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PERSPECTIVES

ACCESS TO FINANCE CONFERENCE PROCEEDINGS

Co-organised by the WSBI and the World Bank
28-29 October 2004

WORLD SAVINGS BANKS INSTITUTE

EUROPEAN SAVINGS BANKS GROUP

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1. FOREWORD

Message transmitted by James D. Wolfensohn, World Bank President, at the occasion of the Access to Finance Conference

"On behalf of the World Bank, I think it is important to express our admiration and regard for the work that WSBI has been doing. I was very struck by WSBI's *Madrid Declaration*[1] in 2003, which dealt with the issue of globalisation with a human face. And this could never be more important than it is today. As I look around the world and as I look at the work that the World Bank is doing, we are confronted with the challenges of terrorism and wars, which have diverted the attention of the world to immediate threats.

What is important for us, is to reach the millions of poor people in this world who are crying out for the opportunity to have hope and to have opportunity for their children. That is our task broadly, to try and deal with the question of hope, to try and deal with the question of opportunity, to try and broaden the possibilities for the nearly 2.8 billion people in the world that live under two dollars a day, and reach down to the more than billion people that live under one dollar a day.

The challenge before us is enormous. And the work of WSBI's membership is important to us because it reaches out to the largest body of people to offer financial services, more than any other group I know. For that reason I want to salute these banks and encourage them to continue in their theme of a double bottom line: to think not just of profit, but to think also of social responsibility which savings banks carry out so well.

1 Discussions pre- and throughout the WSBI 2003 World Congress culminated in the publication of a document synthesising key policy priorities of the Institute, which has since become known as the Madrid Declaration. These priorities have two areas of focus:
- The crucial role of access to finance, and
- The importance of acknowledging the existence of a range of financial institutions in furthering the development of international financial regulation.

This is not just an issue of a financial industry that is doing well, this is ultimately an issue of peace, and it's ultimately an issue of stability, so that when we're hopefully through these days of wars and terror, we can help construct a world that is peaceful and stable.

Now, that is what we try and do at the World Bank and why we are so anxious to broaden the relationships that we have with savings banks. Together with CGAP – our institution that works as the Consultative Group to Assist the Poorest people – we look at the essential need to scale up activities, to reach out to people everywhere, and savings banks have the channels of distribution. They have a base in communities, they are proximity banks, they know their customers person by person, and are engaged in providing them with a range of financial services that are of considerable value to them.

As you look at the range of services that are offered by savings banks, they reach out to products such as microcredit that provide people with the opportunity to start their own business with small loans; education, that helps people manage their money, and financial services, for those who would not normally have access to a bank account.

To encourage this, I believe that in the first instance, we need to work together on the questions of enabling the environment for lending, for collecting monies so that customers are not defrauded, and in which we can broaden the range of services, which are offered. We know already that there are some 750 million accounts being served in institutions that have this double bottom line, but it is a fraction – well, a large fraction – of the possibilities that are available to us, and it is our view that together we can broaden the base both to the profit of proximity banks and to the stability of our planet.

We are working together with WSBI to try and establish the legal framework, the operational framework and the social framework. These are the three pillars upon which we need to help build a better world. And the issue of finance and the issue of financial services merits a place alongside education, health and infrastructure as one of the pillars to a peaceful world.

We look forward to working with WSBI in the years ahead, and I can assure you that the World Bank and CGAP will do everything that they can to try and build relationships that can lead to the stability that we all seek."

James D. Wolfensohn, President, The World Bank (1995-2005)

2. INTRODUCTION

What does access to finance mean or what does a lack of access imply? In developing and emerging economies there remains much to be done to improve access for households and enterprises. Leading donor agencies and development banks increasingly recognise the importance of access to financial services for providing a launch pad for development and contributing to poverty reduction. But also in advanced economies, financial exclusion is a reality. Increasingly governments are acknowledging the social impact of this phenomenon and call upon the financial sector to address this issue.

In October 2004, the World Savings Banks Institute and the World Bank co-organised the 'Access to Finance Conference' which brought together more than 300 delegates from close to 50 countries, including practitioners, policymakers and academics, in order to address for the first time the issues of access to financial services *both* in the developing and the developed world.

In particular, this event sought to address:

- The relevance of access to finance for social inclusion, sustainable economic development and stability of the financial system;
- Obstacles in providing access to finance in different parts of the world, looked at from the demand and supply side;
- Options for improving access to finance, presenting best practices experiences of decentralised financial institutions, sustainable and appropriate technology and public mechanisms that stimulate access to finance;
- Public and private initiatives that have been undertaken to overcome the obstacles to access to finance.

Broad access to financial services matters in order to create the conditions for economic growth, combat poverty and foster social inclusion. The event made clear that access to finance is not only a question of access to credit, but should be seen in the context of an access to all financial services, including savings accounts, insurance products and payment services. WSBI's stake in this issue can be explained by looking at the characteristics of its members. Savings banks are *proximity banks*. They offer a wide range of formal, fair value financial services and are committed to financial outreach, both geographically and through the tailoring of their products, making them ideally placed to offer inclusive financial services.

WSBI defines its membership clearly, explaining that its member banks are efficiently-operated competitive businesses that share the following '3R' characteristics:

- Firstly, as *retail* banks they are customer-oriented, their main customers are private individuals, small and medium-sized enterprises and microenterprises;
- Secondly, thanks to their broad network of branches and their decentralised structure, they have a *regional* focus that enables them to serve local markets;
- Thirdly, as socially *responsible* banks and due to their profitability and efficiency, they are able to reinvest their profits in the local economy via investment in social initiatives, sustainable investment in small and medium sized enterprises and the environment.

WSBI members operate by mobilising their country's domestic financial resources in the form of savings, managing risk, providing information on investment opportunities, monitoring borrowers and facilitating payments. The mobilisation of domestic resources involves encouraging the population to save and then re-channelling this money into the economy in the form of credits allowing investments such as the expansion of SMEs and microenterprises. In turn, this provides overall economic growth, generates employment and reduces poverty through increased incomes.

On the occasion of the 2004 General Assembly, WSBI members endorsed the *'WSBI Access to Finance Resolution'*,[2] which identifies steps to address the challenge of expanding access. On the basis of the WSBI-commissioned *Access to Finance Study,* the Resolution calls upon the private sector to commit to develop an inclusive financial sector, and on policymakers to create an enabling environment. An enabling environment implies both the provision of necessary fundamentals for a stable financial system, including sound policies for its development, and the facilitation of a pluralist banking system in which proximity banking can flourish.

The following paper documents the proceedings of the WSBI/World Bank Access to Finance Conference. Firstly, we identify the obstacles to access to finance, then we take a snapshot of what is currently being done, and finally in light of the proceedings and research, we look at what can be done to better facilitate financial access.

Further information, including presentations and papers distributed at the Conference, can be found at the following link:
www.savings-banks-events.org/atf/programme.htm

2 A list of all the documents presented at the Conference can be found in Annex, Item 7.5

3. OBSTACLES TO ACCESS TO FINANCE

3.1 What we know and do not know about access to finance

That access to finance matters for economic growth, poverty reduction and social inclusion was one of the main messages of the Conference. In his opening address, Cesare Calari, Vice President Financial Sector at the World Bank, stressed the significance of having access to finance. World Bank research[3] shows that financial development is positively associated with economic growth and better income distribution, both being considered as drivers of poverty reduction. Building inclusive, well-developed financial systems is therefore critical to reducing poverty. As mentioned by Mr. Calari, providing access to finance is a powerful tool to give poor people access to opportunities. In his words, poor people are not asking for assistance, they are asking for the opportunity to start a business and to manage certain risks that affect their lives and that could lead to more poverty.

Despite the importance of access, there is very little information about who has access, who effectively uses financial services and how financial institutions are providing those services. The lack of information on the status of access and use of financial services worldwide is considered a major obstacle, as stated by Stijn Claessens, Senior Adviser Financial Sector at the World Bank. There is a need for a comprehensive view on the reasons for financial exclusion and the cost-benefit case for financial institutions to improve access to financial services.

Referring to the *WSBI Access to finance study*, Steve Peachey and Alan Roe from Oxford Policy Management, presented some estimates on the level of access: about 10% of the population in industrialised countries is excluded from the financial system and around 80% of those living in developing countries lack financial access.

