Overview of Microfinance in Asia/Pacific and selected experiences from WSBI members
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Microfinance is the provision of small-scale financial services to the poor or the poorest among the poor. Although there is no standardized number to define different “micro” products in quantification, it needs to be understood in its broadest sense, covering a whole range of low value financial products, including savings, credit, insurance, transfer and payments services, etc.

The report will show how WSBI members in Asia/Pacific are involved in microfinance activities and will present best practices developed by a selected number of member institutions.

1 The report is mainly based on the result of a questionnaire sent to WSBI members and desk research based on the annual reports of members. This report complements the series of Regional Microfinance Reports developed by WSBI. The Latin America and Africa papers are available from www.savings-banks.com.
Snapshot of microfinance in Asia/Pacific

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\(^2\) shows that Asian microfinance stands unrivalled in scale, and the outreach in terms of micro-borrowers keeps on growing. 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 IFC (International Finance Corporation)\(^3\), the demand for financial services among poor people is extensive in Asia and the supply of microfinance, for instance in the specific microcredit field, estimated at USD 4 billion, serving 22 million borrowers, with an overall market penetration rate of only 6%, is limited and concentrated in just a few countries such as in India and Bangladesh, where the largest MFIs\(^4\) 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. It manages 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, USD 183 in Africa and USD 671 in Latin America) and lower savings account balances than in Latin America (USD 165 v. USD 732)\(^5\).

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**, as 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, such as financial NGOs, credit unions and cooperatives;

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\(^2\) “Benchmarking Asia Microfinance 2006” by MIX. 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 / www.themix.org.

\(^3\) www.ifc.org/ifcext/media.nsf/content/SelectedPressRelease?OpenDocument&UNID=D542E0FBC716E33A852572BC005D77AD

\(^4\) 2007 MIX Asia 100 Ranking of Microfinance Institutions

informal providers (generally not referred to as institutions), those to which neither special banking law nor general commercial law applies such as private lenders.6

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 the last 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.

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 on the availability and importance 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 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 SHG's name. SHG uses the pooled thrift to give interest bearing loans to members and 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 micro-savings and lending.** provided by banks to the low-income parts of the population. Those services often include specific support for micro-entrepreneurs.

- **Government implementation programmes.** In some countries, such as Malaysia or 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.

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6 “What is a Microfinance Institution?” www.cgap.org/lpsite/c/template.rc/1.26.1308
Profile of WSBI members in Asia/Pacific

A previous WSBI study\(^7\) already denoted that the 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 24 members in 17 countries all over Asia/Pacific\(^8\). They are diversified in their structures and business scopes.

- 7 are postal savings institutions, including China Postal Savings Bank, Postbank Company of Iran, Japan Post, Korea Post, Caixa Economica Postal de Macau, Philippine Postal Savings Bank, Vietnam Postal Savings Service Company, mainly focusing on mobilizing savings.

- 5 are socially committed retail banks, 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.

- 8 are state-owned institutions, 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.

- the other 4 are savings banks or savings institutions (Dongbu Savings Bank (Korea), Korean Savings Banks Group, Korea Federation of Savings Banks and the Savings Bank of Mongolia).

Main characteristics of WSBI Asian members’ microfinance activities

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

Large outreach in rural areas, through innovative means to serve remote customers

Savings banks can reach a large number of households in rural areas thanks to their wide networks, and in some countries through the postal network. Besides, they use innovative ways to further enlarge their outreach, through carrying out the banking transactions not at bank branches but directly in the villages or sending out staff in rural communities to collect small savings. This can substantially reduce the costs of small savings collection and small loans disbursement.

E.g. 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.

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7 "The Provision of Microfinance Services by Savings Banks" - [http://www.wsbi.org/uploadedfiles/publications_and_research_(esbg_only)/perspectives%2047(1).pdf](http://www.wsbi.org/uploadedfiles/publications_and_research_(esbg_only)/perspectives%2047(1).pdf)

8 The list of WSBI members in Asia/Pacific region can be found as an Annex.
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 set up groups such as Self-Help Groups (SHGs), community clubs, women groups etc. This approach, based on the local cultural traditions contributes to linking unregulated community-based organisations with the formal banking sector and fosters the confidence and proximity relationship.

