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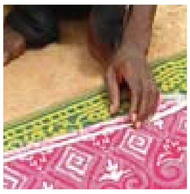
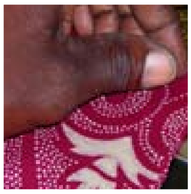
savings and retail banking

Microfinance services by savings banks in Africa

The sleeping giants have started moving, but where are they going?





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Executive summary

The dominant paradigm in microfinance till nowadays 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 the last years from its narrow perspective and the scope of microfinance services largely take into consideration basic financial services that are needed by vulnerable people.

Recent research works in the field of "Access to Finance" have substantially contributed to change the mindset as how experts define microfinance. There is a greater awareness that working poor people even desire more safe and affordable deposit services to protect their little 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. Yet, their contribution to microfinance is still very often overlooked by experts and policy makers[1]. 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[2] with hard evidence supported by data on these activities. The main findings of the present report are as follows:

- Savings banks in Africa have managed to 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.

- 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,..) and not to become pure microfinance institutions or microfinance banks.

- However, there are diverse business models to respond to the pressing market demand for micro-credit 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 a direct participation while other have opted for an 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 loan) but are in line with the industry average while microloan portfolios range between USD 100,000 and USD 8 million (National Bank for Development, Egypt).

- Regulation is an issue for savings banks involved in microfinance because they are submitted 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 limit to the expansion of microcredit programmes run by savings banks.

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

2 Prepared by Mr. Diogal POUYE (WSBI Vice-President in charge of Microfinance)

Main characteristics of Microfinance in the Region

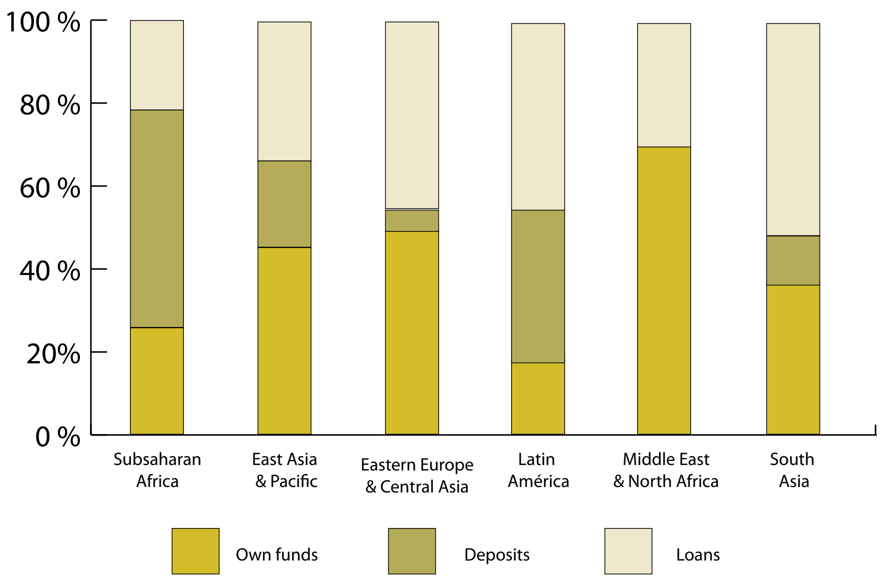
According the Microfinance Information Exchange (MIX) microfinance in Africa, in its myriad of shapes and forms meets the needs of an increasing number of vulnerable people whether farmers, traders and micro-entrepreneurs[3]. The industry is growing although disparately due to improved access to commercial funds, deposits from clients and to a lesser extent equity. However, there are distinctive features between Subsaharan Africa and the North Africa and across sub regions within Subsaharan Africa.

Subsaharan African microfinance institutions (MFIs) performs relatively well in global comparison. Based on an analysis of 163 MFIs undertaken by the Microfinance Information Exchange (MIX)[4]:

- The quality of the portfolio is high with an average of 4% of the portfolio at risk for more than 30 days

- 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[5]. And while growth has been slow with regard to credit outreach, deposit mobilisation has expanded significantly over the past years. In general, microfinance institutions greatly value both credit and deposit services in Subsaharan Africa.