3 See list of World Bank documents on the subject, at Item 7.5.

The problem of financial exclusion is representative for developed countries, while the problem of access itself is prevelant in developing countries. If the aim of building inclusive financial sectors is to be achieved, much more should be done to gather and analyse data highlighting differences within countries and between access to and the use of financial services. Such an analysis would establish better association and causation between access to finance and welfare improvements. During the Conference, the World Bank voiced its commitment to work with clients to build better data sources and indicators on access to finance, an initiative that is fully supported by the WSBI.

Along the same line, the situation of the unbanked households and small firms is not well known, as Robert Keppler, Senior Adviser Financial Sector at the World Bank, pointed out. Socio-economic characteristics such as low income, reduced wealth and scarce education play a large role in explaining the barriers to access for individuals. For small firms, characteristics such as size, financial and legal collateral are the factors that determine access. In developed countries, the excluded population experiences a strong disengagement from the financial sector. Sometimes strict ID requirements are a barrier to opening an account or making transactions. In developing countries the lack of access to finance is part of a wider debate on the lack of basic needs – such as health, education, communications, etc. In that respect, Mr. K.S. Menon, Joint Secretary of the Indian Ministry of Finance pointed out that in India, financial access is generally perceived as an elite benefit.

Prof. Elaine Kempson of the University of Bristol presented the results of a survey undertaken throughout the low-income population in Britain. It showed that people look for tailored financial services: a simple low cost deposit account, small loans over short periods, frequent small payments and flexible repayments. The survey also showed the need for transactional banking: simpler money management allowing customers to retain financial control over assets.

Concerning the measurement of access, two models were presented at the Conference. Steve Peachey and Alan Roe identified different levels of access to banking services from different regions around the world in the *WSBI Access to Finance study*.

By identifying the balance between cash in circulation and deposits mobilised, as well as the proportion of deposits recycled to lending for the private sector, they found that the level of access could be represented by three stages that allow the grading of countries according to where they lie in the spectrum: from very repressed access – typical of poor developing countries – through to the first intermediate stages of broadening access, followed by the full access stage with at least 70% of individuals having access to an account – typical of developed economies.

Another model presented was FinMark Trust's FinScope, based on household surveys. FinMark has identified 'a landscape of access', which seeks to measure the percentage of adults who have access to, or use, a product in each of four main categories of financial services: transactions, savings, credit and insurance. Through these kinds of surveys, there is a greater understanding of the needs of those who still do not, or cannot, use formal financial services. If such surveys are regularly carried out, they also provide a credible framework within which to measure progress towards enhanced access.

3.2 Main obstacles

In developing countries, the banking system at large does not cater to the needs of the smaller and often poorer customers, who as a consequence turn to the informal financial system for financing, as well as for saving services. In more developed countries, banks are cutting their distribution networks by reducing the number of branches in rural and/or deprived areas. One of the Conference's aims was to provide an overview of the main obstacles related to macro-economic, legal and regulatory issues and the risks and costs associated with providing access to finance.

Several constraints to access for individuals and small businesses were identified. Primary obstacles include factors such as lack of proximity, limited financial literacy, a limited and an untailored product offering from the formal banking system and weak institutional and regulatory foundations. Conceptually, a broad access to finance is the result of a sufficiently developed financial and economic infrastructure that is able to provide sustainable and massive financial services.

On the issue of *lack of proximity* – a special concern for savings and retail banks –, poor households and small businesses are usually confronted with deficient delivery channels in rural, remote or repressed urban areas. Some examples referred to during the Conference showed how savings banks are contributing to maintaining and even expanding access – the case of Spanish savings banks – where other financial institutions are closing their branches and outlets. Examples cited by Mr. Jose Manuel Mena, CEO BancoEstado Chile and by Ms. Esther Koimett, CEO Kenya Post Office Savings Bank, showed that in Chile and Kenya the savings bank branch network accounts for half of the total banking system and that in many remote areas it is often the only access point for formal banking services. On the contrary, given the rural character of the South African region, as explained by Mr. Mark Napier from FinMark Trust, one of the main constraints to access is the absence of a wide network of rural financial institutions. Mr. Napier also mentioned how pending legislation in South Africa, allowing unlimited banking licenses to some institutions, could have a positive impact on the landscape of access in the country.

Limited financial literacy was quoted several times as a major constraint to access to financial services. Moreover, the issue of literacy itself poses a major obstacle in some developing countries. The population in these countries is generally unfamiliar with the financial system and the benefits of having access to it. On average, as Mr. Jose Manuel Mena, CEO Banco Estado Chile, mentioned, adult residents of Latin America access only one banking product or less. Sophisticated electronic systems are also a barrier to access for people who are not exposed to this kind of technology in their daily activities.

Another constraint to access is the often *limited and untailored provision of services and products from financial institutions*. Often, banks do not meet the needs of small customers who require simple products such as small savings accounts, frequent and small loans with small repayment facilities. An explanation of the lack of suitable products could be the high cost that small transactions involve. Some financial institutions find that poor households and small firms are too risky and too costly to serve. Mr. Thorsten Beck, Senior Economist, Finance Team of the Development Research Group at the World Bank, showed how improved cost management could lead to lower unit costs and thus greater outreach to low-income clientele.

Mr. Mena, also tackled the obstacles to access to finance from a bank's perspective. Institutional restrictions such as the complexity of products and services offered, the low incentives for providing banking services to low-income clients and low transparency in non-banking financial service activities are major constraints to banks. High operating costs also limit the supply to low-income clients; In Chile the cost for a bank of a personal credit is $US30 and can reach up to $US300 for a housing loan. Moreover, he explained that out-of-date technology hinders cost reductions and large-scale supply of products and services.

To overcome these obstacles Mr. Mena proposed to aim to provide most of the adult population, or at least the labour force with access to at least three basic products: a savings product, a credit product, and a payment product. The challenge is for banks to design low-cost mass-market products for low income clients, in other words to 'commoditise' banking products. One way of addressing this could be the introduction of new technologies to reduce operating costs and prices of products and services. Another key solution would be to broaden banking networks in rural areas through the creation of units with low operating costs.

The absence of credit information, the lack of collateral and difficulties in contract design and enforcement are also able to explain the reluctance of financial institutions to provide access to finance. In a broader sense however, *institutional foundations* are critical to develop inclusive financial systems as Mr. Calari mentioned. A legal and judicial framework that allows financial contracting to take place is equally crucial. Availability of credit information, which can help people with no physical assets to build a reputation or collateral can greatly facilitate access to finance. The creation of credit reporting systems and credit bureaus were identified as key solutions to these issues.

On the obstacle of weak *institutional and regulatory foundations*, Mr. K.S. Menon mentioned that regulatory restrictions such as high minimum capital requirements and institutional weaknesses impede the development of sustainable financial institutions. As a response, he proposed institutional changes such as new delivery mechanisms by mobile banking or credit linkages through self help groups (SHG). A SHG is a group of about 20 people who come together to address common needs. They are encouraged to make voluntary savings on a regular basis and then use these pooled resources to make small interest bearing loans to their members.

4. WHAT IS CURRENTLY BEING DONE TO STIMULATE ACCESS TO FINANCE?

Overcoming obstacles to access to finance was a key focus of the Conference. Three working groups were set up to explore the following challenges in detail:

1. How to overcome financial exclusion in developed countries?
2. How the diversification of products and distribution channels can contribute to the 'bancarisation' of the population in developing countries? and finally;
3. How SME finance can be improved?

Furthermore, institutional experiences were illustrated with case studies on how to improve access. Speakers presented lessons from some initiatives in different regions of the world that have succeeded in overcoming the challenges to expanding access to financial services.

4.1 Combating financial exclusion in developed countries

The working group dealing with banking the unbanked in developed countries explored the trade off between regulatory responses to financial exclusion and the role of banks, comparing models in the US, UK and continental Europe. Citing Prof. Ted Gardener, University of Wales, financial exclusion refers broadly to the inability (however occasioned) of some societal groups to access the financial system. Groups in society that are unable to access financial services are frequently unable to obtain other key social provisions and financial exclusion can often exacerbate other kinds of social exclusion. Financial exclusion is invariably experienced by poorer members of society. In the UK, until recently around 1.5 million (7%) of households lacked any financial product at all and a further 4.4 million (20%) were on the margin of financial exclusion, typically with little more than a bank account.

