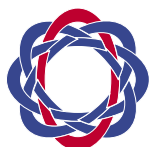




## The status of Access to Finance in Asia-Pacific



WORLD SAVINGS BANKS INSTITUTE



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## Introduction

WSBI's access to finance resolution, which was ratified by its members at the October 2004 Annual General Assembly, declares that "Access to finance is a basic service that is essential for a citizen to be economically and socially integrated in today's society."

### Why is Access to Finance so important?

Access to Finance is a prerequisite for employment, economic growth, poverty reduction and social cohesion. Furthermore, it is an essential driver for economic growth in developing and transition economies. It is also important in developed economies, where it stimulates markedly the social inclusion of certain groups of the population.

Access to finance empowers people, gives them the opportunity to have an account, to save and invest, to insure their homes or to take a loan and, in many cases, to break the chains of poverty.

### Why does it matter for savings banks and WSBI?

Savings banks play a key role in providing access to finance. A recent study of the Oxford Policy Management, sponsored by WSBI, discloses that three quarters of an estimated 1.4 billion accessible accounts across the developing and transition economies are managed by savings banks.

“The challenge before us is enormous. And the work of WSBI’s membership is important to us because it reaches out to the largest body of people to offer financial services, more than any other group I know. For that reason, I want to salute these banks and encourage them to continue in their theme of a double bottom line: to think not just of profit, but to think also of social responsibility which savings banks carry out so well” (James D. Wolfensohn, World Bank President at the WSBI International Conference in cooperation with the World Bank, October 2004)

### Access to finance and savings banks

The World Bank and other institutions put possible indications into a conceptual framework which might be described as the demand side dimensions of access. Dimensions from a supplier perspective, considering the World Bank’s dimension, would be: 1. Usability (accessibility, affordability) 2. Openness (individual/household level) 3. Formality (formal/informal) 4. Functional capacity (to meet core product needs; payments, savings, crediting and risk mitigation).

#### ■ Usability

Savings banks maintain small balance accounts at relatively affordable prices through their network, which is wider than most commercial banks’.

#### ■ Openness

Savings banks have the potential to serve all household members because of their wide network etc. In fact, some savings banks run programmes on financial services for children as well as for adults.

#### ■ Formality

Savings banks are generally regulated but may have a particularly favourable balance of formality versus informality.

#### ■ Functional capacity

58 out of WSBI’s 78 members in developing and transition economies do some form of crediting and 24 of these have some sort of microcrediting scheme. Savings banks have the potential to cover the full range of functional or product requirements necessary to give access to finance although clearly distinctions need to be drawn between those that do crediting as well as savings and payments business.

## Access to Finance in Asia-Pacific Region

### The situation of access in the Asia-Pacific Region

In general, Asia is pretty well advanced in terms of expanding access (Table 1 and 2)

In Sri Lanka, virtually all rural areas have access to financial services. On average, there is one point of service per 1,300 inhabitants. This coverage is significantly greater than in most other developing countries.

**Table 1: accessible accounts per adult and where access comes from**

		Bulks of access via specialist MFIs, credit Unions	Savings and other public-purpose bank providing bulk of access	Countries with signs of some significant access via commercial banks
Repressed Access	Countries with 0.0-0.1 identified accessible accounts per adult	Afghanistan, Lao PDR, Georgia, Kyrgyz R., Nepal	Tajikistan, Azerbaijan, Uzbekistan, Myanmar, Cambodia	Bhutan
	Countries with 0.1-0.2 identified accessible accounts per adult		Pakistan	Iran
Intermediate stage	Countries with 0.2-0.5 identified accessible accounts per adult	Bangladesh, Indonesia	Vietnam, India, Mongolia	S.Arabia
Towards full access	Countries with 0.5-1.0 identified accessible accounts per adult		China, Korea, Malaysia	
Full access	Countries with more than one accessible account per adult		Thailand, Sri Lanka	All advanced economies

Source : WSBI Perspectives 49

## Access to Finance in Asia-Pacific Region

Table 2: access indicator (comparison of development indicators)