At the end of March 2007, 4.16 million SHGs benefited from the NABARD microfinance programme, with an average of 212 USD saved and a total loan disbursed of 1,642.60 million USD, in all parts of India.

Contribution to poverty alleviation and empowerment of people through development of small businesses and self-employed

Savings banks support the development of micro-enterprises and self-employed, who are essential drivers for the economic growth in developing countries. They not only provide small loans to them, but also provide guidance and accompaniment programmes to improve their business.

E.g. in Malaysia, Bank Simpanan Nasional has introduced a loan package for micro enterprises, through an innovative scheme not based on the Grameen model. Hatton National Bank in Sri Lanka specifically supports microentrepreneurs in rural areas, providing micro-banking services but 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, which enable 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.

E.g. Hatton National Bank in Sri Lanka with the Gami Pudubuwa programme and Government Savings Bank of Thailand, with the People’s Bank.

Promotion of thrift, to inculcate the habit of savings

Most dedicated microfinance programmes developed by savings banks include an education to savings component. Part of this is 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.

E.g. 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.
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 support the sustainable economic development of the society.

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 Puduwa (village awakening) Scheme, launched in 1989, is HNB’s successful microfinance programme for self-employed and SMEs. It is formulated not only with a view of extending credit facilities, but also to give a package of banking facilities.

The scheme provides assistance for any income generating self employment activity, up to USD 9,000 with a maximum repayment period of 4 years. There are 108 “Gami Pubuduvarural” 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 village sites 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 and 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.

Gami Pubuduwa microfinance scheme has now 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 with 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 rather substantially, with approximately 20% growth in 2005 and 30% in 2006, with a total outstanding of USD 8.78 million in microsavings at the end of 2006.
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 Bn). The program has supported the lives of over 500,000 families directly and indirectly and provided employment opportunities to approximately 350,000 people all over the country. As indicated in Table 1, the number of active microcredit clients reached a growth of 27% from year 2004 to 2006.

### Table 1. Number of Microcredit Clients of HNB in Sri Lanka

<table>
<thead>
<tr>
<th></th>
<th>end of 2004</th>
<th>end of 2005</th>
<th>end of 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of active microcredit clients</td>
<td>11,682</td>
<td>13,136</td>
<td>14,812</td>
</tr>
<tr>
<td>Number of disbursed microcredits</td>
<td>4,591</td>
<td>4,375</td>
<td>4,960</td>
</tr>
</tbody>
</table>

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 disbursed microloans experienced an average of 37%, with almost the same growth rate in the years 2004 and 2005, which is shown in Graph 2.
One of the strong factors of HNB’s micro-lending 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 micro insurance programme in partnership with the HNB Assurance Ltd. It covers both life and liability of borrowers.

Any microentrepreneur, who wishes to obtain credit facilities under the Gami Pubuduwa Scheme, will be eligible for the product. A notable feature of the scheme is that the bank would bear 50% of the cost of single premium on behalf of the borrowers. In case of death or total permanent disability of a borrower, the HNB Assurance Ltd will settle the outstanding due of the loan to the bank and also pay the sum assured to the nominee. 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 experienced an island-wide unemployment and poverty situation, HNB was the first commercial bank to recruit qualified technical and agricultural personnel to assist the SMEs, rural agricultural enterprises and microfinance sectors, as part of the Gami Pubuduwa Scheme.

Besides 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) from 2005-2007, HNB helped micro and small entrepreneurs affected by the 2006 Tsunami to reconstruct their business and improve the economic employment activities. The project allocated loans to wide economic sectors including agriculture, manufacturing, fisheries and transport, etc. By 2007, 2,720 loans amounting USD 7.5 million were 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.

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9. 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 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.
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 and the bank financed about 10 million farming households.