Referring to the Eurobarometer 52 from May 2000, Prof. Gardner highlighted other countries in Europe with a high level (10% or more of the population excluded) of financial exclusion for basic banking facilities (personal current account or giro account) including: Italy (22.4%), Greece (17.9%), Ireland (16.79%), Portugal (16.7%) and Austria (13.5%). He underlined that there is considerable variation among European countries. Financial inclusion varies from 99.1% in Denmark, 96% in Germany and France to 70.4% in Italy; this variation confirms both the importance and heterogeneity of financial exclusion experiences across Europe.

According to Mr. Benoit Jolivet, Ombudsman at the Fédération Bancaire Française, financial exclusion is emerging as a major issue in the European Union, especially in the current context of financial deregulation. Prof. Gardener and Prof. Santiago Carbo Valverde, FUNCAS Spain, identified several models that either governments or markets have created to counteract financial exclusion:

- Government affirmative action (United States);
- The market, but increasing government and private sector interest (Spain, Greece, Ireland and Italy);
- Voluntary role of banks (France, Germany and Belgium);
- Government as mediator (UK and French Attempt);
- Government as legislator (France, Portugal and Sweden).

Mr. John Koch, Chairman of Ulysses Holdings and former Executive Vice President of Charter One Bank, examined how the regulation in the United States, notably the Community Reinvestment Act (CRA) has led to an improvement in access to financial services. Since 1977, the CRA has urged banks to meet credit needs of the communities where they operate. According to the CRA, US banks are evaluated on the amount of lending and investments, and on the quality of services offered to low-income clients. The geographic distribution of residential and small business loans, the amount of investments to local needs and the geographic distribution of branches over different income areas are the other variables the CRA takes into account to evaluate banks. Overall, the public purpose to combat financial exclusion was largely met by the adoption of the CRA. Housing and other basic financial services have been greatly facilitated for low-income clients. Minimal down payment loan programmes, reduced loan rates and maximised outreach by credit counselling services are some of the responses the banks have put in place to meet the CRA requirements.

Initiatives against financial exclusion where also presented from the perspective of two savings banks in France and in Spain. Mr. Michel Picot, Member of the Board of Caisse d´Epargne Rhone Alpes Lyon, talked about the experiences of French savings banks in providing products and services to population from all strata. Some of the responses include accessible products such as the 'Livret A', a tax exempted savings passbook account, and basic banking services offered in a 'liaison package' with a cost of €13 per annum. French savings banks are also present in marginal neighbourhoods where they have specially trained staff to serve the customers. Some more specific responses by the French savings banks include the provision of microcredits, support and coaching to small businesses and business start-ups, as well as the programme 'Finance and Education' which consists of special training on personal budget management and on the use of banking services.

Mr. Antonio Claret Garcia, President of Caja Granada and President of the International Association of Social Pledging Credit Establishments, examined some of the initiatives that Spanish savings banks undertake to combat financial exclusion. Mr. Garcia pointed out three essential actions against financial exclusion:

- Make financial institutions available to all people, eliminating the physical and psychological barriers;
- Encourage bank staff to cater to the special needs of the customers;
- Encourage banks to offer tailored financial products and services.

Some of these products that Spanish savings banks offer range from collateral loans (pawn loans), which for Caja Granada amount to €5 million, to microloans and basic savings accounts. Caja Granada has increased its microloan portfolio considerably during the last two years, it has disbursed €1 million with a reimbursement rate of 95%. Finally, Mr. Claret Garcia insisted that every citizen in Europe should have the right to a basic bank account.

4.2 Diversifying products and maximising outreach in developing countries

Initiatives from developing countries that are contributing to the 'bancarisation' of the population were presented in a working group chaired by Mr. Richard Boulter, Deputy Head, Department for International Development (UK). During the discussions, the participants recognised the importance of pluralism in the financial sector and alliances among financial institutions, microfinance institutions (MFIs), governments and other players. Such alliances and partnerships were considered as win-win situations, both for the institutions involved and in terms of the enhanced outreach to the population: (postal) savings banks and MFIs can agree with commercial banks to act as distribution channels in areas where the commercial banks have insufficient outreach; MFIs can benefit from refinancing and guarantees schemes from governmental APEX institutions and insurance companies can commercialise their products through savings banks and MFIs.

Downscaling banking services and upscaling MFI operations was also identified as a key challenge for improving access to a whole range of financial services and creating financial democracy. It was recognized that for banks to enter in the microfinance business and for MFIs to become formal financial institutions, regulatory and legal reforms are needed. Regulators need to foresee the special characteristics of microfinance operations and accordingly create a coherent framework to allow the microfinance movement to flourish thereby encouraging the presence of trusted and stable financial institutions.

Ms. Antonique Koning, Adviser Institutional Relations at the WSBI, explored the benefits of product diversification. She examined the harnessing of untapped financial products, such as remittances and insurance, and the creation of new ways to offer traditional financial products in detail. Savings, pawn-broking, credit, insurance and payment services have to be adapted to the needs of the poor. The use of a diversity of institutions with a variety of products may be the key to banking the poor in developing countries. As mentioned earlier, this could be achieved with innovation and partnerships between different players.

Mr. Wilson Risolia, Vice-President Asset Management at Caixa Economica Federal (Brazil), described Caixa's experience in offering credit products aimed at the low-income classes of the population. Caixa Economica Federal was initially created as a savings bank and a pawn-broking office.

Nowadays, it not only offers pawn credits, with an active portfolio of $US204 million, but since August 2004, it has introduced micro pawning especially directed towards a low-income and micro-entrepreneur clientele. Pawning, that is to say a credit secured by jewels, precious metals or other valuable property, is offered in 315 branches in 173 Brazilian municipalities.

Caixa has also created a special account 'Caixa Aqui' aimed at reaching out to the estimated 40 million unbanked Brazilians. The target is to open 5 million 'Caixa Aqui' accounts by 2007. This type of account has been introduced by promotional and educational campaigns and consists of a transaction account limited to $US330, with the possibility of demanding credit of a maximum of $US70 over a payment period of 4 months. Pensioners, small business men and public servants can access Caixa Aqui services either in the 2171 Caixa's outlets or by banking correspondents. Caixa has 3,100 commercial agents located in commercial establishments and 8,899 lottery outlets throughout Brazil.

The role of micro-insurance was described by Mr. Bernd Balkenhol, Head of Social Finance Programme at the International Labour Organisation (ILO). Micro-insurance is a type of insurance relevant to the risks of the low-income market. Affordable premiums in small benefit amounts, simple rules, minimum exclusions and conditions, and fast payment of benefits are some of the essential characteristics of micro-insurance operations. Helping people to manage risks may also involve creating strategies to overcome the wariness of customers (e.g., client education to minimise claim rejections), and building on existing informal coping mechanisms and social capital. Recognizing their traditional way of dealing with unforeseen events could help in designing appropriate insurance mechanisms.

Micro-insurance is important for access. It opens up access to other financial services – and corresponds to the financial needs of all working poor in the informal economy, whether or not an entrepreneur. In the absence of government social protection, micro-insurance could serve as a substitute.

Ms. Esther Koimett, CEO, Kenya Post Office Savings Bank (KPOSB), presented the example of her institution extending financial services through the postal network and enlarging outreach through alliances and partnerships. In Kenya, the postal savings bank relies on a distribution network which is by far larger than banks' facilities. The KPOSB operates through 471 outlets with over 426 located in rural areas outside the Nairobi (capital) region.

It has 67 of its own branches but through an alliance with the postal corporation of Kenya it is present in post offices across the country. KPOSB has other alliances with the department of pensions of the Government of Kenya, Citibank and Kenya Commercial Bank, allowing them to offer more services to their clients.

Mr. Donald Terry, Manager of the Multilateral Investment Fund (MIF) of the Inter-American Development Bank, described how the MIF has pioneered efforts to enhance the impact of remittances on development. The Latin American region is currently the recipient of $US32 billion in remittances a year from the United States, Spain, Canada, Japan and other developed countries. MIF is supporting projects and programmes to lower the transaction cost of sending these remittances (typically $US200 a month), and increasing their economic impact, once received.

4.3 Catering to the needs of small and medium enterprises

Another working group, chaired by Mr. Carlos Da Silva Costa, General Manager at Caixa Geral de Depósitos (Portugal), dealt with access to finance for small and medium-sized enterprises (SMEs). It first reviewed the main obstacles that SME's face when requesting financing, it then provided an overview of the solutions currently being offered by institutions such as EBRD (European Bank of Reconstruction and Development), EC (European Commission) and Euro-Info Centres. Overall, the participants recognized that in developed economies there is a need for more accessible finance and that SMEs need to improve their financial management to lower the perceived risks of SME lending. In contrast, in transition countries there is still a need for institution building both for banks and SMEs in order to enhance the impact of SME finance.

