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BEYOND MICROCREDIT: THE ROLE OF SAVINGS BANKS IN MICROFINANCE

Experiences from Latin America, Africa and Asia

WSBI

ESBG

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FOREWORD

I am delighted to present to you a new issue of Perspectives which focuses on microfinance and the role of WSBI members. Access to financial services at the microlevel has been shown to be critical for developing economies and individual capacities – especially among poorer populations. Savings and socially committed retail banks have long worked towards financial inclusion and the betterment of their communities.

This issue of Perspectives examines the role of WSBI members in improving access to finance and enhancing microfinance activities in the Asia/Pacific, African, and Latin American regions. The document also examines what must be done to enhance microfinance activities throughout the world – turning a focus on microcredit into a focus on general financial inclusion.

The world-wide movement towards financial inclusion is critical for economic development in all geographic areas. This publication confirms that savings banks and socially responsible retail banks play a leading role in this effort and offer innovative and important products to serve middle and lower income clients.

WSBI aims to continue to work with its members and international organisations to capitalise on the progress being made amongst our members throughout the world. I hope that this publication provides the reader with a good overview of some of the important issues related to microfinance.

Chris De Noose

Managing Director, WSBI

SECTION 1.
MICROFINANCE: DESCRIPTION AND RECOMMENDATIONS FOR ENABLING BETTER DEVELOPMENT

1. INTRODUCTION: CHARACTERISTICS OF MICROFINANCE

This edition of Perspectives analyses the role of savings banks and WSBI members in microfinance.[1] The first section discusses microfinance in general. The second section presents WSBI's recommendations for an enabling regulatory framework for microfinance. Subsequently, this publication provides more in depth and detailed analysis of the situations in Latin America, Africa, and Asia – using examples from the experience of WSBI members. These three analyses are independent reports which can be read separately of one another. With this analysis, this edition of Perspectives aims to contribute to the knowledge base regarding financial inclusion and economic development and stimulate further progress in this important area.

Two events have marked the recognition of microcredit as a core tool to drive sustainable development: the United Nations 2005 Year of Microcredit and the award of the Nobel Peace Price 2006 to the microcredit "icon", Professor Mohammad Yunus.

This momentum has been very helpful in bringing microfinance into the spotlight not only in developing countries but also in the developed world. The awareness by policy makers about the role of microfinance as a major tool for empowering vulnerable people, addressing social and economic exclusion, and alleviating poverty has grown significantly over recent years. Consequently, the scope of this challenge has been broadened to encompass the entire issue of financial inclusion, which entails access to a full spectrum of financial services.

1 This publication covers microfinance offered by socially committed retail/savings banks in Latin America, Africa and Asia/Pacific. For activities in Europe, see ESBG (2006) and ESBG (2007).

The consensus by all stakeholders has been to incorporate the principle of "Building of Inclusive Financial Sectors" into various aspects of economic and business development.[2] The role of regulation and supervision is crucial in this perspective. A regulatory environment that is conducive to financial inclusion is important for government policy and critical to widening access to financial services.

1.1. What is microfinance?

Microfinance is the provision of small-scale financial services to the poor or the poorest among the poor. It is unique among economic development initiatives because it has the ability to contribute directly to people's economic and social progress by allowing them to invest and multiply their scarce assets. Although there is no standardized number to define different "micro" products in quantification, it should be understood in its broadest sense, covering a whole range of low value financial products.

One of the main reasons why conventional banking institutions have concentrated their efforts on serving higher income segments of the population is the operational and administrative costs linked to serving "small" clients. Additionally, there is a higher risk (at least perceived) associated with these services in dealing with lower income segments of the population. However, there is also a demand for financial services among underprivileged, low income people. This market gap has resulted in a great significance being put on microfinance practices worldwide. Successful microfinance institutions (MFIs) have developed effective ways to empower vulnerable women and men, address social and economic exclusion, and alleviate poverty by providing individuals the opportunity to build assets as collateral and to improve their quality of life. Through microfinance initiatives, previously unserved populations have proven to be reliable clients.

The clients of microfinance institutions are typically low-income individuals, who are self-employed or salaried. In rural areas, they may generate income from farming, food processing or trading at the local markets, whereas in urban areas they tend to be shop keepers, street vendors, entrepreneurs, service providers, craftsmen, factory workers, etc.

2 With reference to the title of the Blue Book developed under the aegis of the United Nations in the context of the Year of Microcredit. See UNCDF (2006).

They generally have income generating activities that are somewhat unpredictable and may be seasonal but are more or less stable. Nevertheless, these people often lack collateral, and in some cases they have low levels of reading and writing skills. By serving this segment of the population in developing and emerging economies the microfinance industry has experienced significant growth in the past decade.[3] It has increasingly been recognized that while not all people are eligible for microcredit or would benefit from it,[4] all are deposit worthy, need to make payments, and can benefit from insurance.

Thus, the importance of the microfinance movement today is the result of an enlarged vision of banking – where financial inclusiveness plays an important role in social and economic development, and where access to finance for the poor represents an extension of the current offer of services.

1.2. Microfinance – broader than microcredit

In the eyes of the general public, microfinance tends to be limited to microcredit. The United Nations naming 2005 Year of Microcredit and the award of the Nobel Peace Price 2006 to the microcredit "icon", Professor Mohammad Yunus contributed to this recognition of microcredit in particular as a core tool to drive sustainable development.

However, the scope of microfinance is broader. This includes providing an adapted and diverse range of financial products and services to unserved populations around the world. The term "microfinance" covers a whole range of small amount financial products, including savings accounts, insurance, national/international monetary transfer services, and payments services (especially through non-cash transactions such as with plastic cards, mobile phones, and other electronic devices).

3 The Microcredit Summit Campaign (2009) reported 2,931 MFIs reaching 80,868,343 clients in 2003. 54,785,433 were among the poorest when they took their first loan. In 2006 they reported 3,316 institutions reaching 133,030,913 clients. 92,922,574 were among the poorest when they took their first loan. Taking into account recent figures the same organization confirms that, having double-checked 80% of the figures totaling 3,552 microfinance organizations in 2007, the 100-million-poor mark was reached by the end of 2007. It is estimated that these organizations reached more than 150 million clients, of which more 106 million were "poor", in Microcredit Summit Campaign (2009).

4 CGAP 2009b.

There is a need for policy-makers and regulators, at national, regional and international level, to embrace this wider perspective and include all actors involved in offering these types of services – not only microcredit providers, into the scope of their microfinance-related initiatives.

Practitioners, academics and professionals "have long outgrown the word *microcredit*. Today, the word *microfinance* doesn't even capture the scope and scale of what is happening in the world of finance for the poor. What was once a neat and tidy, well-delineated little sub-culture, now encompasses a dizzying range of delivery organizations and services, all increasingly interwoven with the rest of the financial sector. All around the world, people are witnessing experimentation, and a surge of new entrants to the microfinance field. The result is an explosion of diversity: diversity of delivery channels, of services, of funding sources for MFI and, of course, a variety of clients."[5]

1.3. Diversity of players

Many institutions have begun to provide microfinance services, either because of concern for development or because of the business opportunity presented or a combination of the two. Though it is difficult to classify microfinance providers, it is still important to identify the various models and understand the existing distinct approaches to microfinance.

There is significant diversity among the type of players in the microfinance industry. This includes Self-Help Groups, Banking, Credit and Savings Cooperatives, NGOs, as well as specifically regulated institutions providing microfinance services like Postal Banks, Commercial and Savings Banks. These actors do not necessarily offer the same kinds of services. Most of these organisations provide microcredit. Others collect savings. Authorized institutions do both. Still others act as "apex institutions" which channel funding (grants, loans, guarantees, etc.) to multiple MFIs in single country or region. This can sometimes include supporting technical service. This is similar to the role sometimes played by national development banks.[6]

5 Littlefield 2005.
6 Levy 2009.

The reality today is that the growth of the microfinance industry has inspired partnerships and knowledge transfer between organizations. Microfinance providers are learning from each other and different models are emerging at different levels in order to respond to different clients in different contexts.

The first identifiable model among leading microfinance institutions is that of NGOs with a social development background – some of which have transformed and scaled up to become banks or regulated institutions, supervised by the national authorities in their countries and responding to the specificities of their markets. NGOs which have not become banks can not be categorized as formal financial institutions. Therefore they are not allowed to provide all manner of services – especially savings services or products.

Semi-formal institutions like some NGOs, credit unions and cooperatives are formal, registered entities subject to all relevant general laws – including commercial laws – but informal as they are, with few exceptions, not subject to banking regulation and supervision.[7] Having developed a particular relationship with previously "unbanked" individuals, these embedded microfinance institutions have succeeded in providing financial services to poor and un-served populations.

Because of a lack of regulation for monitoring and supervising financial NGO activities, these organisations are not usually allowed to collect savings, but they are allowed to disburse microcredits. In fact, some successful NGOs have proven able to achieve self sustainability. "Loan officers" and their clients have been able to guarantee good loan repayment rates and some NGOs have generated high quality portfolios.

Another model is represented by banks and other commercially oriented institutions which use their branch infrastructure to reach out and serve low income customers. Included among these institutions are the savings and retail banks that are affiliated with the World Savings Banks Institute. Savings banks' primary concern is to mobilize financial resources and invest these resources in the local economy.

7 CGAP 2009a.

They are considered socially committed for profit institutions and they differ from microfinance initiatives that were created with a specific and exclusive focus on credit. In most countries they have build up a reputation as solid institutions that have proven effective in times of crisis and are trusted by savers. Savings banks generally provide a sense of security for low income clients thanks to their formal character and explicit (or implicit) guarantee of deposits.

Commercial banks and socially committed retail/savings banks are formal financial institutions. They are subject both to laws and regulations which govern companies and to banking regulation and supervision. Their importance in the microfinance field is based upon their infrastructure and expertise in disbursing credits and securely collecting and managing deposits. A number of them have efficient management information's systems and some are already involved in payments and international remittances services, as well as insurance.

Some banks are active as guarantors for securitizing microfinance portfolios. However, what distinguishes many WSBI members from purely commercial banks is their social commitment, which is why their microfinance activities are at the core of their retail business. They are heavily involved in the mobilization of savings and their clients are typically households, microenterprises and SMEs, essential actors to foster development. Moreover, although the ownership structures of WSBI members vary, they are all formal financial institutions strictly regulated and supervised in order to protect clients and the markets where they operate.

Another model results from a combination of the previous two – where partnerships between socially-oriented microfinance institutions and banks are being forged to take advantage of each other's comparative advantages. There are some very sophisticated partnerships between important NGOs, commercial banks, and investment funds. These organisations have set up portfolio securitization schemes as alternative funding strategies for NGOs forbidden to collect savings. Nevertheless, this type of activity is not commonly undertaken by semi-formal NGOs. It is usually limited to the bigger and most efficient ones.

Thus, different providers of microfinance services may have different characteristics according to business orientation, target group, legal status, ownership structure, capacity to mobilize savings, methodology and regulation which affects them. However, all of them, whether they are banks, non banks or other type of institutions, share the common characteristic of providing financial services to an otherwise "unbanked" population. For this reason, there is no need to favour only one model. There is room for various approaches to microfinance and complementary work and strategies are needed in order to build inclusive and responsible financial systems, capable of serving a large range of clients and stakeholders with different expectations and needs.

Thus, as microfinance grows, its development necessitates two necessary avenues of action. First, business models must be adapted to different contexts and different clients with different levels of income and productivity. Second, appropriate regulation schemes, where necessary, must be put into place that are proportionate to the expected benefits of microfinance programmes and strike the right balance between the mitigation of risk and the costs of implementation and compliance with supervision and regulatory requirements.

Frameworks to organize microfinance activities should take into account different levels of formality, sophistication, and activities and adapt to national and regional circumstances with the objective to reach institutional sustainability for the benefit of clients, create aggregated value and provide quality financial services for a large amount of un-served populations.

1.4. Microfinance and socially committed retail/savings banks

1.4.1. WSBI members: managing the double bottom-line for consumer benefit

Savings banks are the largest element of institutions which target a "double bottom-line" – both financial profit and servicing the interests of the communities where they operate. These institutions explicitly target customers not normally well served by purely shareholder-driven, commercial banks.

WSBI members are large stakeholders in the microfinance market. They are ideally equipped to be the leading providers of microfinance services in their home countries:

- **They are accessible**. WSBI members are geographically close to people due to their widespread branch networks and nationwide coverage. In many countries, savings and postal savings banks are the only financial institutions that reach extensively remote areas.
- **They have significant outreach among the poorest households in their countries**. For example, one of WSBI members in India, the National Savings Institute, reaches 6 million of the poorest households and the WSBI member in Thailand, the Government Savings Bank, reaches 4.5 million.[8]
- **They have relatively low requirements for accessing their services**. WSBI members have a wealth of assets in terms of branch infrastructure and institutional knowledge, which allows them to achieve economies of scale and thus be able to offer affordable financial products.
- **They provide a whole range of financial services in a sustainable manner**. WSBI members are the biggest providers of savings accounts (1.1 billion)[9] and significant providers of loan accounts (30+ million).[10] Some WSBI members are also active in offering remittance products and many of them have specialized microinsurance products.

Savings banks have a clear dual mandate. They work on promoting access to financial services for all un-banked communities and individuals in the various territories where they operate. At the same time, they are impelled to make reasonable profits so that the outreach achieved can be sustained without constant recourse to public or charitable subsidies. Hence, recognizing the importance of their stability as engines for social and economical development, savings banks have the mission to grow with the communities they serve. For this reason, the decision to provide affordable financial services for un-served customers and to maintain a broad retail distribution network distinguishes saving banks from purely profit maximizing financial institutions.

8 WSBI 2008.
9 Peachey 2006b.
10 Peachey 2006a.

With 23 members from 16 countries in Asia and the Pacific, 34 members from 31 countries in Africa and 15 members from 13 countries in Latin America,[11] WSBI member banks share a business model based on a close relationship with the retail customer and a sound knowledge of the customer's needs and capacities. Members act directly to facilitate access to financial services and generate social inclusion in their respective countries. At the same time, they act indirectly to finance social programs from their profits made from a diversified financial pool of activities within the region where they operate.

Savings banks are very large providers of financial services in all socio-economic segments. They have both a strong breath of outreach – serving a large percentage of the population – and significant depth of outreach as well – reaching a large number of the poorest households. This is especially the case in rural areas, but also in urban settings. This means that savings banks hold great potential for delivering accessible financial services for all.[12]

1.4.2. Microfinance – An institutional commitment and a responsible business approach

Institutional commitment is a prerequisite for providing low-income people with financial services. The commitment of savings and socially committed retail banks to providing financial services to underserved markets distinguishes them from most other formal financial institutions. In addition to the distribution of part of their profits for increasing social and financial inclusion, WSBI member banks generally go further than other financial institutions in their educational role to stimulate the mobilization of savings. They set up campaigns that are innovative and add value to the bank in addition to the marketing aspect. This pedagogical engagement and support to initiatives aimed at achieving social and financial inclusion are other expressions of the traditional social responsibility of WSBI member banks.

Savings banks and socially committed retail banks provide a wide range of financial services in a sustainable manner. In this aspect they differ from several microfinance institutions that depend on donor funding and offer limited credit services. In most cases, savings banks and socially committed retail banks have a diversified retail banking portfolio of services offered. Therefore, they are able to raise income in different areas of the banking business.[13]

11 For a list of members, go to http://www.wsbi.org/template/content.aspx?id=320.

12 Peachey 2008.

13 Peachey, et al. 2009.

Furthermore, as proximity banks, savings and socially committed retail banks have essential assets that make them ideally equipped to provide microfinance services. They are accessible because of their geographic proximity given their wide spread branch networks and national and regional wide coverage. Compared to other formal financial institutions they also tend to have relatively low requirements for accessing their services, especially low minimum balances for savings accounts.[14]

A responsible approach to business is at the core of the WSBI members' banking activities. For this reason, microfinance practices have been traditionally important for members active in developing and emerging economies.

1.5. Summary of the WSBI members' microfinance approach by region

Though the region-specific reports which are included in this "Perspectives" will delve more deeply into the specific characteristics of microfinance activities in various regions, it is worth briefly examining the basic characteristics of WSBI member involvement in microfinance in Latin America, Africa, and Asia/the Pacific.

1.5.1. Latin America

In Latin America, microfinance has experienced an enormous success with a vibrant sector of sophisticated and commercially oriented microfinance providers. Indeed, most microfinance institutions in Latin America seek to become commercial players in the financial sector, achieving impressive records of financial and operational performance. Many of them are integrated into the formal financial system, being banks or microfinance specialized institutions, regulated by the financial authorities in their countries.

14 WSBI 2004.

A recent regional survey[15] showed that in 2005, around 6 million people received microcredits in Latin America and most of those credits (81%) came from regulated institutions. The overall portfolio stood at around USD 5.4 billion for the same year. In terms of growth, the survey revealed annual growth rates of 35% in terms of the number of clients and 46% in terms of the size of the portfolio. This confirms that the Latin American microfinance industry is experiencing rapid expansion.

While microfinance in Asia and Africa has a stronger social focus on the poor, microfinance in Latin America is mostly understood as a financial solution for microentrepreneurs and their families. Thus, loan average values are higher than those found in the other regions (USD 783 in Latin America versus USD 121 for Asia and USD 187 for Africa).[16] It is also mainly an urban activity, where individual credit methodologies predominate over group lending. This differs from the large rural schemes existing in Asia.

Microfinance providers in Latin America can be broadly characterized in three categories. They are;

1. NGOs that have transformed into regulated institutions (upscaling)
2. banks that have entered into the microfinance market (downscaling), or
3. traditional proximity financial institutions created to serve the micro-entrepreneur market.

WSBI members which act as microfinance providers in the region belong to the latter two categories. They are either banks with special microfinance programs or proximity financial institutions dedicated to microentrepreneurs.

15 Navajas and Tejerina 2006.

16 Data from MIX (2007a) – looking at median values of "Average Loan Balance per Borrower" for Latin America, Asia and Africa for the year 2005.

WSBI Latin American members:

- Are large and long-established providers of microfinance services. As proximity financial institutions with large networks and with a strong social commitment, they are leaders in the Latin American microfinance industry. A rough estimate indicates that they provided microcredits to more than 1.45 million clients in 2006. They also mobilized at least USD 779 million deposits from their microfinance clients in that same year.
- Provide a full range of microfinance products. All of them mobilize savings, which is one of their major advantages compared to other microfinance providers focusing exclusively on credit. They also provide remittance services and some of them are leaders in the distribution of accessible insurance products.
- Are experiencing impressive growth both in terms of clients, portfolio and savings collection. On average they have experienced 40% portfolio growth rate and 30% client growth rate for each of the past 3 years (2004-2006).

1.5.2. Africa

Broadly speaking, African savings banks are providers of microfinance services. However, they have historically not been classified among microfinance institutions. The main reason is because the dominant paradigm in microfinance until now merely recognises microcredit institutions, which savings banks could not be (and still are not in many cases) in Africa because of their institutional set-ups that commonly prohibited any form of lending.

