

## **New Perspectives on Banking and Agendas for Financial Inclusion**

**Kurt Mettenheim, Eduardo Diniz & Lauro Gonzalez**  
FGV-EAESP

Draft paper submitted in response to  
Call for Papers, Financial Inclusion Research Conference, 2013  
Bridging the Gap: How can banks reach the unbanked?

28 February & 1 March, 2013  
Harvard Kennedy School  
Cambridge Massachusetts

Organizing Committee: Peter Ware, Guy Stuart, Jay Rosengard  
Programme Committee: Representatives of the Swift Institute, the Ash Center for  
Democratic Governance and Innovation, the Center for Business and Government



**FGV Center for Microfinance Studies**



**EAESP**

**FGV São Paulo Business School**



Table of Contents

Executive Summary .....	5
Introduction .....	6
The Crediamigo Program in Northeast Brazil .....	6
Historical Experiences with Social Banking .....	8
Savings banks .....	8
Cooperative banks .....	9
Development banks .....	10
Social Banking: Back to the Future of Financial Inclusion .....	11
Central Banking and Financial Inclusion .....	12
Simplified Bank Accounts .....	14
Correspondent Banking .....	15
The Importance of New Technologies .....	16
Technologies for Correspondent Banking .....	17
Mobile .....	18
Conditional Cash Transfers .....	19
Conclusion .....	21
References .....	22
Appendixes .....	24
Notes .....	30



## **Executive Summary**

Reassessment of mainstream microfinance implies rethinking core ideas about public policy, public banking and social banking. Microcredit and microfinance emerged in the 1970s as an alternative to inefficient state institutions and old ideas about development that valued industrialization and large centralized state owned enterprises. The microfinance movement therefore created new networks linking social movements and non-governmental organizations, the private sector and capital markets to provide powerful new means to bridge the gap between banks and unbanked citizens in many developing countries. However, recognition of problems with excessive profit orientations and pressures from markets and private banks coincided with the financial crisis of 2007-8 to call for reassessment of core ideas about how governments and public policies, banks and microfinance institutions may reach the poor in developing countries and sustain financial inclusion in advanced economies amidst crisis.

This paper reviews trends in microfinance, regulation, technology and promising experiences with banking and financial inclusion in developing and advanced economies. We argue that public banks, historical experiences with social banking, the untapped potential of large savings institutions in developing and emerging countries, new policies at central banks designed to accelerate financial inclusion, new information and communication technologies and broader reflections on the microfinance industry since crisis provide a variety of new perspectives on banking and agendas for financial inclusion.

The paper is organized as follows. First, we report findings from our research on the Crediamigo microfinance program of the Banco do Nordeste do Brasil (Bank of the Brazilian Northeast, BNB) and downmarket policies of the Caixa Econômica Federal (Federal Savings Bank, Caixa) to rethink how governments, markets and non-governmental organizations may accelerate financial inclusion in developing and emerging countries. Second, we turn to the history of social banking to argue that past experiences with savings banks, cooperative banks and development banks also provide important references for today, especially given what we describe as a “back to the future” modernization of social banking since liberalization of the industry in Europe and developing countries. Third, we explore recent policies at central banks in large developing countries that seek to accelerate financial inclusion. For example, pilot programs to emit citizenship cards as bank cards promise to fundamentally alter banking and bring millions into the formal economy and market for banking services.

Fourth, we examine two new policies and channels for reaching the bankless in Brazil, the creation of simplified bank accounts and use of correspondent banking institutions as points of sale and services for major banks. Fifth, we explore the importance of new information and communication technologies for these new channels for banks to reach the poor as well as other strategies such as mobile banking over cellular phones. Before concluding with comparative observations about financial inclusion, we explore another important development in Brazil – that of family grants as conditional cash transfers that rely on card payment technologies and other banking services and conduits.

The draft paper submitted in response to the Call for Papers by the Organizing Committee of the Financial Inclusion Research Conference 2013 reviews these issues. However, we plan to specify the risks and opportunities raised herein through analysis of the recently published Financial Inclusion database by the World Bank, and other data sets created during the course of our research.