In Europe, as cited by Mr. Hans-Werner Müller, Secretary General at UEAPME (European Association of craft, small and medium-sized enterprises), SMEs depend highly on external finance and are much more financed by credits and loans than SMEs in the US for example. All UEAPME surveys show that access to finance is one of the main concerns of SMEs in Europe. The environment for credit and loan refinancing is changing, creating serious concerns of credit shortages. There is an uncertainty towards SME finance given the mergers and take-overs in the finance sector, the more restrictive state aid rules for the credit sector, the pressure for higher profitability from shareholders, and last but not least 'Basel II' and the new capital requirement directive for banks that has the potential to restrict the level of credit available to SMEs.

UEAPME has elaborated a list of 4 policy pillars for improving access to finance for SMEs:

- The new capital requirement directive must implement Basel II in a SME-friendly way, with adequate capital requirements for SME lending and with a lower administrative burdens for banks;
- The extension of credit guarantee schemes should compensate for less risk taking by the bank sector. Experience shows that public money, spent on supporting credit guarantee schemes has a much higher multiplier effect than other instruments (one euro can stimulate 30 euro of investment);
- Reforms of company and income taxation systems could strengthen the capacity of SMEs to self-finance;
- Access to external venture capital must become an option for more SMEs. Improvements should be made to the European venture capital environment.

Improving micro and small enterprise (MSE) finance is one of the principal tasks of the Group for Small Businesses at the EBRD as explained by Ms. Maria Teresa Zapia, Principal Banker within the Group. Ms. Zapia illustrated how new instruments, like securing the SME portfolios or risk-sharing models for equity finance could increase the capacity of the banking sector for MSE finance. The EBRD has a three pronged approach to improve access to finance at the supply side: where commercial banks meet standards of integrity, commitment and financial stability, technical assistance and funds are provided; where no suitable commercial banks are available, or where these banks are unwilling to adopt necessary procedures and client orientation, specialized MFIs are set up (a strategy called 'greenfielding'); finally, performing MFIs are being linked to the formal financial sector by commercialising their portfolio towards capital market funds that can then become available for MSE lending.

The EBRD has disbursed over €4.5 billion in 690,000 loans giving special attention to first time borrowers, ethnic minorities, rural areas and women borrowers. It has also concentrated its efforts on institution building, training more than 9,000 banking staff, and establishing approximately 700 MSE departments in bank outlets and branches. The next steps towards increasing MSE finance are: rural and agrocredit, village outreach e.g. mobile microbanks, and farm lending. Finally, as mentioned by Mr. Ian Radcliffe, Consultancy Services Director at the WSBI, putting in place streamlined and well monitored lending procedures and replacing collateral-based lending with proper credit analysis are also key elements to improve MSE finance.

The European Union (EU) has developed several policies and instruments to enhance SME finance, as explained by Mr. Jean-Francois Aguinaga, Official at the SME Financing Policy Unit within the Enterprise Directorate General of the European Commission (EC). At the policy level, it has elaborated the European Charter for Small Enterprises in which access to finance is considered as one of the main areas to improve the business environment for them. The creation of an SME Envoy is another policy conceived in order to promote coherence among EU SME policies.

At the operational level, the EU manages several financial instruments within the MAP (Multi-annual Programme for Enterprises and Entrepreneurship) with an amount of €317 million, such as the SME guarantee facility, the ETF Start-up facility and the Seed Capital Action. Besides those, the European Investment Fund (EIF) operates on behalf of the EC. The EIF secures SME lending portfolios to banks and provides investments to venture capital funds that then provide equity to SMEs.

Dr. Bertram Reddig, Head of Europa-Service – Euro Info Centre of the German Sparkassen-Finanzgruppe, shared with the audience some key elements based on the experience of German savings banks in supporting SMEs. He proposed that the risks of financing SMEs may be reduced by extra training and qualification of entrepreneurs in matters such as financial planning and financial management. In order to keep handling costs low, adequate financial instruments and non-financial measures can be integrated into 'support packages' by the various providers of services. Dr. Reddig gave the example of a combination of guarantee provision with coaching to young entrepreneurs. The integration of measures into 'support packages' is a task for networks of key stakeholders such as savings banks, local administrations and chambers of commerce.

4.4 Successful experiences. Best practices in improving access to finance

Ms. Marilou Uy, Director at the World Bank stated that a wide diversity of financial institutions, many of which have a double bottom line, have expanded access to financial services to satisfy the needs of customers for security of their savings, proximity, reliability, affordability, respect and education. Some best case examples of these institutions were presented, in a session chaired by Mr. Matthew Bishop, Business Editor of The Economist and UN Year of Microcredit Patron.

Representatives from BANSEFI (Mexico), the Government Savings Bank of Thailand, Developpement International Desjardins (Canada), the World Council of Credit Unions (WOCCU), and the Sparkassenstiftung für Internationale Kooperation (German Savings Banks Foundation) presented their successful experiences in expanding access.

■ BANSEFI

BANSEFI acts as a development bank in charge of promoting and expanding access to financial services to the Mexican population. BANSEFI has been successful in this task and is recognized as a best-practice example by several multilateral agencies such as the World Bank. Mr. Javier Gavito, Director General at BANSEFI, shared its experiences at the Conference.

BANSEFI has been at the centre of the transformation of the Mexican semi-formal financial sector by creating the 'Red de la Gente'. The Red de la Gente is a commercial alliance that has emerged between BANSEFI and the regulated intermediaries of the financial sector that join voluntarily. It integrates the branches of BANSEFI with these intermediaries for distributing financial services such as remittances and some government assistance programmes. This allows them to have a distribution network well positioned to cover the areas where commercial banks have no presence or knowledge of the local markets.

BANSEFI has also played a key role in banking the unbanked population. Recipients of Mexican social assistance are introduced to the use of formal financial products, most of them for the first time. The results show that 90% of the beneficiaries have a positive balance in their account after their second payment. After the fifth cash payment, 4% of beneficiaries make deposits in the account from another source of income.

BANSEFI's strategy has also promoted a savings behaviour by offering savings accounts with a minimum of $US5 opening requirement. Since BANSEFI's creation (January 2001), savings accounts have increased from 850,000 – in the former government savings bank PANHAL – to more than 2.4 million in August 2004 (a growth of 183%).

BANSEFI is also the second tier bank of the microfinance sector. Today, it manages the liquidity of 172 MFIs with an amount of $US67 million. It aims at incorporating technology, providing technical assistance and regulatory compliance to the sector. Mr. Gavito emphasized how the transformation and formalisation of the microfinance sector will contribute to deepen and complete the Mexican financial system, allowing more people – particularly those with low levels of income – to have access to financial products and services and hence to new opportunities to promote their development.

■ Government Savings Bank of Thailand

Mr. Goanpot Asvinvichit, President and CEO of the Government Savings Bank (GSB), described the role of the Thai government and specifically of the savings bank, in promoting access to finance. The identity and philosophy of the GSB is to play three major roles: a development bank, a commercial bank and a social contributor. In line with the Government's concern for poverty reduction in Thailand, the GSB was given the mandate to provide the 'unbanked' low-income population with microfinance services at relatively low lending rates. To this purpose, it launched the People's Bank Project.

The project consists of microcredit services for small entrepreneurs, both in urban and rural areas countrywide. As of August 2004, more than 870,000 loans had been disbursed to a total amount of $US468 million. Clients are also offered with savings, insurances facilities and with occupational and management training.

The Village Fund is another successful initiative of the GSB. It consists of a microcredit revolving fund to finance projects of mutual interest to the communities and of particular interest to the poor. The fund is provided to village residents to be used in local projects that improve the village economy. GSB provides $US25,000 to each of the 60,000 Thai villages. The National Village Fund Office administers the funds and lends them when they have been reimbursed. As of August 2004, 12 million villagers were accessing Village Funds, reimbursing at a 94% rate.

World Council of Credit Unions (WOCCU)

Mr. David Grace, Senior Manager at WOCCU, described some successful experiences of the credit unions in Guatemala and Ecuador. The challenge for WOCCU is to enable millions of people to improve their economic situation by providing access to affordable financial services. WOCCU is a trade association with 40,258 credit union members present in 84 countries.