However, the definition of microfinance has evolved over recent years from its narrow perspective. The scope of microfinance services now largely take into consideration basic financial services that are needed by vulnerable people. Recent research in the field of "Access to Finance" has substantially contributed to changing how experts define microfinance. There is a greater awareness that poor people even desire more safe and affordable deposit services to protect their small savings. Their demand is also very high for payment services (including money transfer services) and insurance services.

This larger perspective of microfinance brings African savings banks in the picture. However, their contribution to microfinance is still very often overlooked by experts and policy makers. The purpose of this study is to survey and give visibility to the activities of savings banks in this field. It complements the summary report on Microfinance in Africa[17] with hard evidence supported by data on these activities. The main findings of this report are as follows:

- Savings banks in Africa have managed to provide convenient basic financial services by combining accessibility (secure and affordable financial services) and proximity (extensive retail distribution networks) to their clients. Their potential comparative advantage in deposit-taking services and money transfer services (including remittances) could be further enhanced through payment facilities.
- Institutional set-ups are changing favourably, but the general trend for savings banks is to reposition towards low-risk retail banking activities and not to become pure microfinance institutions or microfinance banks.
- There are diverse business models to respond to the pressing market demand for microcredit services. Some savings banks have introduced a microcredit scheme in their product line (Tanzania, Zambia) or opened a specialised window (Egypt) for direct participation while other have opted for an indirect participation through linkages (Uganda, Zimbabwe) with sustainable and promising microfinance institutions (e.g., refinancing of wholesale loans for on-lending to retail microfinance clients.
- Where savings banks are direct microcredit providers the individual lending methodology has generated better results. Loan sizes vary across countries from USD 50 to USD 2,000 (often group loans) but are in line with the industry average while microloan portfolios range between USD 100,000 and USD 8 million (at the National Bank for Development in Egypt).
- Regulation is an issue for savings banks involved in microfinance because they are subject to stringent banking regulations. Microcredit is in principle uncollateralized lending and as such it is more demanding for complying with prudential requirements. In general, regulation is a limit to the expansion of microcredit programmes run by savings banks.

17 Pouye 2008.

1.5.3. Asia/Pacific

The Asian microfinance market structure varies significantly across the countries, depending on the stage of financial development, the level of economic development and the policy environment, etc. A study by MIX[18] shows that Asian microfinance stands unrivalled in scale, and outreach continues to grow in terms of the number of microborrowers. Institutions providing microfinance in Asia play a critical role in increasing the access to finance for underprivileged people, especially those in rural areas.

Though microfinance activities in Asia are receiving more recognition, many potential clients continue to lack access to basic financial services. According to a report by the International Finance Corporation (IFC)[19] the demand for financial services among poor people is extensive in Asia and the supply of microfinance is also quite large. For example, the field of microcredit is estimated at USD 4 billion, serving 22 million borrowers, with an overall market penetration rate of only 6%. This market is, however, limited and concentrated in just a few countries such as in India and Bangladesh, where the largest MFIs[20] in Asia in terms of borrowers can be found.

Asian microfinance has long focused on serving women: 98% of borrowers were women in Asia in 2006, as compared to 66% in Africa and 61.8% in Latin America. Microfinance in Asia is also associated with some of the lowest average loan balance worldwide, with a stronger social focus on the poor, presenting lower loan average values than in other regions (USD 151 in Asia in 2006 versus USD 183 in Africa and USD 671 in Latin America) and lower savings account balances than in Latin America (USD 165 versus USD 732).[21]

18 MIX 2006. MIX is short for Microfinance Information Exchange. The MIX Market provides information on over 800 individual microfinance institutions worldwide. It presents the most comprehensive data source for the microfinance industry.

19 IFC 2007.

20 MIX 2008a.

21 Data from MIX (2008a) looking at median values of "Average Loan Balance per Borrower" and "Average Savings Account Balance" for Asia, Africa and Latin America for the year 2006.

2. TOWARDS AN ENABLING REGULATORY AND SUPERVISORY FRAMEWORK

Microfinance is one of many tools for expanding access to financial services. Therefore, any policy, legislative or regulatory initiative on microfinance should be assessed primarily with regards to the overall objective of increasing the level of access to financial services. This section of the document lays out what is necessary for an enabling regulatory and supervisory framework to facilitate expansion of access to financial services.

As much as possible, ad hoc frameworks for microfinance activities should be avoided. This would help prevent distortions of competition between providers, the creation of unnecessary burdens (particularly to small microfinance institutions), and the development of unjustified differences in the level of protection of customers' interests.

It is widely accepted that microfinance has distinctive features compared to conventional banking. For example, microcredit is not commercial or consumer credit, collecting and administrating small amounts of savings is not the same as dealing with large deposits, etc. Therefore, existing sets of regulation currently applicable to microfinance activities, including banking regulation, should be re-examined in order to expand the availability of microfinance services.

Ultimately, the goal is to increase the number of vulnerable clients served and the volume of financial services delivered. In general, in order to accomplish this, microfinance frameworks should:

- be tailored to national circumstances
- gear regulations towards activities rather than institutions
- encourage a diversity of players in a market-driven environment
- make regulation proportionate to the expected benefits
- remove restrictions to microfinance activities and associated prudential requirements
- encourage linkages between banks, microfinance institutions and other retail outlets.

2.1. Tailoring frameworks to national circumstances

Defining a common global "ideal framework" for microfinance is impossible. The context in developing countries differs fundamentally to that in the developed world. Microfinance in very advanced economies is mainly about enabling people to access the banking sector. More specifically, it is about facilitating access to credit for the self-employed, small businesses and even business start-ups in an environment where the support structures – public and private – are in place and functioning. In the developing world, microfinance is primarily a response to a supply-side gap resulting from the inability of "conventional" banks to address the demand for financial services from society. Consequently, the number of unbanked is dramatically high in some countries and large geographical areas are not served. Financial intermediation structures do exist but with very limited capacity.

An enabling framework should therefore be country or region specific but it should take into account the profile of the target groups, the current financial infrastructure, and the economic and social context. Aspects linked to the national history, political, legal and cultural background also need to be part of the assessment. There is no "one size fits all" approach.

When seeking to define principles on a broad geographic scale and draw on lessons learnt at regional level, a careful approach must be taken. Microfinance practices which have proven successful in the developed world might not always be appropriate in a developing economy context. The same applies to trying to copy "tested" approaches among developing countries.

2.2. Gearing regulations towards activities rather than institutions

Across the world, different categories of institutions are active in the microfinance field: savings banks, NGOs, financial cooperatives, postal banks, credit unions, etc. Those institutions, known as microfinance institutions (MFIs), vary in their legal status, mission, ownership structure, methodology, etc. However, all of them share the common characteristic of providing financial services to vulnerable and low income clients with no access to the conventional banking sector.

In order to place all MFIs and all their consumers on an equal footing, it is crucial that regulations focus on microfinance *activities*, regardless of the type of institutions that carry them out. Whether a savings bank, a postal bank, or an NGO is involved in a certain microfinance activity, the activity should be regulated the same. Thus, all microfinance actors can develop their activities on a level playing field, according to the principle "*same business, same risks, same rules*". All consumers would then benefit from the same level of protection, regardless of which institution is involved.

2.3. Encouraging a diversity of players in a market-driven environment

The diversity of players in the microfinance field is valuable. A market-driven microfinance environment can act in a convergent manner to promote access to financial services for all. Accordingly, microfinance activities rather than microfinance institutions should be regulated. This would allow the coexistence of different efficient organizations serving different levels of the market structure. These organizations may have different degrees of market penetration, scale, infrastructural capacity, capital adequacy, competence of staff and clients, and accountability levels. This market diversity is conducive to expanding the provision of accessible financial services. It allows a market-driven, diverse palette of microfinance providers to act in a convergent manner to promote access. All of these aspects are important in order to apply regulations schemes with proportionality.

2.4. Making regulation proportionate to the expected benefits

Regulation should be proportionate to the benefits that are expected to result, particularly with regards to the costs imposed to microfinance providers.

Legislative and regulatory projects should be submitted to rigorous cost/benefit evaluations and in-depth impact assessments. This is particularly the case when considering prudential regulations which require a high level of supervisory capacity – often lacking in developing countries. Furthermore, regulations can have a considerable impact on administrative processes and product design of the microfinance institutions.

This should be considered. These considerations would prevent the risk of over-regulation, which can impair innovation and improvement of microfinance products and services.

Additionally, quality legislative proposals should call for open consultations with all stakeholders involved, with the full commitment of regulators and policy makers.

2.5. Removing restrictions to microfinance activities and associated prudential requirements

It is important to provide a complete range of financial services to satisfy the financial needs of vulnerable people. This enables them to carry out personal, family and professional projects. In order to provide this range of services, some of the existing restrictions must be removed on the products and services that can be proposed by the microfinance institutions.

2.6. Allowing for increased deposit-taking activities

In particular, one way to extend the scope of pro-poor institutions would be to allow institutions already engaged in lending activities, to undergo deposit-taking activities. This would reduce their vulnerability to fluctuations of financial markets and protect these institutions from the risks of currency depreciation.

However, a fundamental pre-requisite to any deposit taking activities would be a legal framework that guarantees prudential measures to protect public deposits that are taken. This is a fundamental pillar of a strong and secure formal financial sector. Gaining the trust of small scale savers for the development of a long term relationship requires unconditional assurances of security of the system in which they mobilise their assets. Prudential schemes currently covering savings institutions should be extended, with the right balance between mitigating risks and the implementation costs to all institutions which collect savings. The appropriate capacities for supervision to be efficiently carried out should also be available.

2.7. Allowing the recycling of deposits into lending

Equally, and in parallel with the optimisation of the accumulation of small savings, it is important to look at the way in which these savings can be best mobilised to finance productive activities. This mobilisation should foster microeconomic development, support national sustainable economic growth and reduce national dependency on foreign investments and fluctuation in capital markets.

In many cases, there are few – or no – incentives for savings banks to effectively recycle deposits into lending. Especially in Africa, a number of (postal) savings banks have been set-up as only deposit-taking institutions and operate outside the scope of general banking regulations. Although this business model performed relatively well in the past, it has reached its limits with many of these institutions collecting savings to invest in low-risk but also low-return government bonds. By not allowing them to operate in the lending arena, they become passive savings collectors, without any incentives to produce financial returns for the institution nor adapted services for their clients. The lessons from various experiences demonstrate that removing the regulatory obstacles and allowing these institutions to expand their mission and diversify into lending and other banking functions would provide an incentive to become more market responsive. The removal of regulatory obstacles to undertake lending activities, however, should be accompanied by skilled management in those institutions in order to build sustainable lending practices from the start.

2.8. Revising regulations for payment systems

Beyond the permission to lend that is sought by many postal savings banks – mainly in Africa – governments and regulators should also consider revising national regulations to open national payment systems to savings banks, postal savings banks and similar financial institutions. Due to the profile of their clients and to their often large client-base, it is realistic to assume that savings banks could play a significant role in the small value payments market, including remittances and card services. Allowing savings and postal savings banks to participate in national clearing and settlement systems is undoubtedly an essential step towards achieving inclusive financial sectors.

For these reasons, savings banks consider it important to create a level playing field for all types of institutions that serve the same markets and have the same risks. In this respect, adequate supervisory structures and capacities must be in place. For coherence and efficiency, it should be envisaged to enlarge the scope of existing banking supervisory institutions or set up a specialised unit within the banking supervisory bodies.

2.9. Encouraging linkages between banks, microfinance institutions and other retail outlets

Regulatory efforts are also needed to encourage partnerships between banks and microfinance institutions. Closer linkages would be mutually beneficial. MFIs rely on banks for a variety of services, including deposit facilities, liquidity management services, and in some cases, emergency credit lines to cover cash shortfalls. For banks, the benefits would be the opportunity to expand their client base through MFIs, and their operations through the network of MFIs (including in the rural sector).

The linkages between MFIs and banks would also help to broadly tie together the activities in the formal and informal sectors of the economy and provide opportunities for small entrepreneurs to graduate from microcredit to conventional bank loans. The opportunity to support such partnerships through regulation should be explored. There may be strong possibilities of improvement of services through banks acquiring a stake in microfinance institutions or the sub-contracting of retail operations (deposit-taking services, money transfer services, last mile solutions for remittances).

In addition to these partnerships, regulation should also take into account the recent development of commercial alliances between financial institutions and other retail outlets. These alliances are seen as a very successful and non-expensive way of multiplying access points for clients.[22] However, this phenomenon, which is called “branchless banking”, poses several regulatory challenges: third party liability, compliance with Anti-money Laundering and Combating Financing of Terrorism rules (AML/CFT) and consumer protection, just to mention a few.

22 One of the most known examples of these types of alliances is the experience in Brazil where banks have made supermarkets, lottery stands and pharmacies their “agents”, allowing them to collect payments, process payments and open accounts.

A non-conventional infrastructure to access financial services is rapidly developing with these innovative branchless banking experiences. The role of regulation should be to ensure this infrastructure is safe and open to all costumers, while at the same time providing an enabling environment for these solutions to expand. This should be particularly emphasised where banking intermediation is done through channels using advanced technology supports.

2.10. Implementing business rules to ensure consumer protection

Microfinance consumer protection measures should primarily target the prohibition of deceptive and unfair practices in lending and collection practices, which would seek to abuse the vulnerability of beneficiaries of the services.

Regulation should ensure, as a minimum, the disclosure of full costs, fees and terms of the products and services, and supply clients with accurate, comparable and transparent information about the cost of loans and the remuneration of savings. Public support would specifically be required to ensure that education is provided in this area to improve understanding and basic knowledge to enable consumers to fully assess the extent of the engagements which are being taken.

There is a public perception problem encountered with the disclosure of interest rates applied by microcredit institutions which can seem very high. Therefore, full, accessible, comparable and understandable information should be provided. As for the level of the rate, any measures aimed at reducing the costs for the providers in order to expand outreach and give opportunities to new market entrants should be encouraged. It is true that microcredit practices in some developing countries have benefited greatly from a relaxation of interest rate caps. However, other credit cultures, particularly in Europe, may call for a different approach.

Evaluation of the borrower's repayment capacities is critical to preventing over-indebtedness – especially with low-income populations. The opportunity for national regulators and/or stakeholders (depending on the national circumstances) to develop borrower databases to facilitate the definition of the microborrowers' profiles and the evaluation of their risks should be assessed.[23] It is important in this context to mention that as regards scoring and exchange of data, the quantitative approach should not be seen as the only way to assess reimbursement. Microlending has proven to be based on confidence and on a holistic approach towards the situation of the borrower, rather than statistics. It would also be important to assess the technical aspects of such databases, particularly if interaction between different databases is envisaged.

Finally, microfinance regulatory frameworks should preserve the social objective of microfinance transactions: to improve living standards by supporting income generating activities and not be turned into consumer credit.

23 While credit information services can provide clear benefits, they should be organized in the most transparent way in order to prevent its abusive use by those who have access to it.

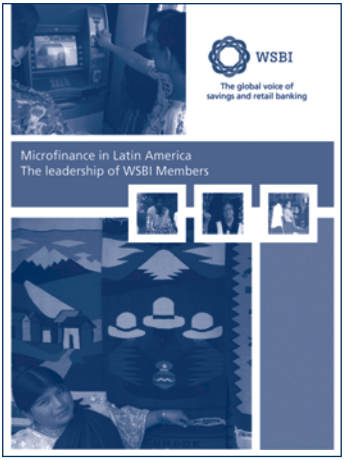
SECTION 2. WSBI MEMBERS' EXPERIENCES: A PRESENTATION OF REGIONAL LEADERS

In the subsequent pages selected microfinance experiences from the WSBI members will be explored in reports organized by region.* The first report presents the magnitude and outreach of the members' microfinance activity in the Asia/Pacific region. The second report discusses the efforts of African members. The third report concentrates on the Latin American members' leadership in microfinance.

Each report is structured to be read separately. An analysis of the regional market structure and the different proximity models adopted by members in order to promote access to financial services will be explained. Each report presents the commitment and challenges of WSBI members in providing microfinance services in their respective markets as well as their results and achievements. In examining the case studies, new trends and particular innovations can be exposed in the field of information and communication technologies, and in stimulating economic growth for the poor.

* This section of the report is mainly based on the results of a questionnaire sent to WSBI members and desk research based on the annual reports of members.

REPORT 1. MICROFINANCE IN LATIN AMERICA – THE LEADERSHIP OF WSBI MEMBERS*



Report Highlights

WSBI Latin American members:

- **are large and long-established providers of microfinance services.** As proximity financial institutions with large networks and with a strong social commitment, they are leaders in the Latin American microfinance industry. A rough estimate indicates that they provided microcredits to more than 1.45 million clients in 2006. They also mobilized at least USD 779 million deposits from their microfinance clients in that same year.
- **provide a full range of microfinance products**. All of them mobilize savings, which is one of their major advantages compared to other microfinance providers focusing exclusively on credit. They also provide remittance services and some of them are leaders in the distribution of accessible insurance products.
- **are experiencing impressive growth both in terms of clients, portfolio and savings collection**. On average they have experienced 40% portfolio growth rate and 30% client growth rate for each of the past 3 years (2004-2006).

* This report was initially released in February 2008.

1.1. The context: Microfinance in Latin America

In Latin America, microfinance has experienced enormous success with a vibrant sector of sophisticated and commercially oriented microfinance providers. Indeed, most microfinance institutions in Latin America seek to become commercial players in the financial sector, achieving impressive records of financial and operational performance. Many of them are integrated into the formal financial system, being banks or microfinance specialized institutions, regulated by the financial authorities in their countries.

A recent regional survey[1] showed that in 2005, around 6 million people received microcredits in Latin America and most of those credits (81%) came from regulated institutions. The overall portfolio stood at around USD 5.4 billion for the same year. In terms of growth, the survey revealed annual growth rates of 35% in terms of the number of clients and 46% in terms of the size of the portfolio. This confirms that the Latin American microfinance industry is experiencing rapid expansion.

While microfinance in Asia and Africa has a stronger social focus on the poor, microfinance in Latin America is mostly understood as a financial solution for microentrepreneurs and their families. Thus, loan average values are higher than those found in the other regions (USD 783 in Latin America versus USD 121 for Asia and USD 187 for Africa)[2]. It is also mainly an urban activity, where individual credit methodologies predominate over group lending. This differs from the large rural schemes existing in Asia.

Microfinance providers in Latin America can be broadly characterized in three categories. They are;

- NGOs that have transformed into regulated institutions (upscaling),
- banks that have entered into the microfinance market (downscaling), or
- traditional proximity financial institutions created to serve the microentrepreneur market.

1 Navajas and Tejerina 2006.

2 Data from MIX (2007a) – looking at median values of "Average Loan Balance per Borrower" for Latin America, Asia and Africa for the year 2005.