VBARD’s rural financing activities include:

- Banking for the poor and granting loans to the poor households with favourable interest rates without any collateral. The purpose of the loan to the poor households is not-for-profit.

- Loosening the lending conditions, increasing the maximum amount of every non-guaranteed loan, diversifying the category of loan products and simplifying the lending procedures in order to promote and expand credit for farming households. VBARD increases the loan 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) and for the poor household is USD 300 (VND 5 million).

- The documents required for a loan are simplified and only one page is required for the borrowing and production motivation.

- Developing the proximity of the Bank for farming households. VBARD has developed its network, with 2,200 branches and transaction offices, as well as 700 mobile car-banks giving bank access to people in remote areas.

When comparing the amount of loans to farm households to other sectors (see Table 2), it is obvious that VBARD provides much more loans in farming sector, which is 1.6 times as large in average as the loans to other sectors. The outstanding loans to farm households also increased dramatically from the year 2006 to 2007, reaching 42%.

Table 2. VBARD’s loans allocation from 2000 to 2007 (USD billion)

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total outstanding loans</td>
<td>2.65</td>
<td>3.62</td>
<td>4.90</td>
<td>6.87</td>
<td>8.58</td>
<td>9.71</td>
<td>11.23</td>
<td>14.84</td>
</tr>
<tr>
<td>- Lending to farm households</td>
<td>1.50</td>
<td>2.55</td>
<td>3.30</td>
<td>4.31</td>
<td>4.94</td>
<td>5.59</td>
<td>6.36</td>
<td>9.05</td>
</tr>
<tr>
<td>- Lending to other sectors</td>
<td>1.15</td>
<td>1.07</td>
<td>1.60</td>
<td>2.56</td>
<td>3.64</td>
<td>4.12</td>
<td>4.87</td>
<td>5.79</td>
</tr>
</tbody>
</table>

Source: VBARD, Sept 2008

More than 12 million out of 13 million farming households (92.3%) in Vietnam are connected to the
formal credit institutions including VBARD, in which VBARD plays an important role with 84.6% total 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, that is the borrowing-savings group with 5-7 members in cooperation with farmers’ union. 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 regularly trainings on borrowing procedure, invites agricultural techniques 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 the loans management, contributed to increase the loans 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 get the comments from the Central Farmers’ Union. The borrowing-savings model has performed well in debt payment. 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 1,494,409 members (households), with an outstanding loan amount of USD 1 billion (VND 16,820 billion), while 16% of the total outstanding loans are for farming households of VBARD. Besides, the borrowing-savings model has actively canvassed the group members to deposit in the bank, of which the mobilized capital has reached more than USD 0.6 billion (VND 10,000 billion).

VBARD will expand to provide lending and other banking services directly to the farm households, try to increase the average outstanding loans per household to USD 900 (VND 15 million) in one or two years and target to USD 1,500 – USD 1,800 (VND 25 -30 million) in 2020. The other banking services will cover the services including credit cards, ATM cards and individual securities accounts, etc so that at least 70% of households in rural areas will have access to finance by 2020.

To achieve the objective, VBARD is developing itself into a modern banking financial group. Meanwhile, it strengthens and improves the quality of borrowing-savings model. VBARD and the farmers’ union plan to double the number of the borrowing-savings by 2020.

The lending model does not only provide loans, but it also provides a platform for farmers to learn and share technologies and experience in doing business.
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 mandating for facilitating credit flow for the promotion and development of agriculture, small-scale industries, cottage and village industries, handicrafts and other rural crafts and the promotion of microfinance by providing bulk loans to MFIs and refinancing the commercial bank loans to the Self-Help Groups (SHG10).

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 avail the funds 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 per Self-Help Group was approximately USD 1002 as of March 31, 2007.