## **Introduction**

Microfinance - the supply of financial services to poor people, such as money transfers, loans, savings and insurance - has been at the center of poverty alleviation and development efforts. Microfinance, as currently understood, is directly related to microcredit, made famous most notably by Muhammad Yunus and the Grameen Bank. Microcredit differs from traditional credit by using innovations that mitigate problems of information asymmetry and transaction costs. Yunus challenged the conventional wisdom of the 1970s through innovations such as group lending, use of credit agents and a focus on women to successfully extend credit to the poor (Aghion & Morduch, 2010). Microcredit soon gained momentum and became a global movement. The United Nations declared 2005 the international year of microcredit. Yunus was awarded the Nobel Peace Prize in 2006. However, it also became evident that the needs of the poor could not be addressed by credit alone. Experiences with anti-poverty policies and development programs and policies called for “going beyond microcredit” to include questions of savings, income and insurance. In addition, the Grameen Bank’s non-profit model faced restrictions from a lack of proper funding structure. In general, policies turned to NGOs, the private sector, capital markets and the creation of commercial microfinance institutions (MFIs). Microfinance became mainstream, a phrase coined and echoed throughout the world of microfinance stakeholders.

The details of this process remain beyond the scope of this paper. However, it is worth remembering that, since its beginnings, the microfinance movement attempted to create new models of financing the poor that could replace state-owned banks and other subsidized government actions that were seen as inefficient. The microfinance community embraced this view, paradoxically, just as the 2007-8 financial crisis hit. The consequences of crisis added to widespread misgivings about excesses in profit oriented microfinance to inspire reassessment of core assumptions about microfinance. For example, Schmidt (2010) argues that commercialization approaches in microfinance struggle to balance profits and social missions. Reaching the poorest of the poor often conflicts with realistic interest rates and producing returns. Schmidt thereby notes limits to commercial approaches and examines the case of Banco Compartamos to conclude that clearer ethical principles should be taken into account in microfinance.

In the spirit of this broad reassessment of microfinance, this paper reviews experiences with public banking, adopts a historical perspective on social banking, notes important new central bank policies designed to accelerate financial inclusion and surveys several technologies and policies that promise to bridge the gap between banks and the unbanked.

## **The Crediamigo Program in Northeast Brazil**

Policymakers across the world have attempted to improve financial markets to serve the poor. Market failures such as adverse selection provide the main justification for interventions (Stiglitz and Weiss, 1981). Despite sound rationales and good intentions, mismanagement and inefficiency often pervade government initiatives, state-owned commercial banks, development banks, savings banks and postal banks. Many critics of government banking have clarified the risks and dysfunctions of these institutions. However, we argue that positive experiences with public microfinance institutions deserve a closer look. The first example is the microcredit program run by the Brazilian regional development bank, Banco do Nordeste Brasileiro (Bank of Northeast Brazil, BNB). The BNB Crediamigo program accounts for over 80% of microenterprise credit in Brazil. In December 2011, the Crediamigo had a portfolio of over one million active clients. In July 2012, this number reached over 1.2 million; a 20% rate of growth during a period of turbulence and slow growth in the country. The Crediamigo has accelerated financial inclusion to the extent that it has played a countercyclical role in the economy at large.

Launched in 1998, it took Crediamigo time to achieve its current position, like many other MFIs. Its learning curve has been essential. Since 2003 Crediamigo has been managed by a partnership between the BNB and Instituto Nordeste Cidadania (Northeast Citizenship Institute), an NGO created in 1993 by BNB employees. This partnership was essential, among other factors, for the involvement of BNB as an agent of public policies related to microcredit, for example in the implementation of the 2005 Programa Nacional de Microcrédito Produtivo Orientado (National Program of Microcredit for Oriented Production, PNMPO) (Gonzalez et al, 2009). This program increased the ability of the Crediamigo program to reach distant areas of the Brazilian Northeast, the poorest region of the country. Currently, Crediamigo has operations in 13 of 26 Brazilian states, reaching 1820 municipalities through 314 branch offices and outposts and 1894 staff. Operations in Rio de Janeiro began in 2009 through a partnership with a local MFI, Vivacred - the group's first operations outside the Northeast region.