WSBI members which act as microfinance providers in the region belong to the latter two categories. They are either banks with special microfinance programs or proximity financial institutions dedicated to microentrepreneurs. In Spanish, the word "caja" is the equivalent of "savings bank" while in Portuguese, the word is "caixa".

1.2. Microfinance as carried out by WSBI Latin American members

1.2.1. Magnitude and presence

WSBI Latin American members[3] are large and long-established providers of microfinance services. As proximity financial institutions with large networks and with a strong social commitment, many of them have been pioneers in the Latin American microfinance industry. As of today, 7 out of 15 Latin American members are active in microfinance. These members are involved in different ways in the microfinance sector as can be seen in Table 1.

- Caixa Economica Federal (Brazil), BancoEstado (Chile) and Banco BCSC (Colombia), were initially created as savings banks and have transformed into universal banks which among a full portfolio of financial services, offer specialized microfinance services[4] (including credit, savings, insurance and payment services).
- FEPCMAC (Federación Peruana de Cajas Municipales de Ahorro y Crédito – in Peru), FEDECREDITO (El Salvador) are federations that represent the largest microfinance institutions in their countries, such as the Cajas Municipales and the Cajas de Ahorro y Crédito respectively.
- BANSEFI is the Apex Institution of the Mexican Cajas de Ahorro y Crédito Popular but has an additional role as a national savings bank mobilizing small savings with a large network.
- BANRURAL (Guatemala) is a universal bank but has a very specific focus on microfinance reaching out to rural and remote areas.

3 A list of WSBI Latin American Members can be found in Annex I.

4 WSBI Members in Brazil and Colombia both created microfinance divisions inside their institutions. In Colombia, Banco BCSC who traditionally serves the microfinance market, created in 2004 a further specialized microfinance programme called Creemos. In Chile, BancoEstado created a subsidiary called BancoEstado Microempresas. For further information on Banco BCSC Creemos Program and BancoEstado Microempresas please refer to the case studies in this document.

Table 1: WSBI member involvement in microfinance

Country	WSBI member	Type of involvement in microfinance sector
Brazil Chile Colombia	Caixa Economica Federal BancoEstado Banco BCSC	Banks with a microfinance specialized program
El Salvador Peru	Federación de Cajas de Crédito y Bancos de los Trabajadores – FEDECREDITO Federación Peruana de Cajas Municipales de Ahorro y Crédito – FEPCMAC	Federations that represent microfinance specialized institutions
Mexico	Banco del Ahorro Nacional y Servicios Financieros – BANSEFI	Apex institution and savings bank
Guatemala	Banco de Desarrollo Rural S.A. – BANRURAL	Microfinance specialized bank

Two WSBI members are among the precursors of the Latin American microfinance industry.

- Colombian Banco BCSC (formerly known as Banco Caja Social), was created back in 1911 as a savings bank with the mission to cater to the financial needs of low-middle income clients and microenterprises.
- The Cajas de Crédito, today represented by FEDECREDITO in El Salvador, started operating in rural and remote areas as early as the 1940's. In the 1950's they began offering microcredits (mainly to finance microentrepreneurs' working capital needs) through group guarantees. They also offered financial incentives to their staff based on loan recovery.[5]

Currently, WSBI members in Latin America are among the biggest microfinance providers in the region. They have an extensive reach with a considerable number of branches and staff dedicated to microfinance as is illustrated in Table 2. In the Mix Market, WSBI members are among the 15 biggest microfinance institutions in Latin America in terms of gross microloan portfolio and also in terms of number of microborrowers.[6]

5 Berger, Goldmark and Miller 2006: 10.
6 MIX 2008b. The Mix Market provides information on over 800 individual microfinance institutions worldwide. It represents the most comprehensive data source for the microfinance industry. Available at: http://www.mixmarket.org.

- In Colombia, Banco BCSC has a share of 21.4% of the microcredit market.[7]
- In Chile, BancoEstado Microempresas serves 52% of the total microfinance market.[8]
- In Peru, the Cajas Municipales de Ahorro y Crédito (CMACS) represent 74% of the total microcredit portfolio.[9]

Table 2: Microfinance branches and staff (2006)

Country	Institution	Microfinance branches	Microfinance staff
Chile	BancoEstado Microempresas*	145	792
Colombia	Banco BCSC	260 of which 71 from Creemos	n/a
El Salvador	FEDECREDITO	98	763
Guatemala	BANRURAL	430	761
Mexico	BANSEFI	505	1,316
Peru	FEPCMAC	218	1,411

** Does not include "Cajas Vecinas", which are banking agents where microfinance services can also be accessed. Data from FEPCMAC (2007) and FEDECREDITO from this and all tables in the document are consolidated figures from their affiliated "Cajas".*

Microfinance in Latin America is an expanding industry with a large growth potential. Most WSBI members, and especially those who have created specialized microfinance programs in the past years, are experiencing rapid growth both in terms of clients and portfolio size. On average they have experienced a 40% portfolio growth rate and 30% client growth rate for each of the past 3 years (2004-2006). Specifically:

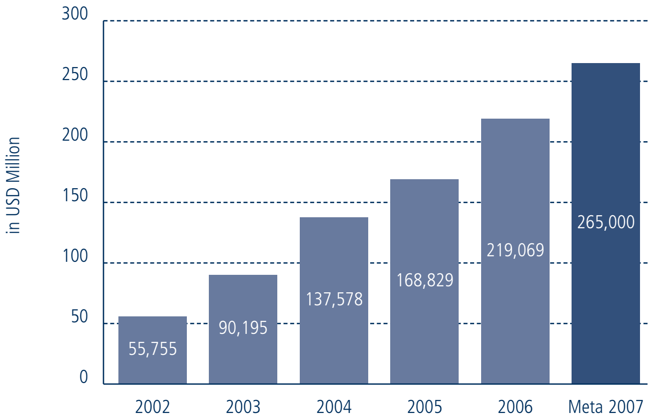
- BancoEstado Microempresas increased its client base by 400% in 5 years, from 55,755 clients in 2002 to 219,069 clients in 2006.[10]
- Banco BCSC has a large client base of 74,459 microcredit customers. According to Banco BCSC, 70% of these customers had no previous experience with the formal financial sector in their country.

7 Banco Caja Social 2007.
8 Costa Del Rio, et al. 2005.
9 When compared to the other two microfinance providers in Peru – Rural Savings and Loan Institutions (CRAC) and Entities for the Development of the Small and Microenterprise (EDPYME) – Data from Ebentreich (2005).
10 Larraín 2007: 13.

Table 3: Growth of microcredit clients

Country	Institution	Number of active microcredit clients 2004	2005	2006
Chile	BancoEstado Microempresas	137,578	168,829	219,069
Colombia	Banco BCSC	7,954	24,727	74,459
El Salvador	FEDECREDITO	39,702	38,180	39,144
Peru	FEPCMAC	254,373	299,495	356,903

Figure 1: BancoEstado Microempresas client growth (%)



Percent change	62%	53%	23%	29%	21%

Source: BancoEstado Microempresas 2007

1.3. Microfinance products and services[11]

Microcredit and microsavings are the most common microfinance products offered by WSBI microfinance providers in Latin America. As licensed institutions all WSBI members are authorized to collect savings. One of them, Banco del Ahorro y Servicios Financieros (BANSEFI) in Mexico, is a savings-only institution, allowed also to process payments – mostly national and international remittances and payments of social programs. While microcredit and microsavings are the most popular products, WSBI members also provide remittance services and some of them are leaders in the distribution of accessible insurance products.

1.3.1. Microcredit

In terms of their microcredit activity, as previously mentioned, WSBI members are very large providers in the Latin American market. The survey of members found[12] that they reached over 1.45 million microcredit clients in 2006. Looking at the depth of that outreach, they have average loan values representing approximately 49% of their respective country GNP per capita (not counting FEDECREDITO in El Salvador). Comparing this ratio to the Microbanking Bulletin (MBB) benchmark[13] for microfinance institutions in the region, similar institutions have a 61% ratio, which means that average microcredit amounts from WSBI members are below the average. Lower-amount loans are one of the objectives of microcredit in order to serve clients with very low financial needs.

11 In order to produce this report, WSBI conducted a survey via a questionnaire sent to the 7 WSBI Latin American microfinance provider members. The questionnaire asked for information about microcredit, microsaving, microinsurance and micropayment services. The following pages show the survey results.

12 This data doesn't include Caixa Economica Federal (Brazil) customers which could largely expand the total numbers.

13 Data from MIX (2007a).

Table 4: Microcredit outreach (2006)

(No. of microcredit clients and microcredit average value)

Country	Institution	Active microcredit clients	Average value of a microcredit (USD)	Ratio/ Average Loan Value/ GNP 2006
Chile	BancoEstado Microempresas	219,069	3,316	48%
Colombia	Banco BCSC	74,459	1,485	54%
El Salvador	FEDECREDITO	39,144	3,500	138%
Guatemala	BANRURAL	769,994	1,169	44%
Peru	FEPCMAC	356,903	1,430	49%

Tables 4 and 5 show the status of WSBI members' microcredit activity for 2006. The total value of disbursed microcredits for that year was USD 1.44 billion. Table 6 also shows that between 2004 and 2006 the portfolio[14] almost doubled from USD 594 million to USD 1.13 billion.

Table 5: Key microcredit figures (2006)

Country	Institution	Active micro-credit clients	Disbursed micro-credits	Value disbursed micro-credits (USD)	Average value of a micro-credit (USD)
Chile	BancoEstado Microempresas	219,069	145,521	389,233,644	3,316
Colombia	Banco BCSC	74,459	83,039	123,379,995	1,485
El Salvador	FEDECREDITO	39,144	n/a	108,316,467	3,500
Guatemala	BANRURAL	769,994	267,515	312,842,561	1,169
Peru	FEPCMAC	356,903	n/a	510,499,292	1,430

14 Excluding figures from BANRURAL (Guatemala).

Table 6: Growth of disbursed microcredits (USD)

Country	Institution	Value of disbursed microcredits 2004	2005	2006
Chile	BancoEstado Microempresas	142,681,574	272,501,945	389,233,644
Colombia	Banco BCSC	36,591,150	76,424,154	123,379,995
El Salvador	FEDECREDITO	77,490,821	92,653,227	108,316,467
Peru	FEPCMAC	337,400,931	416,845,394	510,499,292
Totals		594,164,476	858,424,720	1,131,429,398

In examining the quality of the microcredit portfolio as reported by some of the surveyed members, we find outstanding performance for BancoEstado Microempresas (Chile). Despite its accelerated growth in the past 3 years, BancoEstado Microempresas has managed to maintain low levels of portfolio at risk.[15] The term "portfolio at risk" refers to the risk of default on loans, when the repayment instalments due are still unpaid 30 days following the deadline. Looking at the "Creemos" Programme of Banco BCSC, we can see that it maintains a very reasonable ratio of "at risk" loans of 2.13%[16], while the CMACs in Peru are improving in their quality.

Table 7: Portfolio quality

Country	Institution	Portfolio at Risk > 30 days ratio (%) 2004	2005	2006
Chile	BancoEstado Microempresas	0.49%	0.60%	0.68%
Colombia	Banco BCSC Creemos	1.21%	1.63%	2.13%
Peru	FEPCMAC	6.14%	5.86%	5.42%

The financial performance and efficiency indicators reported by BancoEstado (Chile) and the CMACs (Perú), show that their microcredit programs are very profitable and run under efficient operating expenses in microfinance terms and taking into account the costs that they also incur as savings mobilizers.

15 In this case, Portfolio at Risk is measured by the percentage of overdue microloans (over 30 days) divided by the total portfolio.

16 1.9%, is the "Portfolio at Risk > 30 Days Ratio" in the MBB benchmark for Latin American large microfinance institutions. Data from MIX (2007a).

Table 8: Financial performance and efficiency (2006)

Country	Institution	Return on assets	Return on equity	Cost to income ratio	Operating expense ratio
Chile	BancoEstado Microempresas	3.00%	23.60%	58.90%	9.10%
Peru	FEPCMAC	4.15%	25.42%	32.62%	17.27%

1.3.2. Savings

WSBI members are first and foremost savings institutions. Historically they were created with the main purpose of mobilizing domestic resources and investing them in their communities.[17] As previously mentioned, all WSBI members in Latin America mobilize savings, which is one of their major advantages compared to other microfinance providers focusing exclusively on credit. The figures appearing in the following tables refer to savings values of their microfinance clients only. For example, for institutions such as BancoEstado (Chile) and Banco BCSC (Colombia) the amounts reported only include clients who are part of their microfinance specialized programs (BancoEstado Microempresas and Creemos respectively). They do not include amounts from the whole institution, where we could certainly find thousands of microsavers.

- The entire organisation of BancoEstado, for instance, mobilizes 88% of the savings retail market in its country[18], with a total of 10.5 million passbooks savings accounts totalling USD 3.4 billion in deposits. The average savings account balance is USD 330 (the rest of the Chilean financial system is USD 550).
- BANSEFI is also a large mobilizer of savings in Mexico. As of June 2006, it registered 3.3 million accounts with an overall balance of USD 455 million.

17 There is only one exception in Latin America. The Cajas de Crédito (affiliated with FEDECREDITO) in El Salvador provided only credit until 2002 when they were authorized to collect savings from their members. The other type of institutions affiliated to FEDECREDITO, the Bancos de los Trabajadores were authorized to collect deposits from the public since their creation in the 90's.

18 "88% market share by number of accounts" – Mena and Errazuriz 2006: 23.

- FEDECREDITO in El Salvador has experienced rapid expansion since 2004. Savings collected from a level of USD 56 million in 2004 to more than USD 138 million in 2007 (see Graph 2).
- In Peru, according to the Peruvian banking supervisor (SBS) the CMACs have reached leadership positions as savings mobilizers ranking ahead of most other financial institutions in their regions.[19] They also play an important role investing in their regions. From the USD 154 million savings collected in Lima, 60.12% goes to the municipalities as investments in credits and microcredits.

Table 9: Savings outreach (2006)

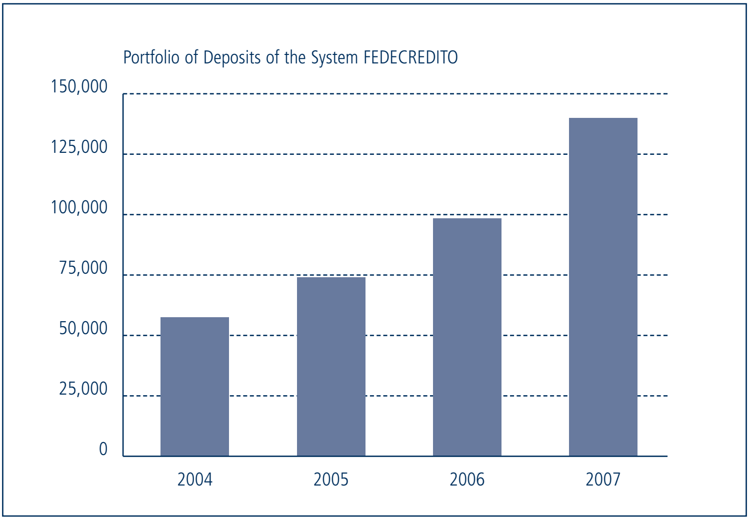
Country	Institution	Savings accounts	Average savings value (USD)
Chile	BancoEstado Microempresas*	157,278	667
Colombia	Banco BCSC* Creemos	27,512	80
Mexico	BANSEFI*	496,063	112
Guatemala	BANRURAL	1,052,122	570
Peru	FEPCMAC**	610,713	n/a

* *Refers to savings accounts only and excludes demand deposits and term deposit accounts (for an explanation of the difference see footnote 20).*

** *FEPCMAC only reported microsavings, defined as deposits of less than USD 100*

19 Peachey and Roe 2006b: 58.

Figure 2: Deposits FEDECREDITO Affiliates (USD)



Source: FEDECREDITO 2007

It was possible to obtain some figures of the different savings products offered by WSBI Members: demand deposits, savings accounts and term deposit accounts.[20] These figures are shown in Table 10. Demand deposits seem to be the most popular product among the microfinance clients with a total value of USD 469 million, savings accounts follow with 189 million, and term deposits with USD 120 million. Adding all the savings products shows that WSBI microfinance providers in Latin America mobilized USD 779 million in 2006 from their microcredit clients – which is a conservative estimate taking into account the lack of data for some institutions and the fact that, as mentioned earlier, many microsavers are clients of the banks and not necessarily of the microfinance programs. Table 11 shows the positive trend in the number of savings accounts.

20 Demand deposits where defined as bank deposits that can be drawn easily without previous notice. Savings accounts are interest-earning bank deposits kept for the purpose of savings. Term deposits refer to bank deposits with a fixed term when they can be withdrawn.

Table 10: Deposits at leading WSBI members in Latin America (2006)

	Demand deposit		Savings accounts		Term deposit accounts	
Institution	Number	Total outstanding amount (x 1,000 USD)	Number	Total outstanding amount (x 1,000 USD)	Number	Total outstanding amount (x 1,000 USD)
BancoEstado Microempresas	13,603	3,701,870	157,278	106,659,572	5,310	29,990,304
Banco BCSC	27,530	2,196,997	27,512	2,192,583	92	247,415
FEDECREDITO	n/a	n/a	n/a	19,446,340	n/a	77,785,360
BANSEFI	2,842,288	463,438,467	496,063	55,408,860	660	12,516,043
FEPCMAC	n/a	n/a	610,713	5,810,114	n/a	n/a

Table 11: Evolution of the number of savings accounts

Country	Institution	2004	2005	2006
Chile	BancoEstado Microempresas	n/a	89,738	157,278
Colombia	Banco BCSC Creemos	n/a	7,529	27,512
Mexico	BANSEFI	359,689	466,994	496,063
Peru	FEPCMAC	437,546	535,439	610,713

1.3.3. Remittances

In terms of remittances, it is mainly BANSEFI (Mexico), BANRURAL (Guatemala), the Cajas de Crédito affiliated with FEDECREDITO (El Salvador) and the CMACs (Peru) who provide services on a large scale in the US-Latin American corridor. These services are often associated with remittance companies.

Banco BCSC (Colombia) also processes remittances payments via agreements with the Spanish Savings Banks Confederation – CECA – and La Caixa (Spain). These programs cater to the Colombian migrants living in Spain. Banco BCSC reports that in 2006 it received on average of 2,000 monthly transactions from this partnership. Banco BCSC also works with "Giros y Finanzas" which is a Western Union agent in Colombia.

BANRURAL channels 50% of the remittances coming into Guatemala, with an average individual value of USD 391. As a bank, BANRURAL offers its remittances customers the option of depositing their remittances into an account. It also links remittances to the repayment of credits and offers access via the internet to Guatemalans living abroad. Those abroad are thus able to pay for services and buy goods for their families living in Guatemala.