In Guatemala, 26 credit unions serve 550,000 members through 121 points of service, most of them (95%) located in rural areas. Credit unions in Guatemala have over $US204 million outstanding in loans and $US217 million in savings as of August 2004. Assets are growing at 25%, and the number of members is growing at 15% rate per year. The remittances programme in Guatemala has proved promising. Credit unions distributed 245,154 remittances with a volume of $US114.3 million in 2003. Currently they are distributing an average of 40,000+ remittances per month. They offer direct deposit of remittances to savings accounts for members as a way of bringing the remittance receivers into the formal financial system.

In Ecuador, there are 330 credit unions in total. They serve more than 1.3 million members with over $US425 million in assets, holding more than 5% of the total formal financial sector assets. WOCCU implemented the Credit Union Microentreprise Innovation project. The project aimed at strengthening credit unions as a way to achieve economic empowerment of the low-income economically active population of Ecuador. The results of the project were a steady growth in member clients (from 530,000 in 1996 to 879,000 in 2001) and a growth in the savings and loan portfolio reaching $US200 million in 2003. By 2003, the foundations were laid to increase outreach to rural communities and low-income people through product and service innovation.

Développement International Desjardins

Ms. Anne Gaboury, CEO of Développement International Desjardins, referred to the provision of financial services in West Africa and how decentralized financial systems are tools to increase accessibility. In Burkina Faso, rural bancarisation has been directly correleated to the increased development of savings and credit cooperatives.

Over 600,000 clients had no prior access to a formal financial institution before the creation of the cooperatives. The same situation applies to over 2 million people that became clients of savings and credit cooperatives in West Africa and who were previously lacking in access to financial services.

Ms. Gaboury argued that this rural bancarisation was made possible by the following strategies:

- Organising cooperatives into networks: creating a federated network of institutions serving different clients, allowing resources circulation and cross subsidisation;
- Targeting clients and adapting methodologies to each clientele: learning about the needs and characteristics of the different targets. Increasing volume and reducing costs by applying technology: automation of operations using transaction software, for example.

Sparkassenstiftung für Internationale Kooperation

Dr. Peter Langkamp, CEO of Sparkassenstiftung für Internationale Kooperation (German Savings Banks Foundation for International Cooperation), described the transformation of a non-formal financial institution (CARD NGO) to a formal bank (CARD Rural Bank) in the Philippines. His case study showed how it is possible to combine sustainability with profitability in what is called a social banking approach.

CARD NGO was a successful microfinance institution present in the market for 10 years. In 1997, CARD NGO was experiencing donor fatigue, as well as pressure from networks and from its own Board to embark on rapid expansion and savings mobilisation. CARD clients where also demanding a diversification of products and services. The Sparkassenstiftung für Internationale Kooperation was then called in to assist CARD NGO to transform into a formal bank.

Given that CARD management had no bank management knowledge, the Foundation had to gradually assist CARD to transform all its operations into profitable banking services. CARD branches were gradually transferred to the Rural Bank after becoming profitable. The Rural Bank bought the NGO portfolio, transferring all the NGO accounts to the Bank. At the end of 2003, CARD Rural Bank had total assets of $US7.7 million, total outstanding loans of $US6.2 million and a repayment rate of 99.7%.

4.5 WSBI and its members' role in fostering access to finance

Savings and retail banks are committed to improving access to financial services, as illustrated by several examples and further analysed in a session chaired by Mr. Abdul Azim, Chairman of Bank Simpanan Nasional, Malaysia. Savings and retail banks are not only deeply committed to their own double-bottom line mandates and shared social values, but they also have essential assets that make them ideally equipped to provide universal access to finance services. The commitment of savings and retail banks to reach to population from all strata, not only with a wide outreach, but also with tailored products and services distinguishes them from most other formal financial institutions. Furthermore, their social responsibility is illustrated by the distribution of their profits to social investments, educational initiatives and efforts to support initiatives aimed at social inclusion.

As proximity banks, savings banks are accessible because of their geographic proximity given their wide spread branch network and nation wide coverage. Savings banks in Chile, Brazil, Spain, Thailand, Kenya, Senegal, just to mention a few, rely on the largest distribution network in their own countries. Moreover, compared to other formal financial institutions they also tend to have relatively low requirements for accessing their services. Given their country wide local presence, savings banks are more aware of the needs of their customers. The decentralised nature of their operations allows them to adapt to these needs, offering tailored products such as pawn loans, microcredits, microsavings and remittance services.

Another core contribution of savings banks is the role that they play in local economies in mobilising financial resources in the form of personal savings. In this aspect, savings banks differ from microfinance initiatives that were created with a credit focus. Savings banks' primary concern is to collect deposits and where possible invest them in the local economy. In most countries, they have built a reputation as solid institutions that have proven effective in times of crisis and are trusted by savers.

As the *Study* presented by Steve Peachey and Alan Roe indicates, there are tentative indications that in the developing world, the regions where access is more developed tend to have a stronger proximity bank presence than those with very repressed access. In more advanced economies, the study reveals that a high degree of social ownership often goes hand-in-hand with heightened levels of access for both households and small and medium-sized enterprises.

In short, via their well-developed know-how and expertise WSBI members contribute to building and strengthening retail and proximity banking structures, which are highly necessary for local and regional economies. That is why the WSBI strives for proximity banking to become more recognised and advocates placing financial sector development high on the policymakers' agenda in the coming years. The WSBI calls upon the support of international institutions to foster the development and enhancement of domestic retail and proximity banking markets.

5. WHAT CAN STILL BE DONE TO STIMULATE ACCESS TO FINANCE?

One of the main challenges of the Conference was to assemble the range of initiatives aimed at fostering access to finance in order to provide a coherent framework of policies and supporting actions that could lead to the way in building inclusive financial sectors.

Key questions were:

- How to accelerate the impact of the actions that are underway?
- and which other public/private initiatives are needed in order to expand access to finance for all?

5.1 Public policies

In terms of public policy initiatives, Mr. Calari emphasised the broader requirement to have sound institutional, legal and judicial foundations in order to make access policies work. Mr. Chris De Noose, Chairman of the Management Committee of the WSBI, added that in order to overcome access constraints, an enabling environment was needed first for the financial services industry to provide the necessary services. More specifically,

1. Policies should be designed to incentivise rather than mandate the provision of financial services;
2. Policies should not interfere with product design and should rather aim at reducing distortions (e.g. interest rate ceilings);
3. When developing laws and regulations their focus should be on practicality, bearing in mind that unnecessary costs drive up barriers to access;
4. The characteristics of the under-served communities must be taken into account by policymakers when tailoring requirements for physical security, anti-money laundering and loan provisioning.

Mr. Carlos Cuevas, Lead Financial Economist at the World Bank added that public intervention is needed to improve access, but then 'in the smart way'. Mr. Cuevas explained that this could be achieved by:

1. Raising efforts to strengthen corporate governance in financial institutions – particularly in developing and emerging economies;
2. Investing in the regulation and supervision capacity of national authorities;
3. Facilitating financial contracts assuring clear rules and property rights;
4. Supporting initiatives to measure access to finance;
5. and finally by addressing the obstacle of financial illiteracy.

Mr. Claessens and Mr. Calari agreed on the fact that the variety of financial institutions that serve the poor should be enhanced beyond the classic microfinance institution. Scaling up successful microfinance models, integrating them into the financial system and facilitating multiple forms of financial services provision by a variety of financial institutions could be powerful tools to fight poverty. In that sense, public authorities should allow for pluralism in the financial sector where different types of financial institutions can operate next to each other.

Mr. Thomas Hackett, Deputy Director General at the European Investment Bank (EIB), presented three pillars that they believe are required for SME finance and microfinance to flourish:

1. A strong human-scale banking system, typically savings and regional banks;
2. Support by banks and central and local authorities for programmes in favour of basic financial services as a form of social inclusion;
3. and robust but sympathetic regulation to support both the medium-sized full service bank and microfinance institutions.

In terms of supporting public initiatives, the need for better data and indicators on the state of access to finance worldwide was clearly underlined by all participants. Multilateral institutions, regional development banks, governments and regulators should support initiatives to collect and analyse information on the 'unbanked' and on what hinders or drives access. The WSBI fully commits to overcoming this issue, believing that a better view on how savings and retail banks are contributing to improve access to financial services will have a positive impact on attitudes to proximity banking.