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



Source: Africa MIX (April 2005)

3 http://www.themix.org/africa.html
4 Africa MIX - Study on the scope and financial performance of microfinance institutions in Africa (April 2005)
5 Africa MIX - Benchmarking African Microfinance 2006, (November2007), 11 p.

- 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 with three times more voluntary savers than borrowers).

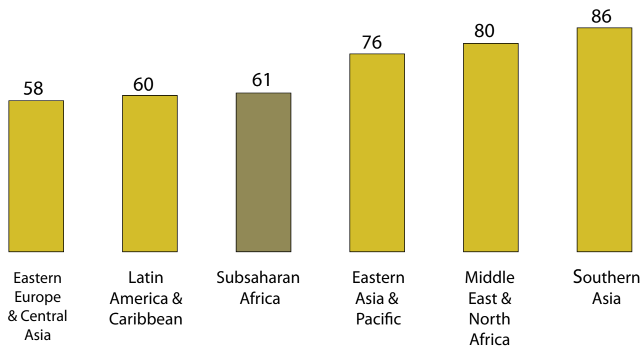
Table 1: Client structure

	Subsaharan 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	0.0	30.1	0.04	3.19	0.68

Source: Africa MIX (April 2005)

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

Figure 2: Percentage of women borrowers of MFIs



Source: Africa MIX (2005)

Nonetheless, these good results hide a number of critical challenges that could hold back the development of Subsaharan African MFIs. High operating costs and increasing competition are often pointed out to be the main challenges for the overall microfinance industry. While technology and innovations could drive the industry to higher levels of efficiency and productivity and help to diversify the product base; increasing competition will push institutions to lower lending rates, albeit allowing for profit-making. Credit-only institutions suffer most from 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[6]. 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 segment of the microfinance market.

However, the microfinance industry in North Africa is slowly starting to show signs of maturity. Access to concessional funds 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 in light of widespread government reluctance to the mobilization of deposits by non-bank institutions, though the industry has made tremendous strides in micro-credit offering. 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, and current legislations may need to be revised to open the door to new financing opportunities, including savings and equity investments.

6 *http://www.themix.org/me_na.html*

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 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-third (2/3) of the WSBI membership in Africa (a list of members in Africa is available in annex).

The rationale of 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 availing financial services to underprivileged groups and communities, the involvement of savings banks in the microfinance's arena is often overlooked as many are still restricted from lending and offering microcredit schemes. However, these restrictions are progressively lifted, fully or partially, allowing a few to expand the scope of their operations.

The paradigm shift expanding the scope of microfinance services beyond microcredit clearly offers an important opportunity to reassess the full potential of savings banks in this rapidly changing industry. From this new perspective, it is not abusive to say that savings banks are genuine microfinance service providers. As institutions committed in the first instance to the mobilisation of savings and with households, micro and small enterprises as typical clients, it is undisputable that the "sleeping giants" are embedded to the microfinance landscape.