Region	Group	Towards full access	Intermediate stage	Repressed access
South & East Asia Intermediate stage	Deposit to GDP ratio	131 %	48 %	43 %
	Cash to deposit ratio	8 %	18 %	18 %
	Accessible account per adult	0.63	0.26	0.09
Central Europe (incl. new EU)	Deposit to GDP ratio	42 %	20 %	22 %
	Cash to deposit ratio	16 %	16 %	37 %
	Accessible account per adult	0.94	0.24	0.05

Source : WSBI Perspectives 49

### Are there any problems for access in the Asia-Pacific Region?

Although accessibility in Asia is quite good if compared to other regions, some indicators and characteristic situations in the region suggest that there are obstacles preventing individuals and enterprises from access to finance.

#### Poverty and the wide gap between rural and urban

The financial crisis erupted in Asia in mid 1997 due to weaknesses of financial systems, little governance, inadequate financial sector supervision, poor assessment and management of financial risk, lack of transparency etc. Many of the crisis-affected countries adopted more transparent and coherent monetary policies and progressed in restructuring. Consequently, the economy has been growing significantly and the growth rate of GDP has been more than 7% since 2003.

Despite this successful economic growth, poverty still remains a critical problem affecting 22 % of the population in the region, which represents nearly two thirds of the world's poor in 2000.

Poverty is basically a rural problem in the region since between 80-90 % of the poor are rural in all the major countries of the region. Furthermore, the gap between rural and urban is widening. (Table 3)

## Access to Finance in Asia-Pacific Region

Table 3: National Poverty Line<sup>1</sup> (Population below the poverty line)

	Survey year	Rural %	Urban %	National %
China	1998	4.6	<2	4.6
India	1999–2000	30.2	24.7	28.6
Indonesia	1999	34.4	16.1	27.1
Kazakhstan	1996	39	30	34.6
Mongolia	1998	32.6	39.4	35.6
Pakistan	1998–99	35.9	24.2	32.6
Philippines	1997	50.7	21.5	36.8
Sri Lanka	1995–96	27	15	25
Thailand	1992	15.5	10.2	13.1
Vietnam	2002	35.6	6.6	28.9

Source : World Bank (World Development Indicator 2006)

The major obstacle for people in rural areas is the lack of “usability” and “functional capacity”.

Some rural areas are hampered by a poor transport system, which makes it more difficult for people to reach financial institutes in terms of time and cost. (Lack of physical access)

Moreover, according to CGAP survey in Philippines, the average daily household expenditure in 2000 was \$4.5 in rural areas and \$10.1 in urban areas. Poor clients would need to save up 2 to 10 times the cost of their daily necessities just to open an account in a commercial bank. (Lack of affordability as well as of tailored services and products to meet small customers)

### Migrants’ remittances and economy

The International Labour Organization (ILO) estimated that there are around 25 million migrant workers in the Asian economies – 29 % of the global total of 86 millions.<sup>2</sup>

Figure 1, showing the concept in terms of share of GDP, proves that remittances have more than doubled in East Asia and Pacific; as a consequence, migrants’ remittances are an important source of income for many families and an attractive business for banks in the region. In fact, some national policies are in place to attract increased flows, and formal financial institutions are making efforts to deliver remittances faster and more cost effectively. Moreover, some of them offer training sessions for pre-departure migrants.

<sup>1</sup> The percentage of the population living below the national poverty line. National estimates are based on population-weighted subgroup estimates from household surveys

<sup>2</sup> IMF reports that India, Philippines (the number of migrant is second highest in the worldwide), Pakistan, Bangladesh, Thailand, China and Iran are among the 20 largest recipients of remittances in developing countries (1990-2003 average)