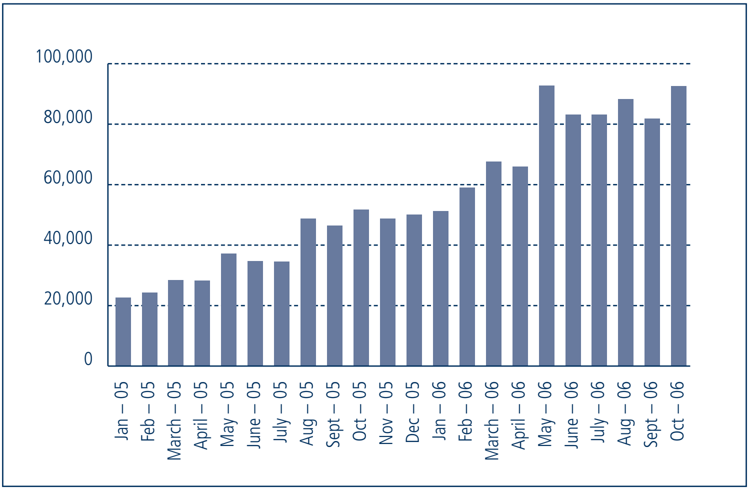
Also in Central America, the FEDECREDITO System has become an important remittances service provider in El Salvador and plans to channel 30% of the entire amount of national remittances. In just two years it more than doubled its remittances business, from USD 31.6 million in 2004 to USD 69 million in 2006.

Table 12: International Money Transfer Operations: Remittances

	2004		2005		2006	
Country Institution	International money transfer operations	Total outstanding amount (USD)	International money transfer operations	Total outstanding amount (USD)	International money transfer operations	Total outstanding amount (USD)
El Salvador FEDECREDITO	n/a	31,624,416	n/a	41,198,658	n/a	69,000,000
Mexico BANSEFI	279,038	87,494,230	460,831	154,715,307	922,219	335,280,417
Guatemala BANRURAL	n/a	n/a	n/a	n/a	4,647,524	1,815,045,156

BANSEFI also plays an important role in the remittances market in Mexico. Through a commercial alliance called "L@Red de la Gente" it interconnects its affiliated Cajas[21] to receive remittances. BANSEFI also builds commercial partnerships on behalf of L@Red with remittances companies on the sending side. In 2007, it concluded remittances agreements with 20 money transfer companies and 2 banks – which have a total of more than 30,000 access points in the United States. By the end of 2006, the number of remittances transacted was 922,219, representing an increase of 97% (see Figure 3). The average remittance value was USD 359 for 2006. The next step for BANSEFI is to implement its "account-to-account" service, as now most of the transactions are originated in cash. For this purpose it began its "Directo a Mexico" program and has already concluded agreements with 40 financial institutions in the United States.

Figure 3: Number of remittances processed through L@Red de la Gente



Source: L@Red de la Gente (2007)

21 In addition to its role as a savings bank in Mexico, BANSEFI has been mandated as the Apex organization of the reformed popular savings and credit movement (Cajas de Ahorro y Crédito Popular). As the local Cajas come into compliance with a new regulatory regime for them, they have access to L@Red de la Gente.

As a provider of remittances services, Caixa Economica Federal introduced in 2004 a money remittance service through the Internet, "E-conta Caixa" (Caixa e-Account) for Brazilians working abroad. This service allows those abroad to send remittances home directly from a host-country issued credit card. The account is available in 50 countries and the cost of a typical transfer is just 2 to 3%. As a second stage Caixa Economica Federal started making remittance services available to Brazilians living abroad through physical tellers at partner banks. The most successful partnership to date is with BCP Bank (A US based Portuguese Bank).

1.3.4. Insurance

In terms of insurance offered to the microentrepreneur and low-income market, active WSBI members are BancoEstado (Chile), Banco BCSC (Colombia) and BANRURAL (Guatemala). Usually insurance policies are distributed to microcredit clients and cover mainly life, disability and accidents leading to injury in microbusinesses.

- At the end of 2006, Banco BCSC started distributing an insurance product specially designed for its microfinance clients covering life and funeral assistance. This was carried out as part of its Creemos Programme.
- BANRURAL also distributes health insurance, a product that has become very popular. Their program has covered 150,000 families throughout the country since its creation in 2005.
- BancoEstado is a national market leader in Chile with more than 1.3 million insurance customers. It has designed low-cost insurance policies such as the "Incredible Insurance" product which covers the risk of accidental death at a cost of only USD 7.8 per year, or about 60 cents per month. This plan offers holders coverage worth more than USD 6,200. In 2005, the bank sold 132,000 of these policies.

Table 13: Insurance

	2004		2005		2006	
Country Institution	Number of policies	Total revenue (USD)	Number of policies	Total revenue (USD)	Number of policies	Total revenue (USD)
Chile BancoEstado Microempresas	72,587	3,025,612	135,917	7,098,438	154,783	8,850,974
Guatemala BANRURAL					9,431	228,536

1.4. Current trends

As they experience accelerated growth, WSBI members in Latin America have incorporated innovations into the microfinance market. This is the case, for example, of the recent deployment of banking agents[22] as a solution to expand distribution channels in a cost-effective manner. Three WSBI members – BancoEstado (Chile), Caixa Economica Federal (Brazil) and BANRURAL (Guatemala)[23] have pioneered in their respective countries the rolling out of the use of non-banking agents – which provide some of the services of banks though are not branches such as lottery kiosks, shops, pharmacies, etc.

- BancoEstado has utilised almost 1,000 new banking agents at the end of 2007. In 2006, in rural areas alone, BancoEstado was reaching more than 200,000 inhabitants. It estimates that in four years' time it will serve more than 1.2 million people – primarily in regions where there are neither banks nor ATMs.
- Caixa Economica Federal in Brazil is also implementing a great number of banking agents. In June 2006 it had more than 16,000 Points of Sale (POS) outlets. It also reported that close to 45% of all of its banking transactions are now handled at banking agents.

In addition to expanding distribution channels, WSBI members are also advancing in credit scoring systems specially designed for microfinance.

- Thanks to their historical client database BancoEstado and Banco BCSC have refined their credit scoring systems. These have become a very important tool for making faster and more accurate credit decisions. Once a loan officer has input a client's information, the institution applies a credit scoring based on historical and demographic data. The system then automatically determines the customer's potential and ability to reimburse the credit.
- BancoEstado Microempresas is also one of the institutions in Latin America that equips its agents with Personal Digital Assistants (PDAs). These PDAs contain georeferencing systems and roadmaps, as well as programmes for assessing and calculating financial data, allowing them to forecast credit viability upon first contact with a customer.

22 Banking agents work with POS terminals which are devices connected to a telephone or other telecommunication network, installed in retail shops which enable payments, transfers, withdrawals and deposits.

23 The experience of BANRURAL with banking agents « Caja Amiga » is very recent and it was not possible to obtain more information.

Finally, WSBI members are also concerned about the accessibility of their products to underprivileged customers. BANRURAL in Guatemala has ATMs with audio instructions in indigenous dialects and biometric recognition for the clients that cannot speak, read or write Spanish.

1.5. Short case studies of selected members

1.5.1. Peru – Federación Peruana de Cajas Municipales de Ahorro y Crédito (FEPCMAC)

Table 14: Microfinance at FEPCMAC (2006)

Microcredit market share	74%
Number of microborrowers	356,903
Microloan portfolio (USD)	510,499,292
Average microcredit (USD)	1,430
Number of savings accounts	610,713
Average savings account (USD)	n/a
Number of branches	218
Microfinance staff	1,411

Source: FPCMAC 2007

In Peru, the creation of the Cajas Municipales de Ahorro y Crédito (CMACs) was undertaken in the 1980's with the specific objective to create decentralised financial institutions oriented towards those segments of the population who lack access to the formal financial system. Today there are 12 CMACs represented by the FEPCMAC (Federación Peruana de Cajas Municipales de Ahorro y Crédito). FEPCMAC provides an auditing role, advisory and capacity building services. The CMACs are financial intermediaries owned by the municipalities. They are a separate legal entity with economic, financial and administrative autonomy.

The CMACs are the largest providers of microfinance services in Peru. They serve 74% of the microcredit clients. In terms of savings, they collect 80% of the total savings mobilized by microfinance providers in the country. Besides microcredit and savings (savings accounts and term deposits), they provide consumer and agricultural credit, basic payments services and international remittances.

1.5.2. Chile – BancoEstado

Table 15: Microfinance at BancoEstado (2006)

Microcredit market share	52%
Number of microborrowers	219,069
Microloan portfolio (USD)	389,233,644
Average microcredit (USD)	3,316
Number of savings accounts	157,278
Average savings account (USD)	667
Number of branches	145
Microfinance staff	792

Source: BancoEstado 2007

BancoEstado is the largest bank present in most of the provinces in Chile. It runs a microenterprise programme through the subsidiary "BancoEstado Microempresas", a national leader with 52% of the microfinance market. The subsidiary was created in order to respond flexibly and dynamically to the needs of microenterprises with adapted technologies and systems, risk analysis methods, specially designed products, different models of client services and professional staff dedicated to working for this sector.

BancoEstado Microempresas offers specialized microcredits to different client segments based on their activity (agriculture, fishing, trade, transportation, etc.). It offers savings and term deposit accounts, as well as payment facilities. It also distributes insurances. BancoEstado Microempresas has become an international model in the microfinance industry. It has earned several awards for the quality of its services, the latest being the Asia Pacific Quality Award, awarded by the Asia Pacific Quality Organization (APQO) in November 2007.

1.5.3. Colombia – Banco Caja Social Colmena – BCSC

Table 16: Microfinance at Banco BCSC (2006)

Microcredit market share	21.4%
Number of microborrowers	74,459
Microloan portfolio (USD)	123,379,995
Average microcredit (USD)	1,485
Number of branches	260 of which 71 participate in the Creemos Program
Microfinance staff	n/a

Source: Banco Caja Social 2007b

Banco Caja Social – now known as Banco BCSC – was created in 1911 with the mission to be the leading bank for financing low-middle income clients as well as micro and small and medium enterprises (SMEs). According to the bank's own estimates, 61% of the bank's portfolio comes from clients with a monthly income of less than USD 611.

Although it has targeted the low-income sector since its creation, in 2004 the Banco BCSC decided to create a specialized microfinance division. For its microfinance clients Banco BCSC offers savings and payment facilities, microcredits, and international remittances. It also distributes insurances. This division has developed a new client service model, which is based in microfinance principles. With the name "Creemos" (English – "We believe"), it operates as a special division within the bank with its own human resources, technology and sales departments. It also has its own risk policy and own credit procedures.

For its microfinance clients Banco BCSC offers savings and payment facilities, microcredits, and international remittances. It also distributes insurances.

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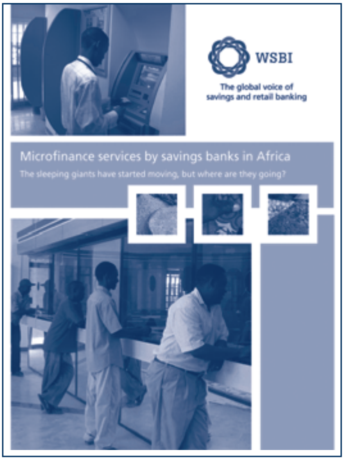
REPORT 2. MICROFINANCE SERVICES BY SAVINGS BANKS IN AFRICA



THE SLEEPING GIANTS HAVE STARTED MOVING, BUT WHERE ARE THEY GOING?*

2.1. Summary

The dominant paradigm in microfinance has, until recently, only recognised microcredit institutions. Savings banks in Africa could not be (and in many cases still are not) allowed to provide microcredit because of their institutional set-ups that commonly prohibit any form of lending. However, the definition of microfinance has evolved over recent years from its narrow perspective and now the scope of microfinance services largely includes basic financial services that are needed by vulnerable people.

Recent research in the field of "Access to Finance" has substantially contributed to changing the mindset as how experts define microfinance. There is a greater awareness that working poor people desire safer and more affordable deposit services to protect their small savings. The demand is also very high for payment services (including money transfer services) and insurance services.

* This report was initially released in September 2008.

This larger perspective of microfinance brings African savings banks in the picture. However, their contribution to microfinance is still very often overlooked by experts and policy makers.[1] The purpose of this section is to provide an overview and visibility to the activities of savings banks in this field. It complements the summary report on "Microfinance in Africa"[2] with hard evidence and data on these activities. The main findings of this section are as follows:

- Savings banks in Africa have been successful in providing convenient basic financial services by combining accessibility (secure, adapted and affordable financial services) and proximity (extensive retail distribution networks) to their clients. Their potential comparative advantage in deposit-taking services and money transfer services (including remittances) could be further enhanced through payment facilities.
- Institutional set-ups are changing favourably, but the general trend for savings banks is to reposition towards low-risk retail banking activities (e.g.; current account facilities, collateralised consumer loans; mortgages, etc.) and not to become pure microfinance institutions or microfinance banks.
- However, there are diverse business models to respond to the pressing market demand for microcredit services. Some savings banks have introduced a microcredit scheme in their product line (Tanzania Postal Bank, National Savings and Credit Bank, Zambia) or opened a specialised window (National Bank for Development, Egypt) for direct participation while others have opted for indirect participation through linkages (Post Bank Uganda, People's Own Savings Bank, Zimbabwe) with sustainable and promising microfinance institutions (e.g., refinancing with wholesale loans for on-lending to retail microfinance clients).
- Where savings banks are direct microcredit providers the individual lending methodology has generated better results. Loan sizes vary across countries from USD 50 to USD 2,000 (often group loans) but are in line with the industry average while microloan portfolios range between USD 100,000 and USD 8 million (at the National Bank for Development, Egypt).

1 Broadly speaking, African savings banks are providers of microfinance services although they have historically not been classified among microfinance institutions.

2 Pouye 2008.

- Regulation is an issue for savings banks involved in microfinance because they are subject to stringent banking regulations. Microcredit is in principle uncollateralized lending and as such it is more demanding in capital resources for complying with prudential requirements. In general, regulation is a barrier to the expansion of microcredit programmes run by savings banks.

2.2. Main characteristics of microfinance in Africa

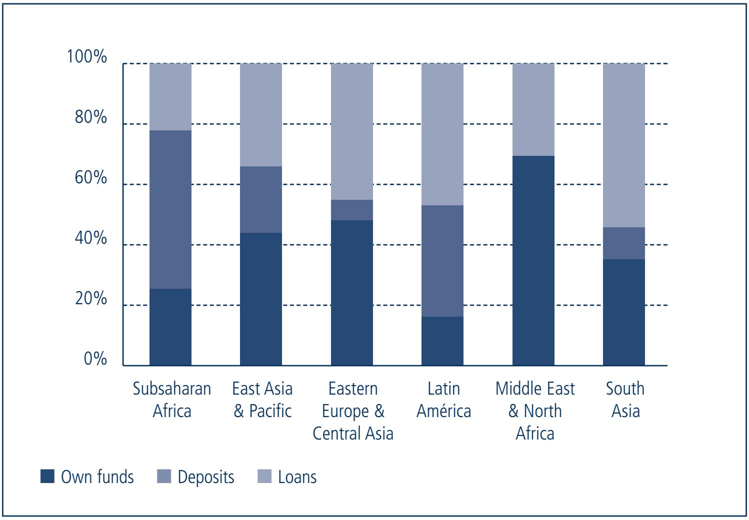
Microfinance in Africa, in its myriad of shapes and forms, meets the needs of an increasing number of vulnerable people whether farmers, traders and microentrepreneurs.[3] The industry is growing – although at different speeds – due to improved access to commercial funds, deposits from clients and, to a lesser extent, equity. However, there are distinctive differences between Sub-Saharan Africa and the North Africa and across sub-regions within Sub-Saharan Africa.

Sub-Saharan African MFIs perform relatively well in global comparisons. Based on an analysis of 163 MFIs;[4]

- The quality of the portfolio is high with an average of only 4% of the portfolio at risk for more than 30 days[5]
- Much more than in any other region of the world, savings is prominent in the local microfinance industry and used as a significant source of funds for lending.[6] While growth has been slow with regard to credit outreach, deposit mobilisation has expanded significantly over recent years. In general, microfinance institutions greatly value both credit and deposit services in Sub-Saharan Africa.

3 MIX 2008.
4 MIX 2005.
5 This generally means that interest on the loan is overdue by more than 30 days.
6 MIX 2007b: 11.

Figure 1: Breakdown of sources of financing (weighted by assets)



Source: MIX 2005

- They are among the most productive MFIs in the world in terms of the number of borrowers and savers compared to the number of staff (70% of MFIs in Sub-Saharan Africa offer savings services and have more than three times more voluntary savers than borrowers).

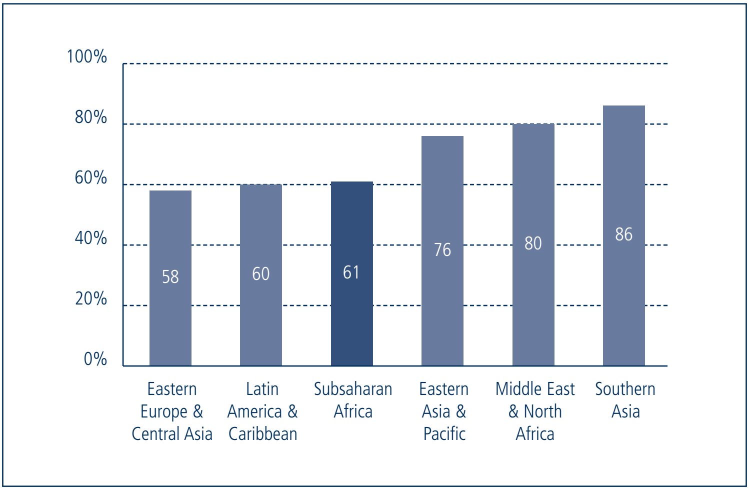
Table 1: Client structure

	Sub-Saharan Africa	Middle East and Northern Africa	East Asia and the Pacific	Eastern Europe and Central Asia	Southern Asia	Latin America and the Caribbean
Borrowers	**2.41**	0.37	3.80	0.21	6.57	1.76
Savers	**6.32**	0.00	30.10	0.04	3.19	0.68

Source: MIX 2005

- In line with other regions of the world, the microfinance sector has recognised the determinant role of women and constitutes an efficient instrument for empowering women. More than 61% of the borrowers are female clients in Sub-Saharan Africa.

Figure 2: Percentage of women borrowers of MFIs



Source: MIX 2005

Nonetheless, these positive results mask a number of critical challenges that could hinder the development of Sub-Saharan African MFIs. High operating costs and increasing competition are often indicated as the main challenges for the overall microfinance industry. Technology and innovations could drive the industry to higher levels of efficiency and productivity and help to diversify the product base. However, increasing competition will push institutions to lower lending rates, albeit allowing for profit-making. Credit-only institutions suffer most from limited access to commercial funding. Evidence suggests that microfinance institutions which engage in full intermediation grow faster and far better in outreach and financial terms than those specialising in lending only.