There are five different credit lines available at Crediamigo for working capital or fixed asset investment. Moreover, it is possible to open current accounts at BNB and buy life insurance. A full 94 percent of operations are made through group lending (*grupos solidarios*). For groups of three to ten members, working capital loans range from R\$100 (US\$50) to R\$10.000 (US\$5000), with interest rates between 1.2 - 3 percent per month. For fixed asset investments, groups are larger (15-30 members) and interest rates are 1 percent per month. For individuals, operations range from R\$100 (US\$50) to R\$15000 (US\$7500) with interest rates at 2-3 percent per month. Registration fees (*taxa de abertura de cadastro, TAC*) of 3 percent are progressively reduced to 1 percent as new operations are made.

Crediamigo has also pioneered microinsurance in Brazil. It is important to point out that recent legislation has sought to accommodate and regulate new microinsurance companies and operations. However, as in many instances, regulation lags behind market practices. Some players already offering insurance products that could be regarded microinsurance. Crediamigo has offered life insurance (for clients and non-clients) since 2010 with 82.000 contracts. Average premiums of R\$25 cover insured values of R\$3000 (US\$1500) plus R\$840 (US\$420) of funeral assistance. In addition, monthly lotteries of R\$1500 (US\$750) attracts attention in line with the popularity of lotteries among the poor (Bankable Frontiers, 2012).

The average client of Crediamigo is poor, although not among the poorest of the poor. Women account for 65% of operations; 91% of clients have low level of education (elementary) and 4% are illiterate; last but not least, 57% have family income no greater than R\$1.500 (US\$750). In terms of the potential impact of Crediamigo on the clients, there seems to be evidence that supports the idea that borrowers are better-off than comparable samples. For example, Neri e Buchman (2010) showed positive impacts in terms of gross profit for microentrepreneurs that borrowed from Crediamigo when compared with non-borrowers (7,7% difference in favor of borrowers). In addition, the authors found evidence of higher probability of upward social mobility of borrowers with higher gains for smaller initial income levels.

Further research on Crediamigo programs and the BNB is needed. However, in the context of reassessments of problems with the market-based and private-sector driven aspects of mainstream microfinance, the Crediamigo program has attracted attention. In 2008, it was awarded a "Prize in Excellence" from the Inter-American Development Bank.

In sum, the view that microfinance would replace inefficient government-led initiatives has been contradicted by problems within the evolution of mainstream microfinance. Moreover, the financial crisis and its fallout has challenged the view that free markets and government absence is always superior. This paper therefore examines new relations between poverty alleviation and financial inclusion in experiences that have engaged both markets and governments.

## Historical Experiences with Social Banking

Although not new, one place to look is history. Histories of banking tend to cite the transformation of money-lenders into merchant banks during the 16<sup>th</sup> century as the origins of modern banking (Cameron, 1972; Hicks, 1969). Social banking emerged well before. Catholic orders and monarchs created pawnshops and savings institutions in the 14<sup>th</sup> and 15<sup>th</sup> centuries to reduce usury, weaken money-lenders and promote use of official currencies.<sup>1</sup> By the 17<sup>th</sup> century, the large capital reserves and patrimony accumulated by *Monti di pietà* were used to fund crown and court, especially for war and repression of rebellions. In the 18<sup>th</sup> and 19<sup>th</sup> century, *Monti* became regional and, later, national banks.<sup>2</sup> Savings banks were founded in Northern Europe in the late 18<sup>th</sup> and early 19<sup>th</sup> century. The Raiffeisen and Schulze-Delitzsch movements founded cooperative banks in German territories at mid-19<sup>th</sup> century.