As Mr. Cuevas argued, another activity that should be supported in order to enhance access is the improvement of financial literacy. The efforts made by savings banks to promote financial literacy, presented at the Conference, showed the importance of teaching the population how to use financial services as a means of social inclusion. It is the view of the WSBI that the understanding of financial services and their appropriateness to meet people's needs should be improved by means of educational campaigns targeting individuals and business supporting networks.

5.2 The role of the regional development banks

Some of the initiatives undertaken by regional development banks that were presented are practical examples of how public interventions are dealing with the issue of access. Mr. Andrei I. Kazmin, Chairman of the Board and CEO of Sberbank, Russia, concluded that from the experiences illustrated in the presentations, development banks are active both in financing institutional development and in technical support as well as in promoting an enabling environment in order to expand access.

Development banks are active on several areas, reaching out to MSEs (micro and small enterprises), households and local governments, as explained by Mr. Jean-Marc Pettershmitt, Director of Bank Lending at the EBRD (European Bank for Reconstruction and Development). Mr. Pettershmitt illustrated how the EBRD is working on institution building to create profitable and commercially oriented financial institutions that can provide tailored financial services to MSEs. He also explained the role played by the EBRD in filling a gap in the market, helping small institutions to upscale and to become sustainable institutions capable of downscaling to target the micro entrepreneur market.

Mr. Antonio Vives, Deputy Manager of the Inter-American Development Bank (IDB), referred to the work of the IDB in improving access to SME finance in Latin America. Given that Latin America suffers from a lack of bank finance for business development, IDB's main role is to first work towards improving the financial market and set up an enabling environment for it to develop properly. IDB is working towards improving creditor rights and reducing the information uncertainty in order to lower the high risk perception from financial institutions. The development bank is also working towards reducing costs by fostering bank competition and eliminating burdensome regulations. IDB is providing direct and indirect long-term lending and equity.

Broader access to finance can play a major role in achieving the Asian Development Bank's (ADB) vision of a poverty-free Asia Pacific region. Mr. Jan Van Heeswijk, Director General at the ADB, explained how access to finance is becoming a priority issue for his institution. The ADB believes that the financial infrastructure must be improved. There is a need not only for sustainable and commercially viable financial institutions, but also for appropriate and adequate supervision and regulation. Moreover, public sector efforts are needed to reform and revitalize many state-owned alternative financial institutions in the Asian region that play a significant role in the financial sector.

5.3 Private sector

A number of ways in which the private sector can contribute to making financial systems more inclusive were also described. Several participants agreed that developing and applying appropriate technology to enable access at lower cost to more people is a key challenge. Mr. Claessens and Ms. Gaboury gave the example of credit scoring technologies, the use of cards, internet and mobile phones as technological tools that could help lower costs and expand outreach.

Along the same lines, the private sector should commit to product design and service delivery adapted to low-income clients. Ms. Uy said that it is important to identify the appropriate products that are attractive to the currently underserved, at affordable costs. For example, affordable savings, micro-insurance, payment services, credit cards, and low cost remittances should be made available to all strata of the population.

Innovative ideas on ways to manage distribution channels and enhance good banking relationships could also help in reducing costs and enhancing service delivery. Establishing partnerships between financial institutions and alliances with other players, as suggested in one of the working groups and illustrated by the case of self-help groups in India, could facilitate both greater outreach at reasonable costs and offer new ways to provide access.

Facilitating access to credit information (e.g. credit bureaus) and providing an appropriate technology platform for improved communication and regulatory reporting are also some ways in which banks can improve their services to the low income market. With a better knowledge of the credit history and a better reporting of the loan portfolio, financial institutions can improve their management of risks and make more resources available to this sector of the population.

Finally, financial institutions, especially MFIs should aim for financial sustainability to cut economic dependence on external donations and, more importantly, to be able to provide services in a sustainable and long-term manner.

6. CONCLUSIONS

The World Bank identified some key elements that are needed to build an enabling environment and to push forward the 'access frontier'.

First, there is the need for good data and indicators of access, essential to track progress on extent and quality of access to financial services and benchmark performance of countries.

Second, there is the need to address policy, legal and regulatory frameworks in order to facilitate financial contracts, to assess prudential concerns and to reduce policy distortions (e.g. interest rates and tax policies).

Third, public-private partnerships and innovation is needed to expand access to finance.

Fourth and lastly, there is a need for awareness building and an exchange of lessons learned. Ms. Uy declared that the World Bank is committed to share responsibility for the creation of a variety of forums for knowledge sharing.

The World Bank concluded that there is work to be done in areas of cooperation with client governments, with other multilateral institutions, policymakers and practitioners. In her closing speech Ms. Uy underlined that the Conference reinforced the conclusion that access to financial services is an important development concern and many challenges remain on the agenda. For practitioners, including proximity banks, the challenge is to identify the appropriate products that are attractive to the currently underserved at affordable costs. In addition, they need to achieve sustainability in face of vulnerabilities especially within rural or deprived settings.

On behalf of the world's proximity banks, the WSBI is prepared to collaborate with the World Bank and other stakeholders in pursuing these challenges. The WSBI believes that fighting financial exclusion means creating the conditions for interaction of public incentives and private initiatives directed towards enhancing the provision of a variety of financial services by a pluralistic financial sector. Conceptually, a broad access to finance is the result of a sufficiently developed banking infrastructure. This includes a wide range of financial institutions, including proximity banks.

Savings banks, as proximity banks, are willing to provide products and services to all strata of the population, also in less privileged areas. Because they know the local markets, they can assess the risks and manage the costs in this areas. Thanks to their concern 'for the double bottom line', as Mr. Wolfensohn put it, these banks do not face the same constraints as purely shareholder driven mainstream commercial banks that concentrate their reach and marketing priorities on specific customer segments.

Socially responsible, locally anchored savings and retail banks are proximity banks that have been established to serve all strata of the population and have done so for many decades. On their behalf, WSBI has commited to pursue three lines of action:

1. Bringing together people to formulate actionable policies;
2. Bringing together players and market participants in order to promote alliances and partnerships;
3. Continuing to work with its members to develop appropriate products and services.

The WSBI believes that public policies should be adapted to proximity banking recognising that there is a need for savings and retail banks in the fight against financial exclusion.

6.1 Key messages

- Access to finance matters for economic growth, poverty reduction and social inclusion. It should be considered as a basic service to any citizen around the world.

- Savings and retail banks are committed to continue to work with authorities and other stakeholders to improving access to finance.

- There is a need for awareness building and sharing of lessons of experiences as there is no single solution to developing greater access to financial services.

- A strong financial sector comprising institutions that pursue a double-bottom line is needed to deliver sustainable and profitable services in a democratic manner.

- There is a need for robust but smart public regulation to support the provision of financial services for all.

7. ANNEXES

7.1 Acknowledgements

The Editor in Chief of this publication is Mr. Chris De Noose, Chairman of the Management Committee. It was written by Angela Arevalo, Advisor, WSBI with the contribution of the WSBI financial sector development department.

The WSBI wishes to thank the World Bank and in particular, the Financial Sector team for their cooperation in preparing the conference programme and for co-hosting the Access to Finance Conference. The WSBI expresses its gratitude to all the speakers who gave of their time, insights, and presentations during the Conference. We also wish to thank Alan Roe and Steven Peachey for their valuable contribution with their *Study on Access to Finance*, commissioned by WSBI. Finally, we are grateful for the enormous dedication that Antonique Koning and Julie Ansidei devoted to the preparation of the Conference.

7.2 Access to Finance Conference Programme

Wednesday, 27 October 2004

19.30 Welcome Reception at the Brussels Town Hall

Thursday, 28 October 2004

9.30-10.10 **Official opening**
Dr. H. Berndt, President, WSBI;
Video Message of Mr. J. Wolfensohn,
President of the World Bank
Mr. C. Calari, Vice-President Financial Sector, World Bank

10.10-11.10 **Session I: A review of the obstacles standing in the way of access to finance**

In many developing countries, the banking system at large does not cater for the needs of all customers. The first session of the conference seeks to provide an overview of the macro-economic, legal and regulatory obstacles, as well as the risks and costs associated with the provision of access to finance.

Chairman: Mr. C. De Noose, Chairman of the Management Committee of the WSBI-ESBG

Speakers: Mr. T. Beck, Senior Economist, Finance Team of the Development Research Group, World Bank; **Prof. S. Claessens,** Senior Adviser, Business Group Leader Firm Finance, Operations and Policy Department, World Bank.