In North Africa, microfinance enjoys one of the most favourable environments for growth due to low market penetration rates combined with generally shallow government intervention.[7] The region is mostly free of competition and high financing costs that bog down the industry in more mature markets. Microfinance institutions face lower hurdles and can more easily attain profits, all while responding to the needs of the lower income segment of the microfinance market.

7 MIX 2008b.

However, the microfinance industry in North Africa is slowly starting to show signs of maturity. Access to concessional funds – funds with lower interest rates – has so far enabled the sector to boost profits, but competition for these limited resources is intensifying. Financial costs are rising, albeit slowly, and institutions are outgrowing the pool of available funds.

Savings services are glaringly absent from the market due to widespread government reluctance to the mobilization of deposits by non-bank institutions, though the industry has made tremendous strides in offering microcredit. If institutions in the region can maintain productivity, and at the same time overcome funding and management constraints to building up their institutional capacity, the market is set to grow further.

The microfinance industry in North Africa is certainly at a critical stage of its development. Current legislation may need to be revised to open the door to new financing opportunities, including savings and equity investments.

2.3. Savings banks in the microfinance landscape in Africa

Savings banks are a legacy of pre-independence times. In most countries, they predated commercial banks in laying the groundwork for a modern banking system. In those days, they were established to encourage the monetisation of local economies by mobilising indigenous savings in the form of deposits. However, the model of the postal savings banks was preferred to that of ordinary savings banks that have the same philosophy. The predominance of this model explains why postal savings banks count for more than two-thirds (2/3) of the WSBI membership in Africa (*a list of members in Africa is available in Annex 3*).

The postal savings bank model has been to use the convenience of post offices to minimise the cost of mobilising small savings and to maximise outreach. In general, the state guarantee on their liabilities has been accompanied by statutory obligations to entrust the money with national Treasuries or invest in government debt. Even today, savings banks are still considered as shadow instruments for channelling cheap funds into the government budgets.

Despite their significant role in providing financial services to under-privileged groups and communities, the involvement of savings banks in the microfinance arena is often overlooked. Many are still prohibited from lending and offering microcredit schemes. However, these restrictions are gradually being lifted – fully or partially – allowing a few to expand the scope of their operations.

Expanding the scope of microfinance services to include services outside of microcredit clearly means that the full potential of savings banks in this industry should be reassessed. Given this wider perspective, savings banks are significant microfinance service providers. As institutions committed first and foremost to the mobilisation of savings with typical clients including households, micro and small enterprises, it is undisputable that these "sleeping giants" are large parts of the microfinance landscape.

However, many continue to question the desirability of having savings banks (particularly postal banks) introduce lending functions. Those who support introducing lending functions argue that savings banks have no choice but to diversify their range of products and services. This is because of declining interest rates on government debt instruments (Treasury bills and government bonds) and increasing competition on their traditional captive market segments by microfinance institutions and commercial banks going into retail lending. Such an evolution by these institutions would not work without offering credit services and also reflects the recognition that in order to achieve their social mission, savings banks need to transform into client-responsive organisations.

However, some argue that savings banks have not fully exploited their potential under narrow banking requirements and therefore should be revitalised in the scope of limited financial intermediation. In this regard, opponents to allowing savings banks to provide credit argue that savings banks should further enhance their deposit taking and payment functions. This would mobilise deposits from the public to invest freely in financial markets in low-risk/no-risk debt instruments including private sector issues. These opinions are supported by the fear of the potential down sides of government-owned savings banks entering the credit market and the fear of (in particular) political influence over lending decisions.[8]

8 Wright, Koigi and Kihwele 2007.

Whether allowed to lend or not, what is at issue today is a change in the mindset of people who steer the global microfinance agenda. In Asia, state-owned banks are the largest microcredit providers and are recognised and accepted as such although in some cases they administer subsidised government funds. African savings banks certainly need support in their endeavour to respond to the huge underserved market and most particularly to address the pressing demand from their clients.

At the same time, not all WSBI African members have their origins as a postal bank. There is private stake in a few institutions. Among these, the National Bank for Development (NBD) in Egypt is alone as fully privately owned. The bank has gained international recognition for its sustainable microcredit program, which has been able to disburse more than USD 164 million in nearly twenty years of operations (*more information is available in Box 1*).

2.4. Key features of African savings banks

While savings banks differ from country to country, in Africa they are characterised by their commitment to accessibility and proximity.

2.4.1. Accessibility

A key feature of savings banks' accounts is the predominance of low balance transactional accounts. Unlike mainstream banks, which in general apply prohibitive administrative charges, savings banks have adopted price structures reflecting the fair costs of transactions for small accounts and charging small fees for regular transactions above a certain number of operations. For example, more than three quarters of savings accounts with the WSBI members in Kenya (2005) and Tanzania (2004) had deposit balances below USD 15. However, these accounts represented only 5% and 6% (respectively) of the outstanding deposit value of these banks (See Table 2).

Table 2: Percentage of savings accounts with a balance below USD 15

Country	Institution	Number (%)	Value (%)
Benin (2001)	Postal Corporation	62%	-
Burkina Faso (2001)	Postal Corporation	36%	-
Kenya (2007)	Post Office Savings Bank	85.1%	5%
Tanzania (2004)	Postal Bank	79%	6%

Source: WSBI Members 2008

2.4.2. Proximity

Savings banks in Africa are also characterised by nationwide distribution networks to reach out to the clients in urban, semi-urban and sometimes rural areas. In the cases of postal savings banks, their networks often match and even exceed that of all other banks combined (see Table 3).

Table 3: Number of outlets (not including electronic devices)

Country	Institution	Number of outlets of the savings bank	Number of outlets of banks
Angola (2005)	Banco de Poupança e Crédito	56	-
Benin (2005)	Postal Corporation	93	76
Cote d'Ivoire	Savings Bank	164	177
Kenya (2007)	Post Office Savings Bank	481	443
Morocco (2005)	Postal Corporation	1,635	1,814
Tanzania (2006)	Postal Bank	177	232
Tunisia (2005)	Postal Corporation	1,002	1,000

Source: WSBI Members 2008

Savings banks have experimented with various technological options to reach the unbanked and underbanked populations mostly in the rural areas. These experiments have included setting up satellite (mobile) branches – which allow service to financially-excluded geographical areas where mainstream banks found it unprofitable to set up brick and mortar infrastructures.

Savings banks in Uganda and Zimbabwe operate mobile banking units, which consist of vans equipped with information and communications technology touring remote communities on fixed dates to render banking services. Savings banks are also moving beyond traditional networks to offer branchless banking services and accommodate the market. Electronic devices (ATM, POS, Cellphone, etc.) are increasingly being introduced to handle a high volume of low-value transactions.

Table 4: Breakdown of outlets among selected WSBI members in Africa

<table>
<tr><th>Country</th><th>Institution</th><th>Branches in the region capital</th><th>Branches in other major cities</th><th>Branches in rural towns and villages</th><th>Satellite/ Mobile branches</th><th>ATMs</th></tr>
<tr><td>Comores</td><td>Postal Corporation</td><td>2</td><td>2</td><td>7</td><td></td><td></td></tr>
<tr><td rowspan="2">Kenya</td><td rowspan="2">Post Office Savings Bank</td><td>36</td><td></td><td>49</td><td rowspan="2"></td><td rowspan="2">19</td></tr>
<tr><td colspan="3">396 (post offices)</td></tr>
<tr><td>Morocco</td><td>Postal Corporation</td><td colspan="3">1,696 (post offices)</td><td>372</td><td></td></tr>
<tr><td>Tanzania</td><td>Postal Bank</td><td>47</td><td>89</td><td></td><td></td><td>20</td></tr>
<tr><td>Tunisia</td><td>Postal Corporation</td><td>509</td><td></td><td>464</td><td>45</td><td>100</td></tr>
<tr><td>Zambia</td><td>National Savings and Credit Bank</td><td>13</td><td>4</td><td>7</td><td></td><td></td></tr>
<tr><td rowspan="2">Zimbabwe</td><td rowspan="2">People's Own Savings Bank</td><td>10</td><td>14</td><td>6</td><td rowspan="2">5</td><td rowspan="2">40</td></tr>
<tr><td colspan="3">160 (post offices)</td></tr>
</table>

Source: WSBI Members 2008

2.5. Products and services

There is a large demand for a variety of financial services among low-income people. Traditionally, savings banks have focused on savings mobilisation as a core business and only introduced other retail banking services – including insurance and credit schemes – at a later stage. In some cases, non postal savings banks have continued to offer low-value deposit services to the mass market while evolving into socially-committed retail banks.

Table 5: Products and services offered by selected WSBI members in Africa

Country	Institution	Deposit	Lending	Insurance	Payments*
Benin	Postal Corporation	✓			✓
Cote d'Ivoire	Savings Bank	✓			✓
Ghana	HFC Bank	✓	✓		✓
Kenya	Post Office Savings Bank	✓			✓
Morocco	Postal Corporation	✓		✓	✓
Senegal	Postefinances	✓			✓
South Africa	Postbank	✓		✓	✓
Tanzania	Postal Bank	✓	✓	✓	✓
Tunisia	Postal Corporation	✓			✓
Zambia	National Savings and Credit Bank	✓	✓		✓
Zimbabwe	People's Own Savings Bank	✓	✓		✓
**(including money transfer services, card services)*					

Source: WSBI Members 2008

2.6. Lending experiences

Regulatory authorities have always been reluctant to grant savings banks the permission to enter the lending business. However, a certain number of (postal) savings banks have managed to secure this permission from their authorities.[9] When savings banks engage in lending, their market focus is not solely oriented towards extending microcredits but also to developing retail lending services.

9 e.g. "Caisse Nationale d'Epargne et de Prévoyance" (Algeria), (Botswana) Savings Bank, Caixa Economica (Cape Verde), HFC Bank (Ghana), "Banque de l'Habitat" (Mali), Savings and Social Development Bank (Sudan), Post Bank (Uganda), (Tanzania) Postal bank, National Savings and Credit Bank (Zambia), and People's Own Savings Bank (Zimbabwe).

2.6.1. Retail lending: Savings banks' experiences across Africa

Retail lending experiences of African savings banks vary across countries with some institutions concentrating on housing finance in accordance with their by-laws while others are tap the underserved market of consumer lending with no-risk credit schemes.

Table 6: Selected features of WSBI members

<table>
<tr><th rowspan="2">Country</th><th rowspan="2">Institution</th><th rowspan="2">Regulatory status</th><th colspan="2">Market focus</th></tr>
<tr><th>Products</th><th>Segments</th></tr>
<tr><td>Algeria</td><td>Caisse Nationale d'Epargne et de Prévoyance</td><td rowspan="3">Banks</td><td rowspan="3">Housing
Finance</td><td rowspan="3">Individuals
Companies</td></tr>
<tr><td>Ghana</td><td>HFC Bank</td></tr>
<tr><td>Mali</td><td>Banque de l'Habitat</td></tr>
<tr><td>Botswana</td><td>Savings Bank</td><td rowspan="5">Credit/ Financial institutions</td><td rowspan="5">Consumer (salary-based) loans
Business (corporate) loans</td><td rowspan="5">Individuals
SMEs</td></tr>
<tr><td>Tanzania</td><td>Postal Bank</td></tr>
<tr><td>Uganda</td><td>Post Bank</td></tr>
<tr><td>Zambia</td><td>National Savings and Credit Bank</td></tr>
<tr><td>Zimbabwe</td><td>People's Own Savings Bank</td></tr>
</table>

Source: WSBI Members 2008

Savings banks involved in housing finance are in general specialised institutions that have taken advantage of universal banking licenses to complement their offer with commercial banking products and services.

Table 7: Value of the loan portfolio

Specialised Housing Finance Banks	Value (USD million)	Credit/Financial institutions	Value (USD million)
Caisse Nationale d'Epargne et de Prévoyance (Algeria)	2,503.13	Savings Bank (Botswana, 2005)	28.1
Housing Finance Company, Bank (Ghana)	74.3	Postal Bank (Tanzania, March 2007)	20.7
Banque de l'Habitat (Mali, 2005)	137.4	Post Bank (Uganda, 2005)	7.55
		National Savings and Credit Bank (Zambia, 2004)	3.27

Source: WSBI Members 2008

The loan portfolios for the group of specialised banks are significantly larger than that of those formed by institutions with credit/financial institution licenses that are not allowed to operate checking accounts and related services. In fact, the bulk of loans with this second group are small sized loans to individuals and SMEs. Nevertheless, these loan portfolios are growing continuously in volume and number.

Table 8: Lending data at Tanzania Postal Bank (March 2007)

Products	Number of accounts	Value (USD million)	Breakdown
Consumer Loans	27,344	16.9	81.71
Business loans (SMEs)	350	2.4	11.48
Microloans	1,226	1.4	6.81
Total	28,920	20.7	100
Consumer loans: In 2001, Tanzania Postal Bank introduced the "Consumer loan". These are loans targeting employed people. Repayment is guaranteed by employers who execute a Collective Guarantee Agreement in which they agree and undertake to make monthly deductions from salaries and remit the same to the bank for repayment of loans extended to their employees. Borrowers are charged 19.2% per year.			
SME loans: In 1998, Tanzania Postal Bank introduced this scheme to target individual entrepreneurs, small and medium businesses. The loans are intended to cater for enhancement of capital. The loans are collateralized and charged interest at a rate of 18%.			

Source: Tanzania Postal Bank 2007

2.6.2. The provision of microcredits

For the purposes of this analysis, WSBI defines microcredits as small sized uncollateralized or weakly collateralised loans provided to vulnerable people for economic and social empowerment through income and employment generation.[10] Historically, savings banks in Africa have not succeeded introducing microcredit as a business line because they were in most cases prevented from lending by their statutes. Where they have been able to lend, savings banks have traditionally developed retail banking activities for low wage earners. For this reason, savings banks are consistently invisible in microfinance publications. Recently, a few began introducing microcredit schemes in order to serve this market and further demonstrate their commitment towards society. However, their records remain very modest if compared to their sister institutions in Latin America or large microfinance institutions in Africa. Some examples are National Development Bank (Egypt), (Tanzania) Postal Bank, Post Bank (Uganda), National Savings and Credit Bank (Zambia) and People's Own Savings Bank (Zimbabwe).

Regardless of this historical legacy, the potential for savings banks to grow in the microfinance business is huge if they manage to implement a successful business model. The group lending approach usually has not produce satisfactory results and most savings banks have shifted to experiment with an individual lending approach. However, savings banks are showing a growing interest in approaching microfinance indirectly through financial linkages with microfinance institutions whereby wholesale funds could be extended to them for lending to their clients[11].

10 The Microcredit Summit (1997) defined microcredit as follows: "Programmes to extend small loans to very poor people for self-employment projects that generate income, allowing them to care for themselves and their families".

11 Value propositions for financial linkages could also include the possibility for the micro-finance institution to extend savings services and money transfer services to their clients through agencies with the savings bank, and get support from the savings bank for cask management services.

Table 9: Overview of microcredit programmes by savings banks in Africa

<table>
<tr><th>Institution (Country)</th><th colspan="2">Basic features</th></tr>
<tr><td>National Development Bank (Egypt)</td><td>Retailing</td><td>Individual lending</td></tr>
<tr><td colspan="3">Microcredit program: NBD launched this scheme in 1991 after three years of pilot schemes in cooperation with donor agencies (USAID, Ford Foundation, and UNICEF). It targets small entrepreneurs with no commercial record or license. Loan size varies between USD 40 and USD 1,600</td></tr>
<tr><td>Postal Bank (Tanzania)</td><td>Retailing</td><td>Individual lending
(bad experience with group lending)</td></tr>
<tr><td colspan="3">Microcredit scheme: In 2001, a group lending scheme (group lending) was introduced on a pilot basis in one region of the country, but the performance of the scheme was extremely disappointing with 81.1% of the microloans portfolio non-performing. In 2002, TPB rolled out individual lending methodology with better results. Loan size ranges from USD 50 to USD 600 and the interest rate reaches 30% per annum to cover administrative expenses.</td></tr>
<tr><td>National Savings
and Credit Bank (Zambia)</td><td>Retailing</td><td>Individual lending</td></tr>
<tr><td colspan="3">Microloans:
- Max: USD 1,400 (5 million in local currency)
- Term: maximum 12 months
- Applicant must have active savings account with the bank and a minimum of 20% of the loan amount in this account.
- Group size: 5 to 20 people
- Maintain a group account
- Individuals forming the group to contribute 10% of the loan amount</td></tr>
<tr><td>People's Own Savings Bank
(Zimbabwe)</td><td>Retailing
Wholesaling</td><td>Individual lending</td></tr>
<tr><td colspan="3">Microlending: This scheme targets (i) individuals holding a fixed deposit account and wishing to finance short-term financial requirements that may include school fees, medical expenses, funeral expenses and microproject financing (ii) corporate clients for meeting working capital requirements.
Wholesale loans aim at financing registered microfinance institutions for on lending to microenterprises.</td></tr>
<tr><td>Post Bank (Uganda)</td><td>Wholesaling</td><td></td></tr>
<tr><td colspan="3">Wholesale loans are made available in the framework of linkage banking activities whereby the bank develops win-win partnerships with microfinance institutions.</td></tr>
</table>

Source: WSBI 2008

Growing linkages between MFIs and the banking system in Africa appear to be mutually beneficial. MFIs rely on banks for a variety of services, including deposit facilities, liquidity management services, and, in some cases, emergency credit lines to cover cash shortfalls. For banks, the benefits are the opportunity to expand their client base and operations through MFIs (including in the rural sector). The linkages between MFIs and banks also help to broadly tie together the economic activities in the formal and informal sectors of the economy and provide opportunities for small entrepreneurs to graduate from microcredit to conventional bank loans.

Box 1: National Bank for Development (Egypt) – a microcredit case for best practices

National Bank for Development designed its microcredit concept under a lending system based on the existing culture of banks to achieve social and national goals in accordance with the Egyptian context. It is designed to be responsive to the immediate short credit needs of small entrepreneurs with no commercial record or license. NBD's main aim in this respect is to provide new employment opportunities by through income generation, self-employment and increased self-reliance. The bank also aims to satisfy the Small Enterprise sector's need for expanded activities, decreased production costs, innovation in their professions and enhanced standard of living.

In addition to the economic and social objectives aimed at improving the quality of life, SME programs have also been targeted to increase savings awareness among NBD clients. The SME target groups are small active borrowers and artisans in both rural and urban areas throughout upper and lower Egyptian governorates with no commercial record or license who have never had access to banking services.

In implementing its program, NBD serves potential borrowers on site in the targeted area. The methodology for implementing SME credit programs departs from the traditional lending structure in Egypt both in terms of types of borrowers targeted and amounts involved. Upon simple and thorough studies of potential and small borrowers, adequate uncollateralized loans with appropriate repayment schedules are disbursed to clients to fulfil their credit needs.