European pawn banks, popular banks, savings banks and cooperative banks thus share philanthropic origins (Mura, 1996). These socially oriented banks were created by religious orders, royal concession, local public administration or philanthropists with the mission of consolidating a capital base. Their patrimony was soon able to cover the costs of charitable institutions or sustain savings and productive activities for small farmers, urban laborers and artisans. The deposits and lending of social banks generally grew quickly to gain significant market shares of domestic banking across Southern Europe.<sup>3</sup> Moreover, by the late 19<sup>th</sup> century, savings banks and cooperative banks with social missions had become key pillars of banking systems across Europe. In the early 20<sup>th</sup> century, alternative banks survived revolts, regime change, boom and bust cycles, depression and two world wars. After 1945, these institutions became central to European social economies and Welfare States. Since 1980, social banking faced new challenges of liberalization and European integration. However, instead of ceding to private and foreign banks, social banking has instead realized competitive advantages and sought to retain their social missions. A brief historical review of these institutions is in order to explain this anomaly for contemporary banking theory – the superior performance and ‘back to the future’ modernization of social banking in advanced and developing countries.

### Savings banks

For Kohler (1996:7), ‘the savings bank concept is a European idea.’ The first savings bank appears to be the *Ersparniskasse der Allgemeine Versorgungsanstalt* (Prudential Institute Savings Cashier) of Hamburg in 1778 (Wysocki, 1996). Savings banks were soon created throughout German territories (reaching 110 banks by 1825). After several experiments in Great Britain, the Tottenham Benefit Bank (1801) and Ruthwell Savings Bank (1810) adopted two practices that became the core business model of savings banks; free savings accounts and liquid deposits. At savings banks, depositors could save small amounts, receive interest on savings and get part or all of their money back at any time. After regulation by Parliament in 1817, British trustee savings banks grew in number to 289 by 1820 and 555 in 1841. Savings banks were founded and grew in similar trajectories throughout Europe as indicated in Table 1 on the following page.

Table 1) First Savings Banks in Europe, 1778-1844

Year	City	Country	Year	City	Country
1778	Hamburg	Germany	1820	Ljubljana	Slovenia
1786	Bern	Switzerland	1821	Smecno	Czech Republic
1801	Tottenham	Great Britain	1822	Padua	Italy
1810	Ruthwell	Great Britain	1823	Turku	Finland
1810	Holsteinborg	Denmark	1824	Riga	Latvia
1816	Kilkenny	Ireland	1825	Tournai	Belgium
1817	Workum	Netherlands	1827	Poznań	Poland
1817	Haarlem	Netherlands	1830	Memel	Lithuania
1818	Paris	France	1836	Brasso	Hungary
1819	Vienna	Austria	1838	Madrid	Spain
1820	Göteborg	Sweden	1844	Lisbon	Portugal

Source: Mura, J. *History of European Savings Banks*. 1996 and 2000

Savings banks emerged as local deposit taking and loan making institutions. However, by the late 19<sup>th</sup> century, independent savings banks had formed associations to provide payment and transactions through clearing houses and other wholesale banking products and services. This two tier structure remains a competitive advantage of savings banks (and cooperative banks) in the 21<sup>st</sup> century. Independent local and regional banks thereby retain relationship banking and retail networks while sharing wholesale banking units to realize economies of scale and reduce costs.

Savings banks were created to teach popular classes the habit of saving, increase the liquidity of capital and spur economic growth. These institutions emerged throughout Europe during the 19<sup>th</sup> century, often amidst famine and economic recession. Classical economists, Marxists and corporatists nonetheless maintained critical views of savings banks and cooperative banks. Marxists abhorred alternative banks as elite philanthropy designed to dupe workers into the worst of fetishes, that of credit. Corporatists, and later fascists, perceived the patrimony of alternative banks as a prized resource for rapid industrialization and, where they came to power, asserted single party control over local and regional savings banks and cooperative banks.