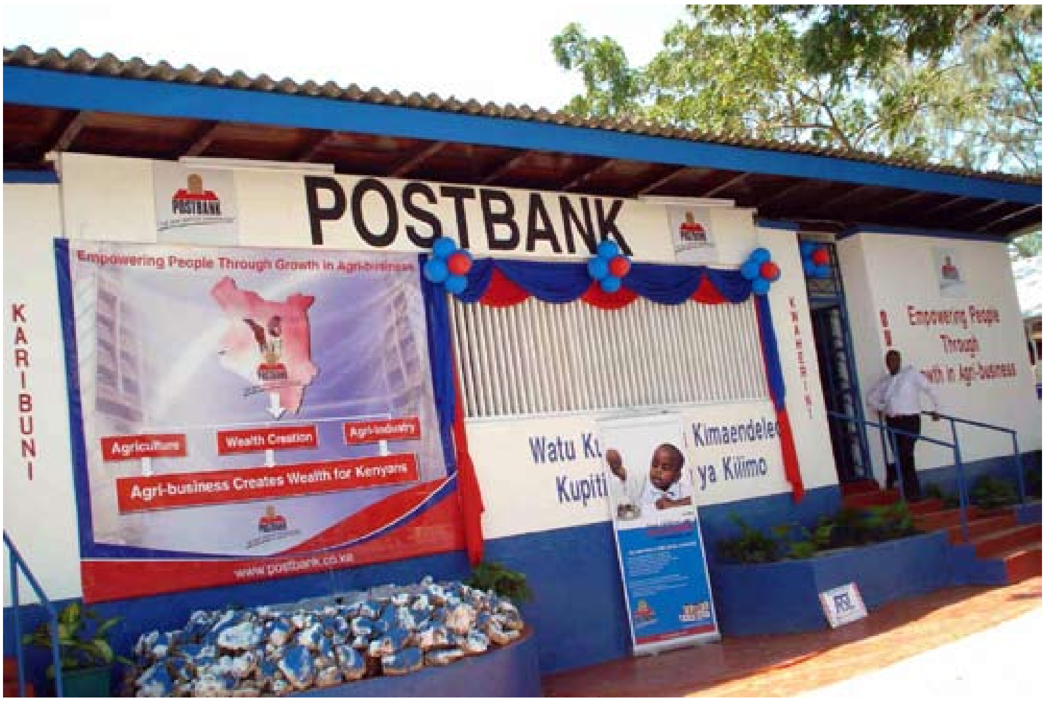
Despite this evidence, questioning the desirability of savings banks (particularly postal banks) to introduce lending functions remains on the development finance policy agenda. Pro-arguments support that with declining interest rates on government debt instruments (Treasury bills and government bonds) and increasing competition on their traditional captive market segments by microfinance institutions and commercial banks going into retail lending, savings banks have no choice but to diversify their range of products and services. Such an evolution would not work without offering credit services and also reflects the recognition that 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 and therefore should be revitalised in this limited financial intermediation scope. In this regard, they should further enhance their deposit taking and payment functions hence mobilise deposits from the public to invest freely on financial markets in risk safe debt instruments including private sector issues. These opinions are supported by "potential down sides of government-owned savings banks entering credit market (in particular) in political influence over lending decisions" (p. 10)[7].

7 Graham A.N. Wright, Nyambura Koigi and Alphonse Kihwele: "Teaching Elephants to Tango: Working with Post Banks to Realise their Full Potential", published by MicroSave, Nairobi, 2007.

Whether allowed or not to lend, what is at stake today is finally a change in the mindset of people who steer the global microfinance agenda. State-owned banks (e.g; BRAC in Bangladesh, BRI Indonesia, Nabard India and GSB in Thailand) are the largest microcredit providers in Asia 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.

However, not all WSBI African members have a postal origin and there is private stake in a few institutions. In this group, National Bank for Development (NBD) in Egypt is sole with full private ownership. The bank has also gained international recognition through its sustainable microcredit program, which has enabled to disburse more than USD 164 million in nearly twenty years of operations (more information is available in Box 1).



Postbank Kenya

Key features of African Savings Banks

Accessibility and proximity are embedded in the business model of savings banks in Africa.

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, the deposit balance was below USD15 for more than three quarters of savings accounts with the WSBI member in Kenya (2005) and Tanzania (2004) although these accounts represented only 5% and 6% of the outstanding deposit value respectively.

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

Proximity

Savings banks in Africa are also characterised by nationwide distribution networks to reach out to the clients in urban, peri-urban and sometimes rural areas. In the cases of postal savings banks, their networks often match and even overtake that of all other banks together.