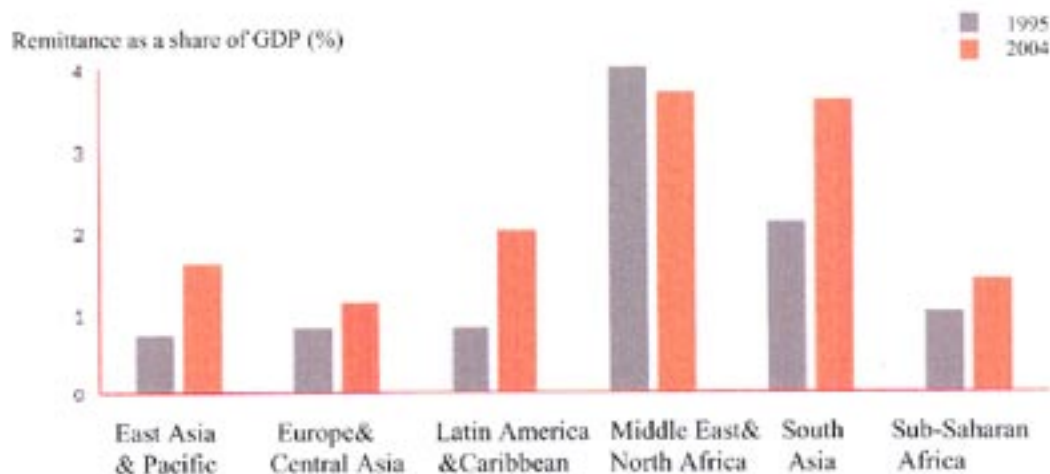
## Access to Finance in Asia-Pacific Region

Table 4: Net migration and Workers Remittances

Low & middle income	Net migration <sup>3</sup>		Workers' remittances and compensation of employees <sup>4</sup>			
			\$ millions			
	Thousands		Received		Paid	
	1990–95	1995–2000	1990	2004	1990	2004
East Asia & Pacific	-3,072	-3,859	3,263	41,250	527	6,770
South Asia	-1,368	-2,401	5,572	31,671	115	1,388
Europe & Central Asia	-3,398	-1,858	3,246	19,431	..	9,725
Latin America & Carib.	-3,776	-4,156	5,776	41,051	1,002	1,895
Middle East & N. Africa	-1,030	-1,396	11,432	20,353	1,566	3,112
Sub-Saharan Africa	-314	-439	1,862	7,339	2,871	3,089

Source: World Bank (World Development Indicator 2006)

Figure 1: Remittance as a share of GDP by regions



Source: World Bank (World Development Indicator 2006)

The major problem excluding migrants from access to finance is “formality”.

In addition to the barriers such as difference of language, financial products and system, the severe requirements in the field of anti-money laundering and other supervisory issues exclude migrants from access to finance, especially access to formal finance.

A study carried out by the IMF implied informal remittances amount to about 35-75 % of official remittances to developing countries. A significant regional variation can be noticed since informal remittances in Central Asia as well as Sub-Saharan Africa and Eastern Europe are relatively high.

<sup>3</sup> the annual number of immigrants less the annual number of emigrants, including both citizens and noncitizens

<sup>4</sup> comprise current transfers by migrant workers and wages and salaries earned by nonresident workers

## WSBI members: how they contribute to Access to Finance



The examples show that WSBI members provide financial accessibility based on some indications raised by the World Bank as cross-country indicators of access.

### Usability

There are 2 indications to assess the usability

- To avoid exclusion by maintaining physical access
- To avoid exclusion by maintaining affordability; fees and minimum balances for deposits

Savings banks have been able to distinguish themselves from other banking institution thanks to their strong physical presence and have succeeded in minimising conditions and attracting low-income clients.

Table 5 and table 6 show how savings banks fulfil above 2 indications.

**Table 5: Banks and Savings Bank's outlets (approximate data)**

Country (Year)	Savings bank	Number of outlets of the savings bank	Number of outlets other banks
Malaysia (2002)	Bank Simpanan Nasional	424	3000
Thailand (2002)	Government Savings Bank	573	4000

Source: Perspectives 47 Oct 2004 "The provision of microfinance services by savings banks"

**Table 6: Minimum fee to open a savings account**

Country	Savings bank	US\$ value	% of per capita Gross National Income (2002)
Malaysia	Bank Simpanan Nasional	0.27	0.007
Thailand	Government Savings Bank	No minimum	

Source: Perspectives 47 Oct 2004 "The provision of microfinance services by savings banks"

### Openness

#### Avoiding exclusion by design and condition

The National Savings Institute has nine special "Small Savings Programmes" designed to cater the needs of all sections of small savers (senior citizens, housewives, farmers, wage earners, students etc.) They carry an implicit sovereign guarantee and have thus attractive return on investment; these are also some of the measures to target the customers.