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

Table 3. Overall Progress 2006-2007 (amount in USD million)

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Units</th>
<th>2006-2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Savings Accounts of SHGs with Banks as of 31 March 2007</td>
<td>No. of SHGs (million)</td>
<td>4.16</td>
</tr>
<tr>
<td></td>
<td>Amount</td>
<td>878.18</td>
</tr>
<tr>
<td>Bank Loans disbursed to SHGs with Banks during the year</td>
<td>No. of SHGs (million)</td>
<td>1.1</td>
</tr>
<tr>
<td></td>
<td>Amount</td>
<td>1,642.60</td>
</tr>
<tr>
<td>Bank Loans outstanding with SHGs with Banks as of 31 March 2007</td>
<td>No. of SHGs (million)</td>
<td>2.89</td>
</tr>
<tr>
<td></td>
<td>Amount</td>
<td>3,091.63</td>
</tr>
<tr>
<td>Bank Loan disbursed to NGOs/MFIs during 2006-2007</td>
<td>Amount</td>
<td>267.57</td>
</tr>
<tr>
<td>Bank Loan outstanding with NGOs / MFIs as of 31 March 2007</td>
<td>Amount</td>
<td>355.61</td>
</tr>
</tbody>
</table>

Source: NABARD, June 2008

SHGs approach has enabled approximately 4.1 million poor households to gain access to microfinance

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10 page 5: “Group lending - Self-Help Group”
from the formal banking system. As shown in Table 4, the number of families who benefit from the scheme is 400 times higher than compared to 13 years ago. The number of banks participating in SHGs linkage program has risen to 547 and there are almost 4 times more districts covered by the program than 10 years ago. The distinguished advantage of SHGs is that it provides access to finance to the poorest among the poor, while most of the poor are women. NABARD’s successful experience in SHGs linkage program enlarges the coverage of microcredit for women in rural areas. The SHGs program serves 85% - 90% of the total SHGs for women. In addition, more than 48 million poor families are also assisted by this program.

Table 4. Growth of SHGs from 1993 to 2008

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage of women’s groups</td>
<td>70%</td>
<td>74%</td>
<td>90%</td>
<td>85%</td>
</tr>
<tr>
<td>Families Assisted</td>
<td>5,100</td>
<td>80,000</td>
<td>40,949,000</td>
<td>48,691,000</td>
</tr>
<tr>
<td>Banks participating</td>
<td>14</td>
<td>95</td>
<td>547</td>
<td>547</td>
</tr>
<tr>
<td>Districts Covered</td>
<td>26</td>
<td>157</td>
<td>583</td>
<td>583</td>
</tr>
</tbody>
</table>

Source: NABARD / * Data provisional, June 2008

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 the rural areas. At the end of 2006, 130 million Chinese, almost 10% of the Chinese population had deposit accounts with the postal service and the total amount of card deposits reached about 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 the clients to use the green card (CPSB’s debit card brand), from which the annual USD1.5 fee is exempted. In the countryside of China, USD 1.5 represents the poor’s living expense for one month. The exemption of the charge for applying 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 enable clients to save regularly and benefit from the convenience of proximity and convenient financial services.
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. NSI, governed by the national Ministry of Finance, conducts the national centralized savings schemes to mobilize savings, to inculcate the habit of thrift and savings among the people in India. NSI handles the design and part of the marketing of the products, while the distribution goes through post offices but also state banks and a small but growing number of private banks.

NSI’s products include very basic passbook savings accounts that can be operated with no fee, provided that the equivalent of 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 study “Who are the Clients of Savings Banks?” by WSBI shows that NSI products reaches 24% of all households in India and 7% of the poorest households. By the year 2007, NSI 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 a little, the total collection of small savings in 2006-2007 aggregated to USD 45.54 billion. NSI grew by 21.8% during the past 4 years and the trend is remaining upward. 178,933 new accounts were opened during 2007-2008.

Table 5. Gross Small Savings Collections

<table>
<thead>
<tr>
<th>Year</th>
<th>Deposit(USD billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003-2004</td>
<td>37.39</td>
</tr>
<tr>
<td>2004-2005</td>
<td>44.51</td>
</tr>
<tr>
<td>2005-2006</td>
<td>50.04</td>
</tr>
<tr>
<td>2006-2007</td>
<td>45.54</td>
</tr>
</tbody>
</table>

Source: NSI, May 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’ allocation is that out of the countrywide network of more than 150,000 post offices, 130,847 are located in the rural areas.