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

Country	Institution	Number of outlets of the savings bank	Number of outlets of other 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	1635	1814
Tanzania (2006)	Postal Bank	177	232
Tunisia (2005)	Postal Corporation	1002	1000

Source: WSBI members and various

Among technological options experimented to reach the unbanked and underbanked populations mostly in the rural areas are the satellite (mobile) branches, which allow to serve financially-excluded geographical areas where mainstream banks found it unprofitable to set up brick and mortar infra-structures. Savings banks in Uganda and Zimbabwe operate mobile banking units, which consist of vans equipped with information and communication 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 thereby accommodate the market. Electronic devices (ATM, POS, Cellphone, etc.) are increasingly introduced to handle high volume of low-value transactions.

Postbank Uganda

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 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 4: Breakdown of outlets

<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 colspan="2">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">1696 (post offices)</td><td></td><td>372</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 colspan="2">509</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 and various

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

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

Source: WSBI members and various

Lending experiences

Regulatory authorities have always been reluctant to grant the permission for entering lending business to savings banks. However, a certain number of (postal) savings banks (e.g., "Caisse Nationale d'Epargne et de Prévoyance" (Algeria), (Botswana) Savings Bank, Caixa Economica (Cape Verde), Housing Finance Company 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 Owned Savings Bank (Zimbabwe)) have managed to secure this permission from their authorities. And, whenever savings banks engage into lending, their market focus is hardly to extend microcredits but to develop retail lending services.

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 other are tapping the underserved market of consumer lending with risk less credit schemes.

Table 6: Selected features of WSBI Members

			Market focus	
Country	Institution	Regulatory status	Products	Segments
Algeria	Caisse Nationale d'Epargne et de Prévoyance	Banks	Housing Finance	Individuals Companies
Ghana	Housing Finance Company Bank			
Mali	Banque de l'Habitat			
Botswana	Savings Bank	Credit/Financial Institutions	- Consumer (salary-based) loans - Business (Corporate) loans	Individuals SMEs
Tanzania	Postal Bank			
Uganda	Post Bank			
Zambia	National Savings and Credit Bank			
Zimbabwe	People Owned Savings Bank			

Source: various

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

The loan portfolios for the group of specialised banks are by far larger compared to that of the second group formed by institutions with credit/financial institution licenses that are not allowed to operate check accounts and related services. In fact, the bulk of loans with this second group are small size loans to individuals and small and medium size enterprises. 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 Consumer loan. These are loans targeting employed people. Repayment is guaranteed by employers who execute 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 annum.

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 the rate of 18%.

Source: Tanzania Postal Bank (2007)

2. The provision of microcredits

The WSBI understands by microcredits small size uncollateralized or weakly collateralised loans provided to vulnerable people for economic and social empowerment through income and employment generation[8]. Historically, savings banks did not succeed to introduce microcredit as a business line because they were in most cases statutorily prevented from lending. And where they could 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 of them started introducing microcredit schemes in order to serve this market and further demonstrate their commitment towards society (National Development Bank (Egypt), (Tanzania) Postal Bank, Post Bank (Uganda), National Savings and Credit Bank (Zambia) and People's Own Savings Bank (Zimbabwe)). However, their records remain very modest if compared to their sister institutions in Latin America or large microfinance institutions in Africa.

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. Group lending approach usually did not produce satisfactory results and most savings banks shifted to experiment an individual lending approach. However, savings banks are showing a growing interest to approach microfinance indirectly through financial linkages with microfinance institutions whereby wholesale funds could be extended to them for on-lending to their clients[9].

8 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".

