaller loans !

Solution: reduce costs esp. for smaller loans !

- efficient workflows and procedures
- economies of scale (e.g. more loans per credit officer)
- standardized products (amounts, terms etc.)
- reduced transaction costs (technology e.g. POS terminals)
- outsourcing (e.g. cooperation with agents, NGOs and others)

3. Financial Inclusion – or not

Challenge 2: non performing loans

Challenge: non performing loans are extremely expensive:

follow-up costs + loss of loan + loss of expected income

Result: general rule for small loans: total costs = 2 * loan amount

Solution: reduce risk of loan losses !

- standardized workflows and procedures
- use of technology
- training of staff
- risk sharing agreements (e.g. with NGOs)

4. Project Example: Tanzania

Training and Strengthening of MFIs, Financial Inclusion

Partners: Tanzania Association of MFIs (TAMFI), Tanzania Postal Bank (TPB) and Karagwe Rural Development and Environmental Conservation Agency (KARUDECA)

Objectives: Increase outreach of TPB, training of staff in MFIs and TPB, professionalize MFIs in Tanzania, savings mobilisation, business skills of micro-entrepreneurs

Results:

- new TPB Training Center (for TPB and TAMFI)
- modernization/extension of TPB branches (incl. workflows)
- savings mobilization campaign (World Savings Day etc.)
- business simulation game for micro-entrepreneurs

If there are any further questions,
do not hesitate to contact me.



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