NSI promotes its products through different media, including different TV channels, all Indian radios and newspapers, etc. NSI has organized special radio campaigns for promoting small savings in rural, hilly and far-flung areas. The government of India has an impressive plan to mobilize savings in 2008-2009, such as expecting one million accounts to be opened, initiating “National Rural Employment
Guaranty Scheme” and conducting 350 training programs at different regional center, etc.

**Government Savings Bank of Thailand (GSB) - People Bank’s programme with a specific focus on SME financing**

The Government Savings Bank, a state-owned bank operating under the supervision of the Ministry of Finance, is mandated to provide the low-income population with microfinance services, which 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, particularly the small entrepreneurs both in urban and rural areas, 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.

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

- **Microsavings**

“People Bank” mobilizes savings to cultivate habits of savings from the customers. The savings habits of the individual, reflected by both the deposited amount and the frequency of deposits are taken into account for eligibility for the microloans.

Both demand deposit\(^{11}\) and savings by GSB kept growing (see Table 6). Although the demand deposit amount declined slightly from year 2004 to 2006, the total outstanding of savings remained a growing trend, which showed a shift from demand deposit to savings account.

**Table 6. No. of Demand Deposit Account and Saving Account**

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Demand Deposit</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number</td>
<td>667,518</td>
<td>682,678</td>
<td>693,503</td>
</tr>
<tr>
<td>Total outstanding amount in USD Mn</td>
<td>66.69</td>
<td>64.08</td>
<td>59.77</td>
</tr>
<tr>
<td><strong>Savings Account</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number</td>
<td>19,911</td>
<td>22,950</td>
<td>24,059</td>
</tr>
<tr>
<td>Total outstanding amount in USD Mn</td>
<td>129.08</td>
<td>150.17</td>
<td>160.43</td>
</tr>
<tr>
<td>Total outstanding</td>
<td>195.77</td>
<td>214.25</td>
<td>220.20</td>
</tr>
</tbody>
</table>

Source: GSB, Dec, 2007

\(^{11}\) The demand deposit refers to a bank deposit that can be drawn easily without any previous notice.
Microcredit

GSB provides loans to retail customers with different amounts according to different tenures. For example, a loan of maximum USD 470 is disbursed to the microentrepreneurs for 1 year tenure. With the development of the microentrepreneurs’ business, GSB does not only increase 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 by GSB becomes the driver for MSEs growth, supporting from microentrepreneurs to small enterprises and then to medium enterprises.

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

Table 7. GSB Microcredit Clients

<table>
<thead>
<tr>
<th>Number of active microcredit clients</th>
<th>2002</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>566,515</td>
<td>854,254</td>
<td>940,530</td>
<td>968,042</td>
</tr>
</tbody>
</table>

Source: GSB, Dec 2007

The total value of disbursed microcredit grew in pace with the growth of microcredit customers. The growth rate from year 2005 to 2006 reached 22.9% (see the amount in Graph 3).

Graph 3. GSB Total Value of Disbursed Microcredits (in USD Mil)

Source: GSB, Dec 2007
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 BSN into a specialized microfinance institution and being mandated to provide microfinance to micro enterprises and individuals operating a business to fulfill the high demand of micro enterprises’ financing. The key objective of transforming BSN is to operate on a sustainable basis and adhere to the established prudent banking practices.

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

During the years 2003 to 2005, BSN was only involved in micro credit which simply revolved around giving out uncollateralized small loans up to about USD 6,000 (RM 20,000). However, with the government’s latest push in the SME sector, the role of BSN has been enhanced to become a provider of microfinance which includes the savings and advisory elements built into the business model. The recipients are very targeted industry players and the maximum loan size is of approximately USD 15,000 (RM 50,000).