NBD has been chosen as a model for the Middle East which relies on Microfinance best practice techniques. The loans size varies from USD 40 to USD 1,600 and is determined after studying the client's credit needs, type of activity, income cycle and cash flow. NBD has expanded its microlending program rapidly and achieved profitability in a reasonably short period. It is worth noting that:

- The program is currently active within 44 branches in 17 governorates.
- The program is continuing at present on a self-sustaining basis. NBD has matched credit funds from its own resources.
- NBD provided employment opportunities to 367 individuals working in its programs.
- The SME lending program, which is applicable to virtually all geographic areas of Egypt, is now expanding to embrace NBD's 68 branches and is being financed from NBD's own resources.
- The program also has a popular credit life insurance feature and built in financial incentives for the clients to repay in time, such as cash savings requirements, a refundable late payment assessment, and an increased likelihood of a large repeat loan upon payment.

Table 10: Key figures of NBD's microcredit program

	2003	2004
Number of disbursed loans	343,522	383,783
Value of disbursed loans (USD)	146,767,645	162,837,034
Number of active loans	22,606	25,399
Outstanding balance (USD)	4,796,627	7,900,158
Number of current savings accounts	20,390	23,482
Value of current savings accounts (USD)	666,155	1,048,885
Number of voluntary savings certificates		13,225

Source: NBD 2008

2.6.3. Small savings schemes

The main attraction for savings banks in Africa has been safety, since they usually enjoy a state-guarantee on their liabilities, sometimes combined with tax-exemption on interest rates paid to depositors. Some savings institutions have performed remarkably in mobilising small balance deposits.

Table 11: Deposit accounts in selected African countries

		Number of deposit accounts (1000s)		
Country	WSBI member	WSBI member	MFIs	Banks
Benin (2007)	Postal Corporation	448 (savings accounts) 40 (current accounts)	684	282
Cote d'Ivoire (2006)	Savings Bank	1,100	710	760
Kenya (2005)	Post Office Savings Bank	1,200	1,250	1,970
Morocco (2006)	Postal Corporation	2,500 (savings accounts)	-	7,600
Tanzania (2006)	Postal Bank	1,100 (current accounts)	-	1,400
Tunisia (2006)	Postal Corporation	2,600 (savings accounts) 650 (current accounts)	-	2,500

Source: WSBI Members 2008

Table 11 provides an overview of the number of deposit accounts held by deposit-taking financial institutions in selected African countries. The data reveals that savings banks (postal financial services) and microfinance institutions in Sub-Saharan Africa add significantly to the supply of banking accounts by conventional banks. In addition, as Koigi, Kihwele and Wright (2007 p.2) noted: "The sheer numbers of clients by the post banks strongly suggests that they are providing financial services to a significant proportion of the vulnerable non-poor, the poor and the poorest".

Critics of postal savings banks recognise that their products are affordable to the mass market but often argue that these are basic and low standard products. However, some of these schemes have been redesigned and become very popular because they combine other attractive features (e.g. short service time, unrestricted withdrawals, technology functions, etc.).

Box 2: Bidii Savings Account (Kenya Post Office Savings Bank) and Domiciled Quick Savings Account (Tanzania Postal Bank)

In collaboration with the Programme MicroSave Africa, postal banks in Kenya and Tanzania designed and introduced flexible savings accounts with unrestricted withdrawals to accommodate small business people who want to transact regularly. However, the success of these products went beyond the original target group with many banks' passbook owners shifting and subscribing. Over time the success of Bidii account and Domiciled Quick account also reached high value account holders

The Bidii Account and Quick Account are card based and computer operated. This has allowed cutting dramatically the service delivery time per client. This improves the quality of the service and provides potential for providing service to more customers within the same time frame. In addition the service cost has been significantly reduced. For these reasons, the TPB (Tanzania Postal Bank) has "an explicit policy to migrate all its passbook customers onto its card-based Quick Account" – "19 out of 20 new basic accounts opened at TPB are Quick Accounts". The conditions for opening and operating Bidii Accounts are such that many poor clients can afford this product.

The Bidii card and the Quick Account card were initially only basic identity cards. But since the two postbanks introduced e-banking services, they currently offer magnetic stripe versions of these products – Cash X-press (Kenya) and Uhuru card (Tanzania).

Table 12: Product performance at a glance for Bidii Savings Accounts and Domiciled Quick Accounts

Bidii Savings Account	No. of accounts	Deposit balance (million USD)	% of total deposit base
2003	15,494	3.11	2%
2004	53,433	9.83	7%
2005	115,301	20.27	14%
2006	183,404	-	
2007	232,103	-	

Domiciled Quick Account	No. of accounts	Deposit balance (million USD)	% of total deposit base
2003	57,938	9,783	-
2004	~80,000	14,826	29.27%
2005	~112,000	22,581	45.1%

Sources: Postbank (Kenya) 2008, Tanzania Postal Bank 2007, Wright, Koigi and Kihwele 2007

Box 3: The Postbank of South Africa's leading role in the low-end retail banking market – the Mzansi Account

The Mzansi Account is the result of a banking industry initiative to provide a standard bank account, which is affordable, readily available and suits the specific needs of previously unbanked communities. This initiative is a requirement of the Financial Sector Charter, which requires banks to make banking more accessible to the nation and, specifically, to increase banking reach to all communities.

The collaboration between the banks has allowed Mzansi account holders to make use of any of the participating banks' ATMs at no additional cost. This effectively creates a network of over ten thousand ATMs across the country and extends the banking platform to the general public. This is augmented by point of sale functionality available at retailers.

With a mission to make banking affordable to the majority of South African citizens Postbank is fast becoming the bank of choice to a significant number of historically unbanked people. Postbank is the leading South African bank with market share of 41% in terms of Mzansi accounts. This success story is largely due to its unequalled national coverage through 2,600 postal outlets. By June 2007, Postbank had a total client base of 4.6 million accounts, an increase of 772,330 new accounts in a year.

2.7. Diversifying into insurance and payment services

Diversification is critical to sustaining a commercial business approach. Savings banks are quickly capitalising on the value of their extensive distribution channels to offer a wider range of retail financial services including insurance and payment facilities. Both insurance and payment facilities earn commissions and fees and can become major sources for extra revenues.

2.7.1. Commercialising insurance schemes

In general, savings banks are not allowed to design and brand insurance products. They can, however, operate as agents for registered insurance companies. The biggest difficulty in entering this market, though, is not in signing a distribution agreement but in overcoming the lack of public awareness, which is undoubtedly the largest obstacle to the commercialisation of insurance policies in Africa.

Microinsurance schemes have been introduced or are in the pipeline in a few countries. Yet, successful experiments remain limited, in need of an aggressive marketing policy to boost commercialisation.

Box 4: Insurance plans in South Africa and Tanzania

Postbank South Africa: The "Thuso Plan"[12] commercialised in partnership with Safrican Insurance Company, could be considered as a good example of microinsurance. Thuso (which means "help") is a multi-package life insurance plan. It also provides funeral coverage at very affordable premiums.

Tanzania Postal Bank: The Tanzania Postal Bank has developed into an example of promising diversification in the insurance business.[13] In 2005, the bank introduced this scheme to provide a one stop shop for their borrowers for insurance requirements. Since its initial introduction, the product has been made available to the public. For the first quarter of 2007, the bank realized USD 8.8 million in revenue from insurance services.

Despite a huge potential available from their large customer base, savings banks' records in commercialising insurance schemes remain very modest throughout Africa. It is apparent that maximising cross-selling opportunities between existing retail financial products (savings, loans, etc.) and life and non-life insurance policies is the way forward to support the diversification strategy.

12 Postbank South Africa 2008.
13 Tanzania Postal Bank 2008.

2.7.2. Payment facilities

Technologies are playing a critical role in reducing the costs of transmitting transaction details between the customer, the retailer, the financial service provider and eventually third parties. Payment facilities encompass a variety of products and services. Products include giro accounts, call accounts, transaction accounts, etc. Services include bill payments, check payments, direct debits, stop orders, money transfers, credit transfers, disbursements, e-payments, mobile payments, etc. Essentially, all of these services are geared towards managing the transfer of funds to/from a customer or a third party.

Payment facilities are critical business lines for narrow banks in the endeavour to sustain and enhance their income base constrained by the restrictions on investing their liabilities – deposits from customers – into credits. In Africa, there are many cases of (postal) savings banks that have gone beyond deposit products to complement their offer with payment services. Current and future relevant developments with non-cash instruments are related to the introduction and expansion of plastic card usage, mobile banking services and money transfer market opportunities (including remittance transactions).

- **E-banking services**

  Plastic card usage is becoming a reality in most African countries with the increasing awareness by banks that card services are not only desirable to the "upper-client segment" and could also be made available to the general public. For various reasons, savings banks are demonstrating enthusiasm in embracing e-banking technologies and there are actually several cases of savings banks that have managed to introduce branded or co-branded debit cards, ATMs and POS (point of sale) devices across the country (See Box 5). Savings banks with their large customer base are potentially well positioned for popularizing e-banking services.

Box 5: Examples of introduction of card services in African Savings Banks

Kenya Post Office Savings Bank: The Cash X-press card is a Postbank ATM debit card offered in partnership with Kenswitch – a company formed by a consortium of banks to provide shared ATM services to the banks' customers.

"**Poste Maroc**" in Morocco introduced e-banking services in 2004 and since then the number of cards with its own brand has grown rapidly to reach 423,372 with a transaction volume of 3,744,230 by the end of 2006.

Postbank South Africa: In May 2006, Postbank achieved a milestone in the introduction of e-banking services with the launch of its Visa-branded debit card that enables customers to transact nationwide and internationally without cash. By June 2007, over one million Postbank Visa debit cards had been issued to replace the traditional ATM cards. Among the beneficiaries are 200,000 pensioners, which were granted a Postbank Pension Flexi-Card on which they will receive their pensions so that they can switch from traditional cash payment systems to a card based system. In addition, Postbank also introduced debit-card functionally on 1.2 million Mzansi accounts.

Tanzania Postal Bank: The UHURU card is an ATM debit card offered in agreement with the First Bank of Middle East (FBME). The number of UHURU card holders is 76,181 as of March 2007 and deposits by card customers had reached USD 21 million at that time.

- **Remittance services**

  Approximately 80% of WSBI member savings banks in Africa are somehow involved in remittances – often as agents of money transfer operators (MTOs). For a period, they partnered exclusively with dominant MTOs (Western Union, Money Gram). Today, savings banks have developed business cooperation with new and promising MTOs (Money Express, Choice Money Transfer, Eurogiro, etc.)

  However, taking into account the postal background of some of these members, it is important to recall that post offices have been involved in the remittance business for much longer with paper orders, which predated modern e-transfer solutions. It took time to develop the capacity to accommodate low value international transfers.

Box 6: Remittances through postal financial services in Senegal and Tunisia

The experiences of postal financial services in Senegal and Tunisia serve to illustrate the key role WSBI member play in channelling migrant remittances to home countries.

Over the period 2001-2005, post offices in Senegal and Tunisia experienced continuous growth of international money transfer flows both in the number of transactions and volume of transactions. The Senegal Post Office claims that its market share doubled over this period from 14/15% to 30%. The average amount per transaction was less than USD 250 in Senegal.

At the Tunisia Post, the average amount per transaction slightly declined from USD 1,200 in 2001 to about USD 560 in 2005. In the meantime, the number of transactions has increased by four times demonstrating clearly that the Post Office in Tunisia has become more attractive as remittance channel and it has likely partly captured informal flows.

Table 13: International Money Transfer Transactions

	2001		2003		2004		2005	
Institution (Country)	Number of Transactions	Outstanding Amount (USD)	Number of Transactions	Outstanding Amount (USD)	Number of Transactions	Outstanding Amount (USD)	Number of Transactions	Outstanding Amount (USD)
Postal Corporation (Senegal)	435,000	85,811,847	543,000	133,686,004	645,714	147,410,672		
Postal Corporation (Tunisia)	151,401	188,300,209			512,565	339,667,059	636,142	359,823,400

Source: WSBI Members 2008

- **M-Payments**

  The number of mobile phone devices has increased dramatically over the past ten years in many African countries leading to substantial changes in people's life and behaviour. At the same time, innovation is continuing to spread with mobile phone operators introducing new applications to deliver basic payment functions (M-Payments). These functions transform mobile phone devices into a popular service tool for the payment industry. For the commercialisation of mobile payment services, partnerships have been established between mobile phone operators and financial institutions. An example is the agency relationship between Postbank Kenya and Safaricom (a mobile phone operator) to offer a "mobile wallet service".

2.8. Conclusions

Overall, the microfinance sector is continuing to expand despite tremendous operating obstacles to serving the market in a sustainable way. The lack of access to financial services for households and micro and small enterprises is quite striking in Africa. Microfinance institutions are crucial in responding to unbanked segments of the population. However, the microfinance sector is still relatively small and weak compared to other global regions -despite the huge potential market. In this context, the role of savings banks in microfinance should be recognised and increased. Furthermore, a distinctive feature of the microfinance sector in Africa is the relative weight of savings services in proportion to other financial services.

The section of this Perspectives provides evidence about the work of savings banks in the delivery of microfinance services. It gives visibility to their hidden role in pushing the frontier to widen access to financial services. In Africa, savings banks (including postal savings banks) are progressively moving away from narrow banking to diversify into retail financial services including microloans.

For a long while, commercial banks have been reluctant to get involved in microfinance. On other hand savings banks and socially committed retail banks often lack expertise in microlending and microinsurance. However, the performances of some industry players and "pioneer experiences" by mainstream banks over recent years have demonstrated that microfinance can be both socially-efficient and profitable when well-managed.

Microfinance is certainly a different business model but the growing interest by mainstream banks for microfinance is an indication of the promising future of this industry. The following actions or measures would be applicable beyond the interest of savings banks and could constitute potential drivers for supporting the microfinance industry in Africa:

- **Recognise the collection of micro and small deposits as an integral part of microfinance activities**
  The commonly accepted definition of microfinance should not be restricted to microcredit but should be broadened to include microsavings, microinsurance and micropayments. This enlarged scope would better reflect the dynamism and innovation of the microfinance sector and enable all institutions involved in these activities to be part of the political and technical debates currently ongoing at national, regional and international levels.
- **Encourage linkages with microfinance institutions**
  Partnerships with microfinance institutions at institutional and technical levels could help to overcome some of the obstacles to the direct involvement of banks (including savings banks) into microfinance and in the meantime boost the delivery of microfinance services. Value propositions could consist of:

  - Technical support (provision of infrastructure and information systems to microfinance institutions)
  - Refinancing or commercial loans to sustainable microfinance institutions
  - Acquisition of a stake in microfinance institutions
  - The sub-contracting of retail operations (deposit-taking services, money transfer services, last mile solutions for remittances)

- **Encourage downscaling operations in microfinance**
  Direct involvement by banks and savings banks in offering microfinance services:
  - The creation of a "microfinance windows" within the bank to serve this customer segment
  - The setting-up of subsidiary dedicated to microfinance
- **Develop enabling legislative frameworks**
  In most cases, microfinance and banking legislations are not applicable to savings banks and savings bank laws prohibit lending activities. It is therefore important to explore all suitable options for enhancing the operational freedom of savings banks.

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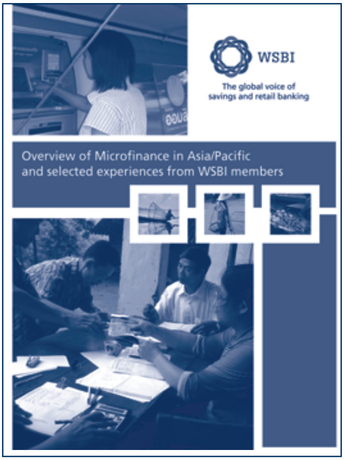
REPORT 3. MICROFINANCE IN ASIA/ PACIFIC – EXPERIENCES OF WSBI MEMBERS*



3.1 Snapshot of microfinance in Asia/Pacific

3.1.1. Market structure and outreach

The Asian microfinance market structure varies significantly across the countries, depending on the stage of financial development, the level of economic development and the policy environment, etc. A study by MIX[1] shows that Asian micro-finance stands unrivalled in scale, and outreach continues to grow in terms of the number of micro-borrowers. Institutions providing microfinance in Asia play a critical role in increasing the access to finance for underprivileged people, especially those in rural areas.

Though microfinance activities in Asia are receiving more recognition, many potential clients continue to lack access to basic financial services. According to a report by the International Finance Corporation (IFC),[2] the demand for financial services among poor people is extensive in Asia and the supply of microfinance is also quite large. For example, the field of microcredit is estimated at USD 4 billion, serving 22 million borrowers, with an overall market penetration rate of only 6%. This market is, however, limited and concentrated in just a few countries such as in India and Bangladesh, where the largest MFIs[3] in Asia in terms of borrowers can be found.

* This report was released initially in October 2008.
1 MIX 2006.
2 IFC 2007.
3 MIX 2006.

Asian microfinance has long focused on serving women: 98% of borrowers were women in Asia in 2006, as compared to 66% in Africa and 61.8% in Latin America. Microfinance in Asia is also associated with some of the lowest average loan balance worldwide, with a stronger social focus on the poor, presenting lower loan average values than in other regions (USD 151 in Asia in 2006 versus USD 183 in Africa and USD 671 in Latin America) and lower savings account balances than in Latin America (USD 165 versus USD 732).[4]

3.1.2. Microfinance actors

Microfinance institutions (MFIs) are defined as entities whose major business is the provision of small scale financial products and services to the low-income parts of the population and to entrepreneurs. They can be categorized as:

- **formal financial institutions** – those subject not only to general laws and regulations, but also to banking regulation and supervision;
- **semi-formal institutions** – those that are formal as registered entities subject to all relevant general laws, including commercial laws, but informal insofar as they are, with few exceptions, not under banking regulation and supervision. Examples include financial NGOs, credit unions and cooperatives;
- **informal providers** (generally not referred to as institutions) – those to which neither special banking law nor general commercial law applies (such as private lenders).[5]

WSBI members in Asia/Pacific act as formal microfinance providers in the form of development banks, savings institutions, postal banks and socially committed retail banks. In general in Asia, the involvement of formal resources has been increasing over recent years. This is the result of many factors such as the expansion of the scope of formal institutions into microfinance, the emergence of new formal institutions focusing on microfinance and the reform of state-owned financial institutions, etc.

4 MIX 2008a – looking at median values of "Average Loan Balance per Borrower" and "Average Savings Account Balance" for Asia, Africa and Latin America for the year 2006.
5 CGAP 2009a.