For classical economists, alternative banks may have been useful to address the social question. However, the capital accumulated by savings and cooperatives banks, they argued, should be put to work more efficiently by private banks in capital markets (Gide, 1910). Savings banks should remain limited, like piggy banks, to collecting small amounts of capital. Neo-classical theory and market oriented reforms also expected savings banks to be replaced by more efficient private banks and financial markets. Instead, European savings banks have modernized to retain or expand market shares while seeking to sustain social and economic missions. These experiences provide new perspectives for bridging the gap between banks and the increasing number of unbanked in Europe and the large number of bankless citizens that remain in developing countries. Appendix 1 reports a statistical overview of savings banks around the world that are members of the World Savings Bank Institute.

### Cooperative banks

Cooperative banks are deposit taking and loan making institutions grounded in the one-member one-vote principle of governance. Schulze-Delitzsch and Raiffeisen movements founded cooperative banks in the mid-19<sup>th</sup> century as philanthropic self-help institutions to encourage workers to join resources and accumulate savings. Cooperative banks were designed to counter famine, failures in labor markets and problems with public grants inspired by Ferdinand Lassalle.<sup>4</sup>

The movement soon extended to other European countries, notably Austria, Italy and the Americas. Des Essars (1896) reviewed the rise of cooperative bank members in Italy from 77.3 to 405.3 thousand 1876-1893 and noted their continued social composition of small farmers and artisans.<sup>5</sup>

After 1860, cooperative banks across Europe grew rapidly and formed wholesale associations similar to savings banks. The first (retail) phase of growth involved the accumulation of savings deposits and reserve capital by independent local credit cooperatives. The second (wholesale) phase involved the organization of shared banking services such as cross border payment transactions, *giro* accounts and other services. Sharing let cooperative banks retain solid deposit bases and independent local relational banking while realizing economies of scale with cost effective wholesale divisions. This second tier of central cooperative agencies or *Girozentralen* emerged in German territories in 1895. Historical time series (Bundesbank 1976) record how interbank payment services, capital and metal reserves, foreign exchange, securities, credit and interbank credit and acceptances grew at central cooperative agencies (one in Prussia, nine across German states consolidated into 6 by 1913). Similar two-tier organizations emerged in Italy, with cooperative associations acquiring substantial market shares in loans, discounts, commercial paper, public bonds and industrial securities (Des Essars, 1896). Elsewhere, creation of second-tier wholesale banking divisions involved state support as reported by Gueslin (2002) for France and Cabo and Rebelo (2005) for Portugal.

Credit cooperatives had flourished by the early 20<sup>th</sup> century only to succumb, in many cases, to nationalism, xenophobia and mobilization for World War I. Moreover, by the 1920s in Italy and 1930s in Germany, Spain and Portugal, fascist and phalange movements centralized cooperative banks and credit unions under single party and central government control. After 1945, cooperative banks regained autonomy and acquired large market shares in many European countries, while remaining less important in market centered economies such as the US and UK. Cooperative banks also have responded unexpectedly well to market oriented reforms since the 1980s. Instead of disappearing, the social mission and identities of cooperative banks helped these institutions to adopt new technologies and ride out crises in the early 21<sup>st</sup> century. Appendix 2 reports basic statistics on cooperative banks that are members of the International Association of Cooperative Banks.

## Development banks

Continental European governments created development banks in the 19th century to finance industrialization in lieu of private banks and capital markets (Sylla, 1991; Diamond, 1957). The French Caisse de Dépôts (1816) and Crédit Mobilier (1852) were emulated abroad to finance railroads and industry (Aghion, 1999; Kindleberger, 1984). Development banks were also created to manage industrial reconstruction after World War I.<sup>6</sup> After 1945, the Kreditanstalt für Weidaraufbau (Reconstruction Credit Agency, KfW) and Japan Development Bank channeled Allied funds for reconstruction.<sup>7</sup> Development banks have since adopted new policies and strategies as challenges evolved. For critics, development banks reproduce financial repression and rent seeking, protect uncompetitive industries and produce inefficient resource allocation (La Porta *et al*, 2002; Dinç, 2005; Woo-Cummings, 1999). However, case studies suggest that European development banks have helped transform industrial production towards environmentally sustainable practices and channel strategic investments to priority sectors such as home construction and public finance.

