



WSBI

The global voice of savings and retail banking

Beyond Microcredit: The Role of Savings Banks in Microfinance

Experiences from Latin America, Africa and Asia



Savings and socially committed retail banks have long worked towards financial inclusion and the betterment of their communities. The provision of microfinance services enables them to improve access to finance of low-income people and unserved entrepreneurs. The Report evidences the key role WSBI members play in enhancing microfinance activities in the Asia/Pacific, African and Latin American regions and presents proposals to develop a supportive regulatory framework to facilitate expansion of access to small amount financial services.

The full Report is available from www.wsbi.org

Microfinance includes a whole range of small amount financial products

In the eyes of the general public, microfinance tends to be limited to microcredit. However, the scope of microfinance is broader. This includes providing an adapted and diverse range of financial products and services to poor and 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.

There is a need for policy-makers and regulators, at national, regional and international levels, to embrace this wider perspective and include all actors involved in offering these types of services into the scope of their microfinance-related initiatives, and not only microcredit providers. This is especially true at a time when microsavings, and savings in general, are increasingly viewed as a core basic banking service, a key safety net to be used in case of need, and an enabler to finance productive activities. Besides, in the current crisis context, the need for microfinance institutions to diversify their funding sources by collecting deposits is a strong priority.

Towards an enabling and supportive regulatory framework

WSBI has defined a vision of a regulatory environment conducive to financial inclusion, that would allow savings banks and other institutions involved in microfinance to efficiently provide small scale financial services, while maintaining high levels of risk prevention and consumer protection.

The proposed guidelines, in particular:

- call for supportive conditions to increase the level of access to finance, and not necessarily for a specific microfinance framework;
- support the regulation of microfinance activities and not of institutions;
- advocate for a level playing field between all actors involved in microfinance activities, along the principle “same business, same risks, same rules”;
- ask for the introduction of relevant prudential requirements, especially when deposit taking activities are involved;
- call attention to the need to tailor the framework to the national and regional economic and development context.





IN AFRICA

The hidden potential of sleeping giants



In Africa, savings banks play a specific role in the delivery of microfinance services, insofar as their primary business focus is the collection of micro and small deposits. Overall, they provide 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.

WSBI member banks in Africa seek to diversify their microfinance activities to respond to the pressing market demand for microcredit services.

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.

IN LATIN AMERICA

Leadership in a highly competitive environment

WSBI members which act as microfinance providers in Latin America are either banks with special microfinance programs or proximity financial institutions dedicated to microentrepreneurs. As proximity financial institutions with large networks and with a strong social commitment, they are leaders in the Latin American

microfinance industry, with more than 1.45 million microcredit clients in 2006. They also mobilized at least 779 million USD deposits from their microfinance clients in that same year.

All of the members identified in this report 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.

They 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).

IN ASIA

Fulfilling an unmet demand for financial services



Savings banks' microfinance support in Asia is strongly based on villages and local communities' solidarity, through formally or informally established groups such as Self-Help Groups. This approach contributes to linking unregulated community-based organisations with

the formal banking sector and fosters the confidence and proximity relationship.

Asian WSBI member banks' microfinance activities are often parts of integrated and dedicated programmes, devoted to the provision of access to financial services to the lowest-income parts of the population. Products and services offered, as well as delivery channels, can thus be tailored to the specific needs of the target groups. Member banks also cover the full range of functional or product requirements (credit, savings, insurance). These programmes often include an education to savings component, 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.