3.1.3. Microfinance models

There are different models of microfinance used in the region, depending on the varying microfinance environments in the different countries. The leading approaches of microfinance that WSBI members in Asia/ Pacific conduct include:

- Partner with NGOs in promotion of microfinance outreach. This includes creating awareness and increasing the availability of microcredit within the communities and extending the channels of financial services delivery. HNB in Sri Lanka for example interacts with NGOs working with the poorest parts of the population to reach the particular segment of the clientele.
- Group lending. The typical group lending approach that WSBI members use – mainly in India where this approach is the most developed – is the Self-Help Group (SHG). SHGs are clusters of poor people, of which most are poorest women, who organize themselves into groups. The group members can save and lend within their own group. Every group member saves a small amount regularly and the pooled savings is kept in a bank account in the SHG's name. The SHG uses the pooled savings to provide interest bearing loans to members. Decisions are taken collectively by the group. The group as a whole takes the responsibility of the repayment of any loan undertaken by any member within the group. VBARD, the Vietnam Bank for Agriculture and Rural Development has also developed a borrowing-savings scheme specifically targeting rural areas, through cooperation with the farmers' union. The group loan is disbursed by VBARD and the farmers' union is in charge of managing the preparation, operation, assessment of lending to group members, debt repayment collection and interest collection of the loans from the group members.
- Direct microsavings and lending. These direct services are provided by banks to the low-income parts of the population. The services often include specific support for microentrepreneurs.
- Government implementation programmes. In some countries, such as Malaysia and Thailand, the government has launched microfinance programmes as part of its policy to alleviate poverty. Public banks, like Bank Simpanan Nasional in Malaysia or the Government Savings Bank of Thailand, are in charge of the implementation of the programme.

3.2. WSBI members' intervention in microfinance in Asia/Pacific

3.2.1. Profile of WSBI members in Asia/Pacific

A previous WSBI issue of "Perspectives"[6] already noted that confidence in well-established savings and retail banks is high in many economies. Savings and retail banks have built up a reputation as solid institutions that have also proven particularly effective in times of crisis.

WSBI has 23 members in 16 countries all over Asia/Pacific.[7] They are diversified in their structures and business scopes.

- six are postal savings institutions, mainly focusing on mobilizing savings.[8]
- five are socially committed retail banks[9]
- eight are state-owned institutions[10]
- the remaining four are savings banks or savings institutions.[11]

3.2.2. Main characteristics of WSBI Asian members' microfinance activities

Microfinance activities by WSBI members in Asia/Pacific share a number of common features:

- **Large outreach in rural areas, through innovative means to serve remote customers**
  Many of these institutions (especially savings banks and postal institutions) can reach a large number of households in rural areas thanks to their wide networks.

6 WSBI 2004.
7 The list of WSBI members in Asia/Pacific region can be found in Annex I.
8 Postal savings institutions include: China Postal Savings Bank, Postbank Company of Iran, Korea Post, Caixa Economica Postal de Macau, Philippine Postal Savings Bank, and the Vietnam Postal Savings Service Company.
9 Socially committed retail banks include: Industrial and Commercial Bank of China, PT. Bank Tabungan Negara (Indonesia), Halyk Savings Bank of Kazakhstan, Hatton National Bank (Sri Lanka) and the State Commercial People Bank of the Republic of Uzbekistan.
10 State-owned institutions include: the National Savings Institute and the National Bank for Agriculture and Rural Development (India), Bank Simpanan Nasional (Malaysia), Government Savings Bank (Thailand), the Central Directorate of National Savings (Pakistan), the National Savings Bank (Sri Lanka) and the State Savings Bank of the Republic of Tajikistan/'Amonatbonk' and Vietnam Bank for Agriculture and Rural Development.
11 Savings banks/institutions include: Dongbu Savings Bank (Korea), Korean Savings Banks Group, Korea Federation of Savings Banks and the Savings Bank of Mongolia.

They use innovative ways to further expand their outreach – through carrying out banking transactions not at bank branches but directly in the villages or sending out staff to rural communities to collect small savings. This can substantially reduce the costs of small savings collection and small loans disbursement. For example, the Government Savings Bank of Thailand reaches 67% households in rural areas and 2/3 of China Postal Savings Bank's 36,000 branches are located in semi-urban or rural areas.

- **Development of schemes based on villages and community solidarity**
  Savings banks' microfinance support is strongly based on villages and local communities' solidarity, through formally or informally established groups such as Self-Help Groups (SHGs), community clubs, women groups etc. This approach, based on local cultural traditions contributes to linking unregulated community-based organisations with the formal banking sector and fosters the confidence and proximity relationship. In India by the end of March 2007, 4.16 million SHGs had benefited from the NABARD microfinance programme, with an average of USD 212 saved. A total of USD 1,642.6 million in loans had been disbursed.
- **Contribution to poverty alleviation and empowerment of people through development of small businesses and self-employed**
  Savings banks support the development of microenterprises and the self-employed, who are essential drivers for economic growth in developing countries. They not only provide small loans to them, but also provide guidance and mentoring programmes to improve their businesses. For example, in Malaysia, Bank Simpanan Nasional has introduced a loan package for microenterprises, through an innovative scheme not based on the Grameen model. Hatton National Bank in Sri Lanka specifically supports microentrepreneurs in rural areas, providing microbanking services and also training for the improvement of their skills.

- **Definition of dedicated and integrated programme, providing comprehensive (micro) financial support**
  Savings banks have often launched programmes devoted to the provision of microfinance services to the lowest-income parts of the population. This experience enables them to tailor the products and services offered and the delivery channels to the specific needs of the target groups. They also cover the full range of functional or product requirements (credit, savings, insurance) necessary to give sustainable access to finance. See, for example, the specific case studies of Hatton National Bank in Sri Lanka' Gami Pudubuwa programme in Section 3.31 and the Government Savings Bank Thailand's People's Bank programme in Section 3.3.6.
- **Promotion of thrift, to inculcate the habit of savings**
  Most dedicated microfinance programmes developed by savings banks include an education to savings component. These microfinance programs include parts implemented through the ability to maintain small balance accounts at affordable prices and the possibility for savers to safely deposit low amounts of money on a regular basis. For example, Bank Simpanan Nasional in Malaysia, allows clients to open and maintain savings accounts with as little as RM 1.00 (USD 0.27) and the Government Savings Bank of Thailand does not have a minimum requirement to open a savings account. National Bank for Agriculture and Rural Development in India encourages the poor to save in any amount within self-help groups.

3.3. Selected case studies from members

WSBI Asian members involved in the provision of microfinance act as innovative proximity banks close to local people and committed to supporting the sustainable economic development of the society.

3.3.1. Hatton National Bank (HNB), Sri Lanka – Rural savings mobilisation and social development through the Gami Pudubuwa programme

In Sri Lanka, most commercial banks are not commonly engaged in microfinance to a significant extent. Hatton National Bank (HNB) is an important exception.

The Gami Pubuduwa (village awakening) Scheme, launched in 1989, is HNB's successful microfinance programme for the self-employed and SMEs. It is formulated not only with a view towards extending credit facilities, but also towards providing a package of banking facilities.

The scheme provides assistance for any income generating self employment activity in the amount of up to USD 9,000 with a maximum repayment period of 4 years. There are 108 "Gami Pubuduwarural" banking units operating throughout the country, and most of the units are stationed in remote rural areas of the country. HNB has adopted innovative approaches to provide microfinance in the rural areas. For example, many of the transactions are carried out in the villages rather than at bank branches.

HNB is also involved in organizing trade fairs to establish a market for the products manufactured by "Gami Pubuduwa" clients. Additionally, the bank has introduced modern technology by linking expert organizations with borrowers to improve product quality. The expansion of small industries has also created more employment opportunities in rural areas.

The Bank has appointed field officers known as "Gami Pubudu Upadeshaka" (GPU) to closely associate with the rural community, identify their strengths and weaknesses and make suitable financial proposals to promote successful microentrepreneurs.

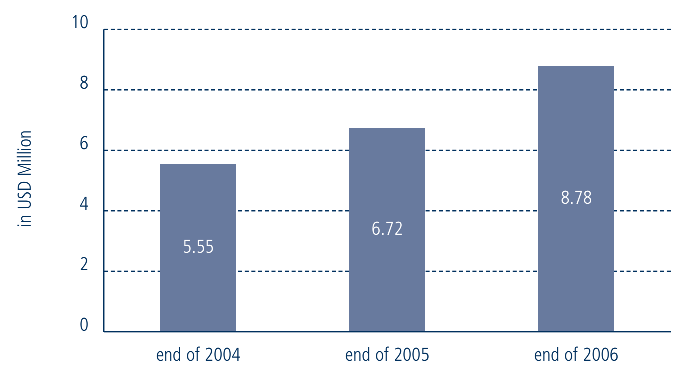
The Gami Pubuduwa microfinance scheme has become one of the successful microfinance programs implemented by a retail bank. This scheme provides much more than mere credit facilities to individuals. The bank has now tailored the scheme not only to ensure that it meets the social and economic needs of the country but also to ensure that it continues as an economically sustainable project of the bank.

The program includes:

- **Microsavings**

  HNB defines microsavings as the savings collected in rural communities, with an average deposit balance of approximately USD 150. Looking at the bank's total microsavings over the years from 2004 to 2006 below in Graph 1, it has been increasing substantially, with approximately 20% growth in 2005 and 30% in 2006, with a total outstanding amount of USD 8.78 million in microsavings at the end of 2006.

Figure 1: HNB's growth of microsavings



Source: HNB 2006

■ Microcredit

In addition to the individual loans, many small loans are provided through the NGOs, which specifically work with groups of poor people and can link them with HNB. The Bank also partners with post offices to deliver the loans and collect the repayment in remote areas.

During the last 17 years and until 2006, over 60,000 small loans have been approved amounting to approximately USD 35 million (Rs 3.5 billion). The program has supported the lives of over 500,000 families directly and indirectly. It has also provided employment opportunities to approximately 350,000 people all over the country. As indicated in Table 1, the number of active microcredit clients reached grew 27% from 2004 to 2006.

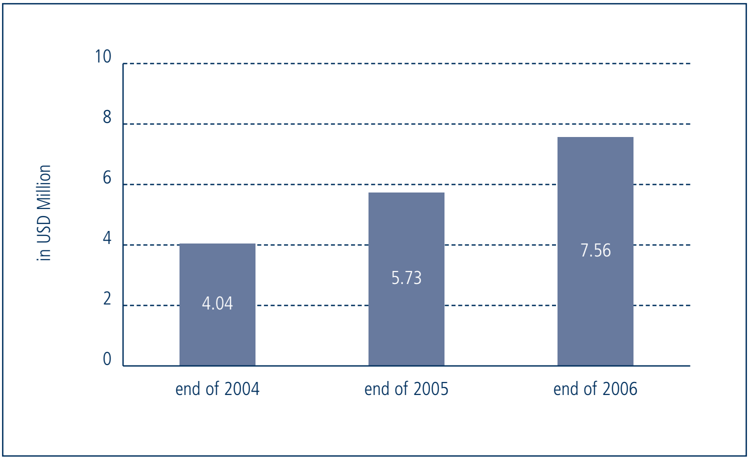
Table 1: Number of microcredit clients of HNB in Sri Lanka

	End of 2004	End of 2005	End of 2006
Number of active microcredit clients	11,682	13,136	14,812
Number of disbursed microcredits	4,591	4,375	4,960

Source: HNB 2006

The outreach of microcredit by HNB continues to grow steadily as a result of the growth in the micro, small and medium sectors nationwide. The total value disbursed in microloans experienced an average of 37% growth, with almost the same growth rate in the years 2004 and 2005, as is shown in Graph 2.

Figure 2: Growth of microcredit of HNB from year 2004 to 2006



Source: HNB 2006

One of the strengths of HNB's microlending scheme is the repayment performance. The repayment ratio has been kept rather steady at an average of 87.13% over the past three years from 2004 to 2006.

■ Microinsurance

Back in 2006, HNB was the pioneering bank in Sri-Lanka to launch a microinsurance programme in partnership with the HNB Assurance Ltd. It covers both the life and the debt of borrowers.

Any microentrepreneur who wishes to obtain credit facilities under the Gami Pubuduwa Scheme is eligible for these products. A notable feature of the scheme is that the bank bears 50% of the cost of a single premium on behalf of the borrowers. In case of death or total permanent disability of a borrower, HNB Assurance Ltd. will settle the outstanding balance due on the loan to the bank and also pay the sum assured to the beneficiary. By the end of 2006, HNB had provided 467 insurance policies to microentrepreneurs.

- **MSMEs (Micro, Small and Medium Enterprises) Financing**
  As early as 1988/89, when Sri Lanka society was experiencing island-wide unemployment and poverty, HNB was the first commercial bank to recruit qualified technical and agricultural personnel to assist SMEs among rural agricultural enterprises and the microfinance sectors as part of the Gami Pubuduwa Scheme.

  In addition to the Gami Pubuduwa Scheme, HNB provided an additional SMEs financing product, the German Savings Banks Funded Credit Scheme. Through the partnership with SBFIC (the German Savings Banks Foundation for International Cooperation)[12] from 2005-2007, HNB helped micro and small entrepreneurs affected by the 2006 Tsunami to reconstruct their business and improve their economic employment activities. The project allocated loans to a wide variety of economic sectors including agriculture, manufacturing, fisheries and transport, etc. By 2007, 2,720 loans amounting USD 7.5 million had been provided to entrepreneurs through this project. Under this scheme, it helped about 9,775 families directly and indirectly while 7,055 new employment opportunities were created.

3.3.2. Vietnam Bank for Agriculture and Rural Development (VBARD) – Services to rural market

VBARD is the largest bank in Vietnam in terms of capital, assets, staff, operating network and number of clients, with the most extensive network of branches in rural areas. As of March 2007, there were 2,200 branches nation-wide with more than 30,000 staff. The bank provided financing for about 10 million farming households.

VBARD's rural financing activities include:

- Providing banking facilities for the poor and granting loans to poor households with favourable interest rates without any collateral. The loans to poor households are not-for-profit.

12 The Savings Banks in Germany have developed into one of the largest financial groups world-wide, and Savings Banks Foundation for International Cooperation (SBFIC) is the advisory body of this banking group. In August 2005, HNB has entered into a partnership with SBFIC to assist micro & small entrepreneurs, directly or indirectly affected by the tsunami, by providing loans to help them reconstruct their businesses.

- Loosening lending conditions, increasing the maximum amount of every non-guaranteed loan, diversifying the categories of loan products and simplifying lending procedures in order to promote and expand credit for farming households. VBARD increases loans without collateral up to USD 600 (VND 10 million) for farming households, USD 1,800 (VND 30 million) for goods manufacturing households and USD 3,000 (VND 50 million) for fishery breeding and husbandry households attacked by epidemic. The average outstanding loan for every producing household is USD 700 (VND 11.27 million). For poor households the average outstanding loan is USD 300 (VND 5 million).
- Simplifying the documents required for a loan to just one page where the applicant must describe why they are seeking a loan (their motivation) and how the money will be used.
- Developing the Bank in the proximity of farming households. VBARD has a developed network with 2,200 branches and transaction offices as well as 700 mobile car-banks providing bank access to people in remote areas.

When comparing the amount of loans to farm households with other sectors (see Table 2), it is apparent that VBARD provides many more loans to the farming sector – 1.6 times more on average than loans to other sectors. The amount in outstanding loans to farm households also increased dramatically by 42% from 2006 to 2007.

Table 2: VBARD's loans allocation from 2000 to 2007 (USD billion)

Norm	2000	2001	2002	2003	2004	2005	2006	2007
Total in outstanding loans	**2.65**	**3.62**	**4.90**	**6.87**	**8.58**	**9.71**	**11.23**	**14.84**
Lending to farm households	1.50	2.55	3.30	4.31	4.94	5.59	6.36	9.05
Lending to other sectors	1.15	1.07	1.60	2.56	3.64	4.12	4.87	5.79

Source: VBARD or AGRIBANK 2008

More than 12 million out of 13 million farming households (92.3%) in Vietnam are connected to the formal credit institutions. VBARD plays an important role with 84.6% of the total amount of outstanding loans (USD 6.6 billion /USD 7.8 billion).

Apart from the activities in rural financing, VBARD has developed a unique and effective group lending model involving borrowing-savings groups of 5-7 members in cooperation with farmers' unions. VBARD and the farmers' union signed a joint resolution in 1999 which stated that the two parties would cooperate in the establishment of borrowing-savings groups and help farming households deposit as well as get loans from the Bank. Farmers' unions cooperate with local authorities in the management of these borrowing-savings groups. VBARD covers the operating fees of farmers' union, organizes regular trainings on borrowing procedures, invites agricultural technical organizations to give lectures on cultivation, husbandry and agricultural product preservation, etc.

The preparation, operation, assessment, lending, debt collection and interest collection of the loans are carried out in a democratic manner with a high level of equitableness under the management of farmers' union. Therefore the violation of lending principles and regulations from the perspective of borrowers, group leaders, as well as bank officers is minimized. The lending model has enhanced loans management, contributed to an increase in loan utilization and repayment efficiency as well as reduced the workload of credit officers. The group leaders, local authorities and bank leaders meet once per month to make sure they are able to grasp the local socio-economic situation so that they can work out suitable plans and measures. For all the State's policies relating to agriculture, the farmers need to obtain comments from the Central Farmers' Union. The borrowing-savings model has performed well in debt repayment. The debt collection rate (both principal and interest) is extremely high, reaching over 98%.

After more than 7 years of implementation, this model has developed dramatically and solidly. There are now 85,425 groups with approximately 1.5 million members (households). The outstanding loan amount is USD 1 billion (VND 16,820 billion) and 16% of the total outstanding loans are for farming households of VBARD. Additionally, the borrowing-savings model has actively encouraged group members to deposit into the bank. This has resulted in more than USD 0.6 billion (VND 10,000 billion) in mobilized capital.

VBARD will be expanding in order to provide lending and other banking services directly to farm households. The plan is to increase the amount of average outstanding loan per household to USD 900 (VND 15 million) in one or two years and to USD 1,500 – USD 1,800 (VND 25 -30 million) in 2020. The other banking services will also be offered including credit cards, ATM cards and individual securities accounts, etc. so that at least 70% of households in rural areas will have access to financial services by 2020.

To achieve this objective, VBARD is developing itself into a modern banking financial group. Meanwhile, it continues to strengthen and improve the quality of the borrowing-savings model. VBARD and the farmers' union plan to double the amount of money borrowed/saved by 2020.

This lending model not only provides loans, but also provides a platform for farmers to learn and share technologies/experience in doing business.

3.3.3. National Bank for Agriculture and Rural Development (NABARD), India – Self-Help Group model to contribute to poverty alleviation in rural areas

NABARD is one of the world's largest microfinance institutions and takes a strong and active role in facilitating credit flow for the promotion and development of agriculture, small-scale industries, cottage and village industries, handicrafts and other rural crafts. The bank is also active in the promotion of microfinance by providing bulk loans to MFIs and refinancing commercial bank loans to the Self-Help Groups (SHG).[13]

The SHG-bank linkage programme, which was launched by NABARD in 1992, is the predominant microfinance model in India. The objective of the programme is to link SHGs to banks and increase the bank loans available to these SHGs, which are refinanced by NABARD. Over 16 years it has become a proven method to make the funds available to the unbanked from the existing banking infrastructure.

As of March 31, 2007, there were 4.16 million savings accounts of SHGs with banks in India as indicated in Table 3 and the average savings per SHG was about USD 212. Meanwhile, 1.1 million SHGs received loans during the year from 2006 to 2007. The outstanding loan amount per SHG was approximately USD 1,002 as of March 31, 2007.