9 Value proposition for financial linkages could also include the possibility for the microfinance institution to extend savings services and money transfer services to their clients on agency 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

Institution (Country)	Basic features		
National Development Bank (Egypt)	Retailing	Individual lending	Microcredit program: NBD's launched this scheme seventeen years back and after three years pilots in cooperation with donor agencies (i.e., USAID, Ford Foundation, UNICEF). It targets small entrepreneurs with no commercial record or license. Loan size varies between USD 40 up to USD 1,600
Postal Bank (Tanzania)	Retailing	Individual lending (poor experience with group lending)	Microcredit scheme: In 2001, the scheme (group lending) was introduced on a pilot testing basis in one region of the country, but the overall performance of the scheme has been extremely disappointing with 81.1% of the microloans portfolio non-performing. In 2002, TPB rolled out the 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.
National Savings and Credit Bank (Zambia)	Retailing	Individual lending	Microloans: - Max: 1,400 USD (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 lending	- Group size: 5 to 20 people - Maintain a group account - Individuals forming the group to contribute 10% of the loan amount
People Owned Savings Bank (Zimbabwe)	Retailing	Individual lending	Microlending: This scheme targets (i) individual holding fixed deposit account and wishing to finance short-term financial requirements that may include school fees, medical expenses, funeral expenses and micro project financing (ii) corporate clients for meeting working capital requirements.
	Wholesaling		Wholesale loans aim at financing registered microfinance institutions for on lending to microenterprises.
Post Bank (Uganda)	Wholesaling		Wholesale loans are availed in the framework of linkage banking activities whereby the bank develops win-win partnerships with microfinance institutions.

Source: various

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 through MFIs, and to expand their operations through the network of MFIs (including in the rural sector). The linkages between MFIs and banks also help to broadly tie up the economic activities in the formal and informal sectors of the economy and provide opportunities for small entrepreneurs to graduate from micro credit to conventional bank loans.

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 banking culture to achieve the social and national goal 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 ways of income generation /self employment /self reliance and satisfying this sector's needs to expand their activities, decreasing production costs, innovating their profession and enhancing their standard of living.

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

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 targeted types of borrowers 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, sort of activity, income cycle and cash flow. NBD has expanded its micro lending program rapidly and achieved profitability in a reasonably short period. It is worth noticing 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, being 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 the likelihood of a large repeat loan.

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 dactive loans	22,606	25,399
Outstanding balance (USD)	4,796,627	7,900,158
Number of Current Savings Accounts	20390	23,482
Value of Current Savings Accounts (USD)	666,155	1,048,885
Number of Voluntary Savings Certificates		13,225
Value of Voluntary Savings Certificates (USD)		54570

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 (,000)		
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) 1,100 (current accounts)	-	7,600
Tanzania (2006)	Postal Bank	1,188	-	1,400
Tunisia (2006)	Postal Corporation	2,600 (savings accounts) 650 (current accounts)	-	2,500

Source: WSBI members, various

The above table provides an overview of the number of deposit accounts held by deposit-taking financial institutions in selected African countries. The data reveals that particularly savings banks (postal financial services) and microfinance institutions in Subsaharan Africa add significantly to the supply of banking accounts by conventional banks. In addition as Koigi, Kihwele and Wright, noted (p.2): "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.).

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

In collaboration with the Programme MicroSave Africa, Postbanks 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

Bidii Account and Quick Account are card based and computer operated. This has allowed cutting dramatically the service delivery time per client, hence improving the quality of the service and providing a potential for servicing more customers within the same time limits. In addition the service cost has also been significantly cut down. 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 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 are currently offering magnetic stripe versions of these products – Cash X-press (Kenya) and Uhuru card (Tanzania).

Table 12: Product Performance at Glance

Bidii Savings Account	Nber of Accounts	Deposit Balance (million USD)	% Total Deposit base	Domiciled Quick Account	Nber of Accounts	Deposit Balance (million USD)	% Total Deposit base
2003	15,494	3.11	2%	2003	57,938	9,783	-
2004	53,433	9.83	7%	2004	~80,000	14,826	29.27%
2005	115,301	20.27	14%	2005	~112,000	22,581	45.1%
2006	183,404	-					
2007	232,103	-					

Source: Postbank (Kenya), Tanzania Postal Bank, Microsave's publications

Mzansi Account (Postbank, South Africa)

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 the 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–effectively creating a network of over ten thousand ATMs across the country and extending the banking platform to the general public. This is augmented by point of sale functionality available at retailers.