Whilst in 2004, loans were given through its 12 main branches to individual entrepreneurs, today microfinance centers which only cater for the microfinance community have been set up and focus on both individuals and small business concerns, in addition to the branches. To date BSN has more than 373 outlets which act as distribution centers where access to microfinance is made available, and has microfinance centers which actually process the loans.

Starting from year 2007, the main micro lending scheme by BSN is focusing on the manufacturing, wholesale, retailing and services sectors and the scheme is not individual lending but lending to rural and sub-urban business communities. BSN adopts the principle that different products apply to different clients. The strategy of different loan products not only complies with prudential principle from risk management aspect, but it also meets the demand of the clients who need the small loan. As shown in Table 8, BSN provides the loan to microentrepreneurs without any collateral and guarantor with a maximum of about USD 6,000. The loan limit increases when the Bank knows better about its clients. This can monitor and manage high quality loan effectively and foster good borrowers-bank relationship for future betterment.

### Table 8. Product Category
<table>
<thead>
<tr>
<th>Category</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest Rate</td>
<td>15.0%</td>
<td>15.5%</td>
<td>16.5%</td>
<td>17.0%</td>
</tr>
<tr>
<td>Criteria</td>
<td>Existing BSN account holder</td>
<td>Existing BSN account holder</td>
<td>Existing BSN account holder</td>
<td>Non BSN account holder</td>
</tr>
<tr>
<td>Savings &gt; about USD 1,500 (RM5,000)</td>
<td>Savings &gt; about USD 300 (RM1,000) and &lt; about USD 1,500 (RM5,000)</td>
<td>Savings &lt; about USD 300 (RM1,000)</td>
<td>No BSN savings</td>
<td></td>
</tr>
<tr>
<td>No collateral/guarantor</td>
<td>Able to provide collateral/guarantor</td>
<td>No collateral/guarantor</td>
<td>No collateral/guarantor</td>
<td></td>
</tr>
<tr>
<td>Good credit track record</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Limit of Loan</td>
<td>Maximum about USD 15,000 (RM50,000)</td>
<td>Maximum about USD 15,000 (RM50,000)</td>
<td>Maximum about USD 9,200 (RM30,000)</td>
<td>Maximum about USD 6,100 (RM20,000)</td>
</tr>
</tbody>
</table>

Source: BSN, May 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 field of purchasing landed property, transport vehicle and working capital. BSN disbursed approximately USD 84 million (see Table 9) microloans during the years 2004 to 2006 (the accumulated amount is relatively small when compared to the total microloan in Malaysia as of year 2007). The number of active microcredit clients increased dramatically from 2004 to 2005, while the disbursed loans decreased. This demonstrated the amount disbursed to each borrower had decreased.

**Table 9. Microcredit value**

<table>
<thead>
<tr>
<th>Year</th>
<th>end of 2004</th>
<th>end of 2005</th>
<th>end of 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of active microcredit clients</td>
<td>13,894</td>
<td>82,998</td>
<td>78,013</td>
</tr>
<tr>
<td>Total value of disbursed microcredits (USD million)</td>
<td>35</td>
<td>25</td>
<td>24</td>
</tr>
</tbody>
</table>

Source: BSN, Dec 2007
To inform the public that microfinancing is available, BSN displays a microfinance logo in all BSN branches. BSN engages the business associations, community clubs or groups to participate in microfinance schemes. The officers of BSN go to the communities to explain and give briefings on the loan products that BSN offers. This is proving to be very efficient.

BSN also is getting involved in the Islamic based syariah concept microfinance. This will cater for entrepreneurs who want access to credit based on Islamic principles.
## Annex: WSBI Asia Pacific Members

**List as of June, 2008 General Assembly**

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

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The Role of Central Banks in Microfinance in Asia and the Pacific, Asian Development Bank

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www.grameen-info.org/index.php?option=com_content&task=view&id=43&Itemid=93
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 2006, assets of member banks amounted to more than €8,081 billion, with operations through more than 191,000 branches and outlets.