13 See Section 3.1.3 in Report 3.

NABARD not only provides loans to banks, but it also disburses loans to NGOs and MFIs in India. The amount for bank loans outstanding with NGOs and MFIs is almost 11.5% of the amount for outstanding loans within the SHG-Bank Linkage Programme. The total in loans disbursed to banks, NGOs and MFIs during the year 2006 to 2007 amounts to USD 1,910.17 million, of which bank-linkage loans comprise almost 86%.

Table 3: Overall progress 2006-2007 (amount in USD million)

Particulars	Units	2006-2007
Savings accounts of SHGs with banks as of 31 March 2007	No. of SHGs (million)	4.16
	Amount	878.18
Bank loans disbursed to SHGs with banks during the year	No. of SHGs (million)	1.1
	Amount	1,642.60
Bank loans outstanding with SHGs with banks as of 31 March 2007	No. of SHGs (million)	2.89
	Amount	3,091.63
Bank loand disbursed to NGOs/MFIs during 2006-2007	Amount	267.57
Bank loans outstanding with NGOs/MFIs as of 31 March 2007	Amount	355.61

Source: NABARD 2008

SHGs approach has enabled approximately 4.1 million poor households to gain access to microfinance from the formal banking system. As shown in Table 4, the number of families who benefit from the scheme in March 2008 was over 600 times higher than compared to 1996. The number of banks participating in SHGs linkage program has risen to 547 and in 2008, there were almost 4 times more districts covered by the program than in 1996. The distinguished advantage of SHGs is that it provides access to finance to the poorest among the poor – especially poor women. NABARD's successful experience with the SHGs linkage program has enlarged the availability of microcredit for women in rural areas. Of those served by the SHGs program, women comprise 85%-90% of the total. In addition, more than 48 million poor families are also assisted by this program.

Table 4: Growth of SHGs from year 1993 to 2008

Achievements	March 1993	March 1996	March 2007	March 2008
Percentage of women's groups	70%	74%	90%	85%
Families assisted	5,100	80,000	40,949,000	48,691,000
Banks participating	14	95	547	547
Districts covered	26	157	583	583

Source: NABARD 2008

3.3.4. China Postal Savings Bank (CPSB) – Accessible small-scale savings products

China Postal Savings Bank plays a critical role in providing financial services in rural areas. The network of CPSB spreads over 3,000 small cities, while more than two-third of its branches serve rural areas. At the end of 2006, 130 million Chinese people, almost 10% of the Chinese population had deposit accounts with the postal service and the total amount of card deposits had reached approximately USD 30 billion (231 billion Yuan).

One of the factors constraining poor people from access to finance is the cost of financial services. In China, a charge of about USD 1.5 (10 Yuan) is required by all the commercial banks when people apply for a debit card. CPSB encourages clients to use the green card (CPSB's debit card brand), from which the annual USD 1.5 fee is exempted. In the country-side of China, USD 1.5 represents a poor person's living expenses for one month. The exemption of the charge for applying for a debit card with CPSB enables the poor to have a bank account and access basic financial services such as savings and remittances. The extensive branch network of CPSB extends across both the countryside and urban areas and enables clients to save regularly and benefit from proximity and convenient financial services.

3.3.5. National Savings Institute (NSI), India – Promotion and facilitation of small-scale savings

The National Savings Institute (NSI) was created by the Indian government as an impetus to promote the national savings movement. The NSI, which is governed by the national Ministry of Finance, conducts national centralized savings schemes to mobilize savings and to inculcate the habit of thrift and savings among the people in India. NSI handles the design and part of the marketing of products, while the distribution goes through post offices, state banks and a small but growing number of private banks.

The NSI's products include very basic passbook savings accounts that can be operated with no fee - provided that the equivalent of at least USD 1 is kept in them and that they are used at least once every three years. This makes formal financial services to the poor more affordable.

A recent WSBI study "Who are the Clients of Savings Banks?" shows that NSI products reach 24% of all household in India and 7% of the poorest households. By the year 2007, NSI had provided 55 million savings accounts, reaching a level of 1 account for every 16 adults in the country.

Over the years, the gross collection in small savings schemes has been growing at a steady pace. Although the deposit amount during the year 2006 to 2007 decreased slightly, the total collection of small savings in 2006-2007 totalled USD 45.54 billion. The NSI has grown by 21.8% from 2003 to 2007 and the trend remains upward. During the period 2007-2008, 178,933 new accounts were opened.

Table 5: Gross small savings collections

Year	Deposit (USD billion)
2003-2004	37.39
2004-2005	44.51
2005-2006	50.04
2006-2007	45.54

Source: NSI 2008

The extensive outreach is the result of NSI's wide distribution channels. NSI operates via a network of 155,500 post offices and more than 8,000 branches of the public banks. The outstanding feature of the post offices' distribution is that out of the countrywide network of more than 150,000 post offices, 130,847 are located in rural areas.

NSI promotes its products through different media – including various TV spots, all Indian radios and newspapers, etc. NSI has organized special radio campaigns for promoting small savings in rural, mountainous and far-away areas. The government of India has an impressive plan to mobilize savings in 2008-2009. They expect one million accounts to be opened, will initiate a "National Rural Employment Guarantee Scheme" and conduct 350 training programs at different regional centres, among other activities.

3.3.6. Government Savings Bank of Thailand (GSB) – People Bank's programme with a specific focus on SME financing

The Government Savings Bank of Thailand (GSB) – a state-owned bank operating under the supervision of the Ministry of Finance – is mandated to provide the low-income population with microfinance services. This is in line with the government's concern for poverty reduction.

GSB initiated the microfinance programme in 2001, under the brand of "People Bank". The programme targets unbanked low-income people and particularly small entrepreneurs both in urban and rural areas. It combines savings mobilization and education training for entrepreneurs with microcredit at a flat 1% per month rate of interest and loans of up to USD 750 for first-time borrowers and USD 1,250 for subsequent borrowing.

The GSB retail distribution network includes more than 600 permanent branches, 21 mobile branches and 909 ATMs nationwide. In addition to these, the Bank employs deposit collectors and loan officers travelling by foot or by motorbike to visit their customers on a regular basis. In each branch of GSB, the Bank employs staff dedicated specifically to the People Bank and at the head office there is a specialized People Bank Department to ensure the systematic operation of the project.

The project includes:

- **Microsavings**
  "People Bank" mobilizes savings to cultivate the habit of saving among customers. The savings habits of the individual are taken into account for eligibility for the microloans. These habits are reflected by both the deposited amounts and the frequency of deposits.

  Both the amount of demand deposit[14] and savings accounts in GSB grew in the period 2004-2006 (see Table 6). Although the amount in demand deposits declined slightly from 2004 to 2006, the total outstanding amount of savings continued to grow, showing a shift from demand deposits to savings accounts.

Table 6: No. of demand deposit accounts and saving accounts

Microsavings	2004	2005	2006
Demand deposit accounts			
Number	667,518	682,678	693,503
Total outstanding amount in USD Million	66.69	64.08	59.77
Savings accounts			
Number	19,911	22,950	24,059
Total outstanding amount in USD Million	129.08	150.17	160.43
Total outstanding	**195.77**	**214.25**	**220.20**

Source: GSB 2007

- **Microcredit**
  GSB provides loans to retail customers of different amounts over different time periods. For example, a loan of maximum USD 470 is disbursed to the microentrepreneurs for the period of 1 year. With the development of the microentrepreneurs' business, GSB not only increases the amount of the loan but also extends the maturity of the loans. The maximal amount of about USD 940 is disbursed with the tenure of 2 years, while USD 1,560 for 3 years and USD 3,000 to 30,000 for 5 years. By providing different categories of loan products, microcredit from GSB becomes the driver for MSEs growth, supporting those ranging from microentrepreneurs to small enterprises and then to medium enterprises.

14 The demand deposit refers to a bank deposit that can be withdrawn easily without any previous notice.

The number of active microcredit clients with GSB totaled 968,042 by the end of 2006 (see Table 7), growing nearly 71% from 566,515 in 2002.

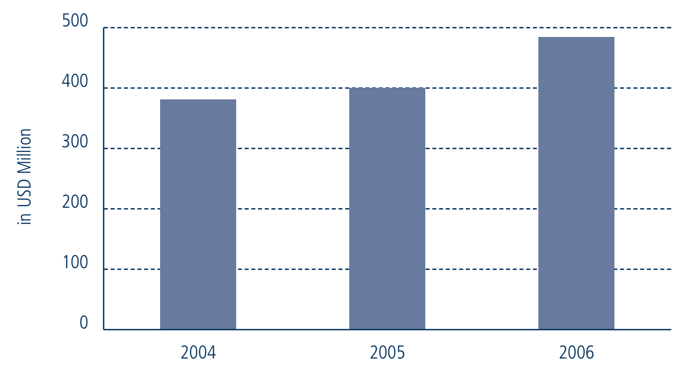
Table 7: GSB microcredit clients

	2002	2004	2005	2006
Number of active microcredit clients	566,515	854,254	940,530	968,042

Source: GSB 2007

The total value of disbursed microcredit grew in pace with the growth of microcredit customers. The growth rate between 2005 and 2006 was 22.9% (see the amounts in Figure 3).

Figure 3: GSB total value of disbursed microcredits



Source: GSB 2007

3.3.7. Bank Simpanan Nasional (BSN), Malaysia – Microfinance to finance micro and small enterprises

In the rapidly changing global economy, SMEs are increasingly becoming a force for national economic growth in Malaysia. The Malaysian government through the National SMEs Development Council (NSDC) has developed a framework for microfinance, transforming Bank Simpanan Nasional (BSN) into a specialized microfinance institution mandated to provide microfinance to microenterprises and individuals operating a business. This mandate has been brought about to satisfy the high demand for financing among microenterprises. The key objective of the transformation of BSN is to bring about a bank geared towards microfinance which operates in an economically sustainable basis and adheres to established prudent banking practices.

- **Financing for Micro, Small and Medium Enterprises (MSMEs)**

  During the period 2003-2005, BSN was only involved in microcredit which simply revolved around giving out uncollateralized small loans up to about USD 5,800 (RM 20,000). However, with the government's latest push in the SME sector, the role of BSN has been enhanced and it has become a provider of microfinance which includes savings and advisory elements built into the business model. The recipients are specially targeted industry players and the maximum loan size is approximately USD 14,700 (RM 50,000).

  In 2004 loans were given through its 12 main branches to individual entrepreneurs. Today, however, microfinance centres have been set up in addition to the branches to cater specifically to the microfinance community. They focus on both individuals and small business concerns. To date BSN has more than 373 outlets which act as distribution centres where access to microfinance is available. There are also microfinance centres which actually process the loans.

  Since 2007, the main microlending scheme by BSN has focused on the manufacturing, wholesale, retail and services sectors. The scheme has not been geared towards individuals but rather towards lending to rural and sub-urban business communities. BSN follows the principle that different products apply to different clients. The strategy of differentiated loan products not only complies with prudential principle from a risk management perspective, but also meets the demand of the clients who need the small loan.

As shown in Table 8, BSN provides loans to microentrepreneurs without any collateral or guarantor with a maximum of about USD 6,100. The loan limit increases when the bank knows more about the clients. This enables effective monitoring and management of high quality loans and fosters better borrower-bank relationships for the future.

Table 8: Product categories for Bank Simpanan Nasional microfinance

Category	A	B	C	D
Interest Rate	15.0%	15.5%	16.5%	17.0%
Criteria	Existing BSN account holder Savings > about USD 1,500 (RM5,000) No collateral/ guarantor Good credit track record	Existing BSN account holder Savings > about USD 300 (RM1,000) and < about USD 1,500 (RM5,000) Able to provide collateral/ guarantor	Existing BSN account holder Savings < about USD 300 (RM1,000) No collateral/ guarantor	Non BSN account holder No BSN savings No collateral/ guarantor
Limit of Loan	Maximum about USD 15,000 (RM50,000)	Maximum USD 15,000 (RM50,000)	Maximum around USD 9,200 (RM30,000)	Maximum around USD 6,100 (RM20,000)

Source: BSN 2008

The total outstanding microloan in Malaysia as of year 2007 was USD 7,503 million, which was allocated in various industries – mostly in the fields of purchasing land property, transport vehicle and working capital. BSN disbursed approximately USD 84 million (see Table 9) in microloans during the period 2004-2006 (the accumulated amount is relatively small when compared to the total amount of microloans in Malaysia as of 2007). The number of active microcredit clients increased dramatically from 2004 to 2005, while the disbursed loans decreased. This indicates that the amount disbursed to each borrower had decreased.

Table 9: Microcredit value

Year	end of 2004	end of 2005	end of 2006
Number of active microcredit clients	13,894	82,998	78,013
Total value of disbursed microcredits (USD million)	35	25	24

Source: BSN 2007

To inform the public that microfinancing is available, BSN displays a microfinance logo in all BSN branches. The bank engages business associations, community clubs or groups to participate in microfinance schemes. BSN officers go to communities to explain and provide briefings on the loan products that BSN offers. This has proven to be efficient.

BSN has also been involved in the Islamic based Shariah concept of microfinance. This will cater to entrepreneurs who want access to credit based on Islamic principles.

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ANNEXES

Annex 1: WSBI Latin American members list (as of the General Assembly in April 2009)

Country	Institution
Argentina	- Banco de la Provincia de Buenos Aires (BAPRO)
Bolivia	- Unión Boliviana de Entidades Financieras de Ahorro y Préstamo para la Vivienda - UNIVIV
Brazil	- Caixa Econômica Federal do Brasil
Chile	- BancoEstado
Colombia	- Banco BCSC
Costa Rica	- Federación de Mutuales de Ahorro y Préstamo de Costa Rica
Cuba	- Banco Popular de Ahorro
Dominican Republic	- Banco Nacional de Fomento de la y la Producción (BNV)
	- Asociación Popular de Ahorros y Préstamos (APAP)
	- Asociación La Nacional de Ahorros y Préstamos (ALN)
El Salvador	- Federación de Cajas de Crédito y Bancos de los Trabajadores (Fedecrédito)
Guatemala	- Banrural
Mexico	- Banco del Ahorro Nacional y Servicios Financieros (BANSEFI)
Panama	- Caja de Ahorros de Panamá
Peru	- Federación Peruana de Cajas Municipales de Ahorro y Crédito (FEPCMAC)

Annex 2: WSBI African members list (as of the General Assembly in April 2009)

Country	Institution
Algeria	- Caisse Nationale d'Epargne et de Prévoyance (CNEP)
Angola	- Banco de Poupança e Crédito (BPC)
Benin	- Caisse Nationale d'Epargne (CNE)
Botswana	- Botswana Savings Bank
Burkina Faso	- Société Nationale des Postes (SONAPOST)
Cameroon	- CAMPOST
Cape Verde	- Caixa Económica de Cabo Verde (CECV)
	- Correios de Cabo Verde, S.a.r.l. (CCV)
Comoros (Islamic F.R.)	- Société Nationale des Postes et des Services Financiers (SNPSF)
Côte d'Ivoire	- Caisse Nationale des Caisses d'Epargne (CNCE)
Egypt	- National Bank for Development (NBD)
Ethiopia	- Construction & Business Bank
Gabon	- Gabon Poste
Ghana	- HFC Bank (Ghana) Limited
Guinea (Republic of)	- Office de la Poste Guinéenne
Kenya	- Kenya Post Office Savings Bank
Lesotho	- Lesotho PostBank (LPB)
Madagascar	- Caisse d'Epargne de Madagascar
Mali	- Banque de l'Habitat du Mali
Mauritania	- Société Mauritanienne des Postes – MAURIPOST
Morocco	- Caisse d'Epargne Nationale
	- Caisse de Dépôt et de Gestion
Mozambique	- Cooperativa de Crédito para o Desenvolvimento Rural – CCDR
Namibia	- Nampost Savings Bank
Senegal	- Caisse des Dépôts et Consignations
	- POSTEFINANCES
South Africa	- Postbank
Sudan	- Savings and Social Development Bank
Tanzania	- Tanzania Postal Bank
Togo	- Banque Populaire pour l'Epargne et le Crédit
Tunisia	- Office National des Postes, La Poste Tunisienne
Uganda	- PostBank Uganda (PBU)
Zambia	- National Savings & Credit Bank of Zambia
Zimbabwe	- People's Own Savings Bank of Zimbabwe

Annex 3: WSBI Asia/Pacific members list (as of the General Assembly in April 2009)

Country	Institution
China	- China Postal Savings Bank - The Industrial and Commercial Bank of China (ICBC)
India	- National Bank for Agriculture and Rural Development (NABARD) - National Savings Institute, Ministry of Finance
Indonesia	- P.T. Bank Tabungan Negara (Persero)
Iran	- Postbank Company of Iran
Kazakhstan	- Halyk Savings Bank of Kazakhstan
Korea (Republic of)	- Dongbu Savings Bank - Korea Federation of Savings Banks (KFSB) - Korea Post, Postal Savings Division - Korean Savings Banks Group (Korea Savings Bank, JimHeung Savings Banks, GeyongGgi Savings Bank)
Macau	- Caixa Económica Postal de Macau
Malaysia	- Bank Simpanan Nasional
Mongolia	- The Savings Bank, Mongolia
Pakistan	- Central Directorate of National Savings
Philippines	- Philippine Postal Savings Bank
Sri Lanka	- National Savings Bank - Hatton National Bank Limited (HNB)
Tajikistan	- The State Savings Bank of the Republic of Tajikistan ‘Amonatbonk’
Thailand	- Government Savings Bank of Thailand
Uzbekistan	- The State Commercial People Bank of the Republic of Uzbekistan
Vietnam	- Vietnam Postal Savings Service Company - Vietnam Bank for Agriculture and Rural Development (VBARD)

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WSBI – ESBG – The Global Voice of Savings and Retail Banking

WSBI (World Savings Banks Institute) is one of the largest international banking associations and the only global representative of savings and retail banking. Founded in 1924, it represents savings and retail banks and associations thereof in 92 countries of the world (Asia-Pacific, the Americas, Africa and Europe – via ESBG, the European Savings Banks Group). It works closely with international financial institutions and donor agencies and promotes access to financial services worldwide – be it in developing or developed regions. At the start of 2008, assets of member banks amounted to more than €10,000 billion, with operations through more than 380,000 branches and outlets.

ESBG (European Savings Banks Group) is an international banking association that represents one of the largest European retail banking networks, comprising about one third of the retail banking market in Europe, with total assets of € 5,985 billion (1 January 2008). It represents the interests of its members vis-à-vis the EU Institutions and generates, facilitates and manages high quality cross-border banking projects.

WSBI and ESBG members are typically savings and *retail* banks or associations thereof. They are often organised in decentralised networks and offer their services throughout their *region*. WSBI and ESBG member banks have reinvested *responsibly* in their region for many decades and are one distinct benchmark for corporate social responsibility activities throughout Europe and the world.

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