While development banks lack the broad retail networks of cooperative banks and savings banks, they retain powerful competitive advantages and provide comparative advantages for government policy. First, the lean administrative structures of development banks translates into very low cost-income ratios. For example, in 2009, German special purpose banks reported cost income ratios of 33.0 (KfW=22.1), far below commercial banks (79.9), foreign banks (69.9),

savings banks (67.2) and cooperative banks (70.6 for central coops; 69.1 for regional coops) (Bundesbank, 2010). In 2010, the cost income ratio for the French CDC was 17.0.

Second, development banks can do more for less in terms of fiscal cost: Over ten times more if one compares money used to implement policy with money held in reserve at development banks against credit and finance. For governments without public banks, one million available in budgets translates into one million invested or spent. With the same one million, public banks can lend *10 times this value* under Basel Accord capital risk guidelines (i.e. ten times reserves, rounding and ignoring risk weighting and profits and losses). One million in reserves covers ten million in loans or finance. Public banks cannot perform all tasks of government. However, when they can, they provide a *tenfold* cost advantage as well as instruments for contractual control and policy supervision. Moreover, since transition to market based banking, development banks such as the KfW have increasingly raised capital on bond markets (often with government guarantee). This further reduces fiscal cost.

As banks, alternative banks multiply money (Tobin, 1963). Budget allocations to public banks become reserves against loans. These loans multiply the amount of money in the economy. It follows that concerns about banks apply to public banks. Excessive lending may feed inflation or create credit bubbles that worsen boom and bust cycles. Without adequate supervision, crony credit, corruption and resource waste may occur – at any bank. However, the core difference between public and private banks turns on the large levers that public banks provide policymakers. Development banks fell from favor during the turn to market based banking in the 1980s-1990s. However, since 2000, crises, interbank-credit crunches, market downturns, increasing volatility, deteriorating infrastructure and the modernization of development banks suggest that these institutions have realized competitive advantages and provided policy alternatives. We suggest that these large institutions may also be able to help bridge the gap and reach the bankless. We have shown above that the BNB, a Brazilian development bank, has proved instrumental in accelerating financial inclusion through creative new joint ventures with a NGO. This suggests that the broad reconsideration of microfinance is in order and that public banks may provide new opportunities for bridging the gap between banks and the unbanked.

### **Social Banking: Back to the Future of Financial Inclusion**

We also suggest that large public savings banks have been overlooked as agents of financial inclusion. These traditional institutions often retain very large market shares and broad retail networks in developing and emerging countries. Our research has found that large savings banks have been at the center of new policies designed to accelerate social inclusion in Brazil. The realization of competitive advantages by a federal savings bank serving as social policy agent to distribute citizenship cards (bank cards) differs from both mainstream and critical theories of bank change. The Brazilian experience with basic income policies, conceptions of citizenship and social justice, and attempts to recuperate traditions of social banking repressed under military rule provides alternative approaches to neo-liberal policies, market based microfinance and private banking. Moreover, programs designed to reach bankless majorities in large emerging countries suggest that views of fiscal dominance, structural constraints to change and zero-sum relations between central banking and social inclusion need revision.

Given the disappointment with private banking and microfinance, we argue that large traditional savings banks in developing and emerging countries may provide new ideas. Our research on the Brazilian Caixa Econômica Federal (Federal Savings Bank, Caixa) explores how agency for federal government social policy and broad branch networks combined since transition from military rule. Founded in 1860, the Caixa retained, in July 2011, over US\$294 billion in assets, 108,979 employees, 2,335 branch offices and a 14.5 Basel Accord Capital Adequacy Ratio (Central Bank of Brazil, 2011). Caixa performance since 2001 (and especially since the 2008

crisis), analysis of data from branch offices and interviews with 116 clients, staff and management confirmed previous research (Mettenheim 2006) and comparative findings (Ayadi et al, 2010) that many traditional savings have realized competitive advantages over private and foreign banks since financial liberalization. This counters expectations that opening banking industries would lead to the dominance of private and foreign banks *and* provides alternative to microfinance approaches favoring private banks, non-governmental organizations and capital market funding.