11.10-11.40 Coffee Break

11.40-13.00 **Session I (cont'd): Tasters of regional viewpoints**

In this panel session, regional obstacles that are linked to the financial infrastructure (physical networks, as well as technological infrastructure and information systems) will be addressed. The speakers will present their views on obstacles to access to finance from their respective regions and will discuss how their environment can evolve to answer some of the identified challenges.

Chairman: Mr. R. Keppler, Senior Adviser Financial Sector, World Bank (presentation)

Participants: Mr. K.S. Menon, Joint Secretary (Budget), Ministry of Finance (India). **J. M. Mena Valencia,** CEO, Banco Estado (Chile); **Mr. M. Napier,** CEO, FinMark Trust (South Africa).

13.00-14.30 Lunch

14.30-16.00 **Parallel working groups**

Working group 1: Financial exclusion in developed countries: reaching the un-banked

Commercial banks are cutting their networks by reducing the number of branches in rural and/or deprived areas; they tend to focus on the more profitable customers, creating room for financial exclusion, and, as a next step, wider social exclusion.

Key questions to address include: What is the extent and the impact of financial exclusion in developed countries? How can financial institutions create sustainable products for all customers? How can market-drivers and policy-enablers be best combined to broaden access to financial services?

Chairman: Mr. B. Jolivet, Ombudsman, French Banking Federation (France)

Participants: Mr. J.D. Koch, Executive Vice-President, Charter One Bank (USA); **Mr. M. Picot,** Membre du Directoire, Caisse d'Epargne Rhône-Alpes-Lyon (France); **Mr. A-C. García,** President, Caja Granada (Spain); **Prof. T. Gardener,** University of Bangor (UK)

Rapporteur: Prof. S. Carbó Valverde, Funcas & University of Granada (Spain)

Working group 2: Access to finance in developing countries: diversifying financial services

This working group will present initiatives from developing countries that contribute to the bancarisation of the population. It will highlight the diversification in different financial services – credit, savings, insurance and payments – and link the challenges of reducing financial exclusion with the microfinance sector. Amongst others, it will address the role of alliances between formal financial institutions and other organisations active in providing access to these different financial services.

Chairman: Mr. R. Boulter, Deputy Head, Growth & Investment Group, Policy Division, Department for International Development (UK)

Participants: Mr. W. Risolia, Vice President, Caixa Econômica Federal (Brazil); **Ms. E. Koimett,** CEO, Kenya Post Office Savings Bank (Kenya); **Mr. B. Balkenhol,** Head of Social Finance, Employment Sector, International Labour Organisation (ILO); **Mr. D. Terry**, Manager, Multilateral Investment Fund

Rapporteur: Ms. A. Koning, Adviser Institutional Relations, WSBI

Working group 3: How can SME finance be improved?
With perceived higher costs involved in handling loans for small firms, micro-enterprises and SMEs may have difficulties in getting access to finance, which hinders their growth and innovation potential. What successful mechanisms can help to reduce this gap in the market?
Chairman: Mr. C. Costa, Executive Director, Caixa Geral de Depósitos (Portugal)
Participants: Ms. M.T. Zappia, Principal Banker, Group for Small Business, European Bank for Reconstruction and Development (EBRD); **Mr. J-F Aguinaga,** Access to Finance Unit, DG Enterprise, European Commission; **Dr. B. Reddig,** Head of Europe Service - Euro Info Centre, DSGV (Germany); **Mr. H.W. Müller,** Secretary General, UEAPME
Rapporteur: Mr. I. Radcliffe, Consultancy Services Director, WSBI

16.00-16.30 Coffee break

16.30-17.45 **Session II: The role of savings banks in the provision of access**
This session will present and discuss the results of a study undertaken on behalf of the World Savings Banks Institute in 2004. With the study the WSBI intends to contribute to global debate on Access to Finance and enrich it with savings banks' values and experiences.
Chairman: Mr. A. Azim, Chairman, Bank Simpanan Nasional (Malaysia)
Speakers: Mr. A. Roe, Oxford Management Policy Ltd (UK); **Mr. S. Peachey,** Total Concept Consultancy Ltd (UK)
Discussants: Mr. C. Cuevas, Lead Financial Economist, Financial Sector Operations & Policy, World Bank; **Prof. E. Kempson,** Personal Finance Research Centre, University of Bristol (UK)

19.30 An evening of music, followed by dinner at the Concert Noble

Friday, 29 October 2004

9.00 - 9.40 **Reports of the working groups**

Rapporteurs of each working group will present a summary of the discussions and main conclusions.

9.40-11.00 **Session III: Successful experiences in improving access to finance**

Based on case studies, this session will draw lessons from some initiatives in different regions of the world that have succeeded in overcoming the challenges to improve access to financial services.

Chairman: Mr. M. Bishop, Business editor of The Economist & member of the Advisory Group for the UN Year of Microcredit

Participants: Mr. J. Gavito Mohar, Director General, Bansefi (Mexico); **Mr. G. Asvinvichit,** President & CEO, Government Savings Bank (Thailand); **Mr. D. Grace,** Senior Manager, World Council of Credit Unions (WOCCU); **Ms. A. Gaboury,** CEO, Développement International Desjardins (Canada); **Dr. P. Langkamp,** CEO, Sparkassenstiftung für Internationale Kooperation (Germany)

11.00-11.30 Coffee break

11.30-12.30 **Session IV: The view and reaction of regional development banks**

Following the presentation of best practices and the conclusions of the debates throughout the conference, regional development banks will react and give their views on what needs to be done by the private and public sector in order to enhance access to finance.

Chairman: Mr. A. Kazmin, Chairman of the Board & CEO, Sberbank (Russia)

Speakers: Mr. J.M. Peterschmitt, Director, Bank Lending, European Bank for Reconstruction and Development; **Mr. A. Vives,** Deputy Manager, Inter-American Development Bank (IADB); **Mr. J. Van Heeswijk,** Director General, Asian Development Bank (ADB)

12.30-13.15 **Closing session**

Facilitating access to finance for SMEs and reducing financial exclusion for the less privileged people are issues that are high on the agenda of European policy makers. In this closing session, the Deputy Director General of the European Investment Bank Group will address the audience on the role the EIB is playing in improving access to finance – not only in the EU but also in other parts of the world. Considering ongoing discussions on Access to Finance he will provide some perspectives for the future.

At the end the organisers, the World Savings Banks Institute and World Bank, will conclude the conference drawing on the experiences and analysis presented.

Speaker: Mr. T. Hackett, Deputy Director General, European Investment Bank Group

Conclusions: Ms. M. Uy, Director, Financial Sector Operations and Policy, World Bank; **Mr. C. De Noose,** Chairman of the Management Committee, WSBI

10.00-12.30 **Presentation of Working Papers**

13.15-14.30 Lunch

7.3 Selected contributions from the access to finance call for papers

One of the Conference sessions presented working papers that were selected for their high quality and contribution to the access to finance global debate. The papers were submitted by academics and practitioners and those that were selected for presentation during the event included the following[4]:

- A. Atkinson, *Young People: Avoiding banking Exclusion*
  Personal Finance Research Centre, University of Bristol, United Kingdom

- L. Vigano, L. Bonomo, P. Vitali, *Microfinance in Europe*
  Giordano Dell'Amore Foundation, European Foundation Guido Venosta, Italy

4 The full text of these papers can be downloaded at www.savings-banks-events.org/atf/programme.htm

- G. Gloukoviezoff, *The 'Caisse d'Epargne' and households' financial exclusion, Which actions should be taken and what are the prospects?* Fédération Nationale des Caisses d'Epargne, Centre Walras, France

- J. Caskey, Swartmore College (US); C. Ruiz Duran, *The Unbanked in Mexico and the United States* Universidad Nacional Autonoma de México; T. Solo, The World Bank

- J. Conroy, *APEC and Financial Exclusion: Missed opportunities for collective action* The Foundation for Development Cooperation, Australia

- M.H. Quach, A.W. Mullineux and V. Murinde, *Rural credit and household poverty reduction in Vietnam: Evidence using panel data from household surveys* Birmingham Business School, United Kingdom

7.4 WSBI Access to Finance Resolution

Access to finance is a basic service that is essential for a citizen to be economically and socially integrated in today's society

On the occasion of the WSBI 11th Annual General Assembly, 27 October 2004 and the Access to Finance International Conference organised in association with the World Bank, 28-29 October 2004, and having regard to the WSBI Madrid Declaration of May 2003 and the principles expressed in there, the General Assembly of the WSBI has endorsed the following Access to Finance Resolution.