### Formality

## WSBI members: how they contribute to Access to Finance

### Commitment in principle

#### Philippine Postal Savings Bank

Under the Republic Act 7354 creating the Philippine Postal Corporation and providing for the re-opening of the old Postal Savings Bank, the Postal Bank is mandated to establish its presence in the countryside that has not fully enjoyed the benefits of banking and financial services. Establishing Postal Bank Branches in municipalities untouched by the banking system will help tap underutilized Local Government Unit funds and pool small savings to provide local financing to SMEs and Micro-enterprises, NGOs, cooperatives, overseas foreign workers (OFW) dependents and other groups.

### Functional capacity

#### Enterprise access (Microfinance programme)

The Government Savings Bank of Thailand has two major microfinance programmes. The "Peoples Bank" project, combining savings mobilisation and education training for entrepreneurs with microcrediting at a flat 1% per month rate of interest and loans of up to \$750 for first-time borrowers and \$1,250 for subsequent borrowing. €400 millions had been disbursed by 2004 and almost a million loan applications per year are being processed with more than a 90% approval rating and only a 3.5 % delinquency. The "Village Fund" takes grant money from the Government of Thailand to pump-prime micro crediting at 1.75 % above current fixed deposit rates and has generated almost €4 billion of lending to 11 million villagers, off the back of a €1.6 billion grant and with only a 6% delinquency rate.

Annex 1 shows the services provided by our members.

## Recommendation

Access to finance is crucial for economic growth, poverty reduction and social inclusion. It matters to the economy and social inclusion at the individual household level, entrepreneurial level and national level in both developing and developed countries.

The supportive policies, laws and regulations are of vital importance in providing access to finance for all. It is also important for financial institutions to take account of the provision of tailored services and products as well as their sustainability and transparency.

Therefore it is recommended:

### **To build awareness and share experiences on Access to Finance.**

- Financial institutions should work with authorities, policymakers and other stakeholders to improve access to finance and reduce the gap between the demand and supply side.
- The financial sector should exchange views and experiences through domestic and global networks.

### **To deliver sustainable and profitable services.**

- Public and private initiatives should be taken.
- Partnerships and innovation are needed to improve access to finance.
- Financial sector should recognize the need of a double bottom line financial institution.
  - To exploit financial infrastructure and service providers for cost effectiveness and high quality services.
  - To take account of Corporate governance, Risk management etc. to maintain sustainable management and transparency.

### WSBI

- Perspectives 47 "The provision of microfinance services by savings banks" (Oct 2004);
- Perspectives 49 "Access to Finance-What does it mean and how do savings banks foster access" (Jan 2006);
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# WSBI



WSBI (World Savings Banks Institute) is the only global representative of savings and retail banks. Founded in 1924, it represents savings and retail banks and associations thereof in 86 countries of the world (Asia-Pacific, the Americas, Africa and Europe – via the European Savings Banks Group). At the start of 2005, assets of member banks amounted to more than €7,506 billion.

As the international voice of savings and retail banking, WSBI works closely with international financial institutions and donor agencies. It thereby represents savings and retail banks' interests at an international level while also facilitating the provision of access to financial sectors worldwide, e.g., through training, consultancy services, etc., be it in developing or developed regions.

WSBI 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 member banks have reinvested responsibly in their region for many decades and are one distinct benchmark for corporate social responsibility activities throughout the world.



Rue Marie-Thérèse, 11 ■ B-1000 Brussels  
Tel: +32 2 211 11 11 ■ Fax: +32 2 211 11 99  
info@savings-banks.com ■ www.savings-banks.com