Postbank leading role in the low-end retail banking market

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 unequivalent 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.

Diversifying into insurance and payment services

Diversification is critical in sustaining a commercial business approach. Savings banks are fast valuing their extensive distribution channels to offer a wider range of retail financial services including insurance and payment facilities. Both are commissions/fees earning business and can in good circumstances become major sources for extra revenues.

1. Commercialising Insurance schemes

In general, savings banks are not allowed to design and brand insurance products but can operate as agent for registered insurance companies. However, most difficult in entering this market is not signing a distribution agreement but to overcome the lack of public awareness, which is unambiguously the genuine obstacle to the commercialisation of insurance policies in Africa.

Micro-insurance schemes have been introduced or are in the pipeline in a few countries. Yet, successful experiments remain limited, requesting an aggressive marketing policy for boosting the commercialisation.

Insurance plans	
Postbank South Africa: The "Thuso Plan"1, commercialised in partnership with Safrican Insurance Company, could be considered as a good example. Thuso (which means "help") is a multi-package life insurance plan, which also provides funeral coverage at very affordable premiums.	Tanzania Postal Bank is an example of a promising diversification into insurance business2. In 2005, the bank introduced this scheme to provide a one stop shop for the borrowers for insurance requirements. Since, the product has been made available to the public. For the first quarter of year 2007, the bank realized USD 8.8 million as 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 obvious that maximising cross-selling opportunities between existing retail financial products (savings, loans, etc.) and life and non-life insurance policies is a way forward to support the diversification strategy.

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 (e.g. giro accounts, call accounts, transaction accounts,..) and services (e.g. bill payment, check payment, direct debit, stop orders, money transfers, credit transfers, disbursements, e-payments, mobile payments,…) for 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 in investing their liabilities. 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 relative 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 availed 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. Savings banks with their large customer base are potentially well positioned for popularizing e-banking services.

Introduction of card services	
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"** introduced e-banking services a couple of years ago and since the number of own branded cards has grown rapidly to reach 423,372 for a transaction volume of 3,744,230 by end 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, nearly 1,078,159 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 grants to switch from traditional cash payment system 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 reached USD 21 million at the same period.

* Remittance services

Roughly 80% of WSBI member savings banks in Africa are somehow involved in the remittances often as agents of money transfer operators (MTOs). And for a while, they partnered up 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, taken 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 ages with paper orders, which predated modern e-transfer solutions, which took time to accommodate low value international transfers.

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

Table 13: International Money Transfer Transactions

	2001		2003		2004		2005	
Institution (Country)	Number of Trans-actions	Outstanding Amount (USD)	Number of Trans-actions	Outstanding Amount (USD)	Number of Trans-actions	Outstanding Amount (USD)	Number of Trans-actions	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: Various

Over the period 2001-2005, Post Offices in Senegal and Tunisia experienced a continued growth of international money transfer flows both in the number of transactions and volume of transactions. The Post Office claims that its market share doubled over this period from 14/15% up to 30% in Senegal. The average amount per transaction was less than USD 250 in Senegal while it slightly declined from 1,200 USD in 2001 to about 560 USD in 2005 at the Tunisia Post. In the meantime, the number of transactions has grown four times demonstrating clearly that not only the Post Office in Tunisia has become more attractive as remittance channel but likely it has partly captured informal flows.

* 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. However, innovation is continuing to spread with mobile phone operators introducing new applications to deliver basic payment functions (M-Payments) turning mobile phone devices into 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 mobile wallet service.