The members of the World Savings Banks Institute

- Emphasise that access to finance is a pre-requisite for employment, economic growth, poverty reduction and social cohesion.

- Are mindful of the fact that having access to financial services for an individual means that he or she is able to place funds in a secure place, invest them productively, or use them when needed as a means of exchange for goods and services. A lack of access to these services can result in social exclusion.

- Point to the fact that a well functioning financial sector, which provides access to a wide variety of financial services for a broad range of actors, contributes to economic growth and social cohesion by performing five basic functions: mobilising savings, managing risk, providing information on investment opportunities, monitoring borrowers and facilitating payments.

- Underline the importance of mobilising savings for reinvestment in the economy in the form of credits allowing investments such as the expansion of SMEs and microenterprises, thus providing for overall economic growth, generating employment and reducing poverty through increased incomes.

- Point out that evidence shows that better access to finance leads to higher levels of GDP per capita. Lower cash-to-deposit ratios and higher deposit-to-GDP ratios are also associated with higher levels of GDP per capita. The reverse is also true: A lack of access to finance in rural or deprived urban areas may slow down the motor of growth – even though other preconditions for growth may be met – by maintaining the social exclusion of certain minority groups living in those areas.

- Perceive that stocktaking on levels of access reveals that roughly only 20% of the population in most developing economies have access to financial services while in advanced economies up to an average of 10% of the population tends to be financially excluded.

- Emphasise that access to finance by individual people and small businesses can be constrained in different ways depending on the type of (local) economy in which they evolve. Some of the principal constraints to access result from factors such as a lack of proximity (a concern especially for minority or marginal groups in rural, remote or depressed urban areas), limited financial literacy, insufficient transparency of information on the cost of formal banking services and legal and regulatory pressures.

- Underline that in order to overcome such constraints an enabling environment needs to be created for the financial services industry to provide the necessary financial services.

- Welcome the fact that international institutions start to emphasise the support for and development of domestic retail- and proximity banks.

- Are convinced that financial sector development should be put high on the agenda of policymakers in the coming years. They support the UN Year of Microcredit, 2005, which offers opportunities to demonstrate the importance of improving access, not just to credit but also to other basic financial services such as savings, insurances and payments.

- Point to the potential of remittances in the process of extending banking services to segments of the population that are often marginalized in the banking systems, both on the sending as well as on the receiving side. With growing flows of migration remittances are an increasingly important source of finance in many parts of the world.

- Believe it is essential that regulated financial institutions become more involved in providing access to finance to previously underserved segments of the population in order to achieve the levels of access needed and to reduce the possibility of illegal activity in the financial sector, notwithstanding the positive impact of certain informal banking initiatives

- Declare their readiness to increase their efforts to deliver specific and well-developed know-how and expertise to the building and strengthening of retail and proximity banking structures.

- Are committed to continue to improve access to financial services and to strive for socially responsible banking to become more accepted.

WSBI Members call upon policymakers, in governments, regulatory bodies and international financial development institutions to facilitate access to finance by,

In terms of policies:

- Recognising the importance of access to financial services and its impact on economic growth and poverty reduction.

- Enabling an environment for financial sector development providing the necessary fundamentals for a stable financial system with sound policies for its development and not by mandating access or interfere with product design.

- Ensuring that rules and regulations are practical and do not impair access to financial services by better understanding and taking into account the peculiarities of reaching out to underserved communities, for instance when tailoring requirements for physical security, anti-money laundering and loan provisioning.

- Adapting policies to proximity banking recognising there is a need for socially responsible and locally anchored retail banks in the fight against financial exclusion.

- Allowing for pluralism in the financial sector where different types of credit institutions can operate next to each other and none is discriminated on the basis of its legal form or the way it uses its profits.

- Treating consolidation within the financial sector with some care considering its possible impact on access to finance. This impact might be ambiguous. On the one hand consolidation, where it leads to better cost-efficiency, allows banks to move on a profit basis into business with customer groups, which might otherwise be excluded. On the other hand, where consolidation does not lead to higher cost-efficiency or where banks simply become too big to care for small customers, peripheral or rural regions etc., consolidation most probably has a negative impact.

- Monitoring the impact of financial deregulation on more vulnerable parts of the population in advanced countries. In developing economies, efforts have to continue to make financial sector regulation more inclusive allowing for non-bank actors (e.g. providers of microfinance) to be properly supervised.

In terms of supporting activities:

- Supporting initiatives to collect and analyse information on the 'unbanked'. A better view on the reasons for financial exclusion and the cost-benefit case for banks trying to improve access to financial services is expected to have a positive impact on attitudes to proximity banking.

- Supporting efforts made by savings banks and other socially committed institutions to build financial literacy. The understanding of financial services and their appropriateness to meet people's needs should be improved by means of educational campaigns targeting individuals and business supporting networks.

- Raising efforts to strengthen corporate governance in financial institutions - particularly in developing and emerging economies - by increasing funding allocated to financial sector development programmes that directly or indirectly benefit retail banking sectors.

- Expanding schemes and refining institutional arrangements that for instance, offer to cover risk for a certain portfolio (e.g. guarantee schemes).

Furthermore, the WSBI invites the private sector to contribute to making financial systems more inclusive by:

- Developing and applying appropriate technology that allows for more people to get access to financial services at lower costs. This includes leveraging investments in infrastructure by different players in the financial system.

- Committing to product design and service delivery adapted to low-income clients. This implies flexible, secure and affordable financial services with low entry barriers and increased transparency on costs.

- Establishing partnerships between financial institutions and other distribution networks in order to achieve greater outreach at reasonable cost.

- Continuing to invest in building financial literacy and spread best practices.

7.5 Key information sources on access to finance

Websites

- Asian Development Bank: www.adb.org/Microfinance/default.asp
- Caisse Desjardins: www.desjardins.com/fr/societes_filiales/reseau_caisses/did/
- European Bank for Reconstruction and Development: www.ebrd.com/country/sector/fi/index.htm
- European Commission: europa.eu.int/comm/enterprise/entrepreneurship/index_en.htm
- Department for International Development: www.dfid.gov.uk/pubs/files/Finsecworkingpaper.pdf

- FinMark Trust: www.finmarktrust.org.za
- International Labour Organization: www.ilo.org/public/english/employment/finance
- Inter-American Development Bank: www.iadb.org/sds/ifm_e.htm
- Multilateral Investment Fund (from IDB): www.iadb.org/mif/v2/strat_prior.html
- Sparkassenstiftung für internationale Kooperation: www.sparkassenstiftung.de/index.php?ln=en
- World Bank: www1.worldbank.org/finance/html/about.html
- World Savings Banks Institute: www.savings-banks-events.org/atf/programme.htm
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  Deutscher Sparkassen- und Giroverband (German savings banks association), Germany, 2001

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  Les Travaux de l'Observatoire, Centre Walras, Lyon, France, 2003

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  Fédération Nationale des Caisses d'Epargne, Centre Walras, France
  Presented at the WSBI/World Bank Access to Finance Conference, 28-29 October 2004

- Kempson E. (1997) *Understanding Financial Exclusion*
  Quoted in Financial Services Authority 'In or Out? A Literature and Research Review,' United Kingdom, 2000

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  Policy Research Working Papers No. 1678, World bank, October 1996

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About WSBI (World Savings Banks Institute) and ESBG (European Savings Banks Group)

WSBI (World Savings Banks Institute) is one of the largest international banking associations and the only global representative of savings and retail banks. Founded in 1924, it represents savings and retail banks and associations thereof in 84 countries of the world (Asia-Pacific, the Americas, Africa and Europe -via the European Savings Banks Group).

It works closely with international financial institutions and donor agencies and facilitates the provision of access to financial sectors worldwide - be it in developing or developed regions. At the start of 2004, assets of member banks amounted to more than €7,300 billion.

ESBG (European Savings Banks Group) is an international banking association that represents one of the largest European retail banking networks, comprising about one third of the retail banking market in Europe, with total assets of €4,345 billion (1 January 2004). It represents the interests of its members' vis-à-vis the EU Institutions and generates, facilitates and manages high quality cross-border banking projects.

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

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