Conclusion and recommendations

Overall, the microfinance sector is continuing to expand despite tremendous operating obstacles in 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 and microfinance institutions are crucial in responding to the unbanked segments. However, the microfinance sector is still relatively small and weak compared to other global regions and despite the huge potential market. In this context, the role of savings banks in microfinance should be recognised and boosted. Furthermore, a distinctive feature of the microfinance sector in Africa is the relative weight of savings services in proportion to other financial services.

The paper 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. Also 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 performance of some industry players and "pioneer experiences" by mainstream banks over the recent years has 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 in:

- 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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Annex - WSBI members in Africa - key figures

The membership of the WSBI counts 33 member institutions from 31 countries in Africa.

African WSBI Members' key figures (in US $ millions) – unofficial data							
Country	Name	Total assets	Total non-bank Deposits	Total non-bank loans	Branches and agencies	Staff	Number of ATMs
Algeria	Caisse Nationale d'Epargne et de Prévoyance	8.106	7.363	2.492	212	4.989	57
Angola	Banco de Poupança e Crédito	1.649	1.296	518	56	1.404	27
Benin	Caisse Nationale d'Epargne		110	0	93	55	0
Botswana	Botswana Savings Bank	48	32	28	n.a.	n.a.	n.a.
Burkina Faso	Société Nationale des Postes - SONAPOST	n.a.	191	0	75	794	0
Cameroon	Caisse d'Epargne Postale	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Cape Verde	Caixa Económica de Cabo Verde (CECV)	221	182	125	29	159	16
	Correios de Cabo Verde, S.A.R.L.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Comoros	Société Nationale des Postes et des Services Financiers (SNPSF)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Côte d'Ivoire	Caisse Nationale des Caisses d'Epargne	n.a.	183.7	0	n.a.	n.a.	n.a.
Egypt	National Bank for Development (NBD)	1.489	1.319	843	71	n.a.	21
Ethiopia	Construction & Business Bank	195	113	91	26	800	0
Gabon	Gabon Post	n.a.	n.a.	0	n.a.	n.a.	n.a.
Ghana	HFC Bank	109	57	67	n.a.	12	3
Guinea (Republic of)	Office de la Poste guinéenne	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Kenya	Kenya Post Office Savings Bank (Postbank)		212	1	477	1.280	16
Lesotho	Lesotho PostBank	n.a.	14		12		
Madagascar	Caisse d'Epargne de Madagascar	n.a.	100	0	22	471	0
Mali	Banque de l'Habitat du Mali	216	146	122	90	139	n.a.
Mauritania	Mauripost	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Morocco	Caisse de Dépôt et de Gestion	10.000	5.400	n.a.	n.a.	n.a.	n.a.
	Caisse d'Epargne Nationale	1.143	1.143	0	1.673	n.a.	n.a.
Mozambique	Cooperativa de Crédito Desenvolvimento Rural - CCDR	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Namibia	Nampost Savings Bank	106	89	0	121	733	0
Senegal	La Poste	n.a.	85	0	156	120	0
South Africa	PostBank	308	308	0	2.561	18.834	n.a.
Sudan	Savings and Social Development Bank	119	68	7	31	n.a.	0
Tanzania	Tanzania Postal Bank	n.a.	62	24.7	177	n.a.	12
Togo	Caisse d'Epargne du Togo	74	63	4	28	150	n.a.
Tunisia	La Poste Tunisienne	2.271	1.958	0	1.018	8.918	72
Uganda	PostBank Uganda (PBU)	19	16	8	21	183	0
Zambia	National Savings & Credit Bank of Zambia	n.a.	34	24	n.a.	22	n.a.
Zimbabwe	People's Own Savings Bank	47	13	3	29	n.a.	0

n.a. = not available

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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-Pacifi c, the Americas, Africa and Europe – via ESBG, the European Savings Banks Group). It works closely with international fi nancial institutions and donor agencies and promotes access to fi nancial services worldwide – be it in developing or developed regions. At the start of 2006, assets of member banks amounted to more than €8,081billion, with operations through more than 191,000 branches and outlets.

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