In Brazil, since transition from military rule and the end of inertial inflation (1994), liberalization of banking (1995) and capitalization of federal banks (2001), the Caixa has consistently performed *better* than private and foreign banks in terms of profits and returns. This suggests the modernization and reform of this public savings bank in transition to international standards of bank regulation, supervision and control. Critics of government banking emphasize political capture (La Porta *et al*, 2002). The Caixa and other Brazilian government banks did suffer centralization and abuse under military rule (1964-85) and capture by traditional elites during prolonged transition (1974-94). However, since return to democracy, recovery of price stability and liberalization of banking, the Caixa has realized powerful competitive advantages amidst a more transparent and regulated banking and financial system.

Indeed, the Caixa's dual role as federal government policy agent and savings bank has provided competitive advantages over private and foreign banks (Mettenheim, 2010). Policies such as family grants and other social services (unemployment insurance, social security, and payroll savings) have been widely credited with reducing notorious levels of inequality in Brazil. Caixa management of these social policies helped the Caixa expand its networks of branch offices and bank correspondents *and* deepened institutional foundations of competitive advantage. For example, federal government social policy transactions were consolidated during the early 2000s into a single Cartão do Cidadão (Citizenship Card). Since 2003, the Caixa has distributed over 130 million Citizenship Cards under federal government contract (another competitive advantage over private banks). This presents further opportunities. The Caixa has also requested permission from the Central Bank of Brazil to permit use of Citizenship Cards as bank cards, a development that would more than double the number of bank cards in the country.

## Central Banking and Financial Inclusion

A variety of new policies at central banks have also sought to accelerate social inclusion. Most studies of central banking assume banked populations and zero-sum games derived from profit maximizing actors amidst stable prices and economies. In contrast, inequality in developing and emerging countries provide large marginal gains from financial inclusion that improves monetary authority. For example, compare Brazil in the 1990s and 2000s. To regain market confidence during crises in the 1990s, the Central Bank of Brazil increased Selic benchmark overnight interbank interest rates to *42 percent* (Mexico, 1994-5, Asia 1997, Russia, 1998, Brazil 1999). Progress, of sorts, can be seen by recourse to *23 percent* interest rate hikes during crises in the early 2000s (Argentina, 2001, Brazil 2003), while *12 percent* (7 percent real) rates were adopted during 2008-9 to counter crisis abroad and current Selic interest rates of 8 percent imply 5 percent real interest rates. The relation between financial inclusion and monetary policy is positive sum.

The large number of bankless Brazilians brought within credit and interest rate channels has increased the effectiveness of monetary policy. In 2000, an estimated *20 percent* of Brazilians had bank accounts. Interest rate policies and government monitoring of credit flows and banks thus missed 80 percent of the population outside direct channels of influence. By 2010, the number of Brazilians with bank accounts had increased to an estimated 45 percent. This remains roughly half levels in advanced economies. However, doubling the number of citizens with bank accounts 2000-10 has been fundamental for more effective central banking and monetary policy.

From this perspective, policy frameworks (such as inflation targeting, the Taylor rule and models of dynamic general equilibrium) provide means to monitor market signals and estimate inflationary pressures from basic income policies and other social policies. This differs from both theories of fiscal constraints and the primary concern of economists about monetary policy shocks. Research on central banking, monetary theory and credit and interest rate channels assume contexts of advanced economies, banked populations and mature markets for loans and bonds. These assumptions do not hold if 80 percent of citizens remain bankless and bond markets are concentrated in a select number of corporate and central government issuers.

Figure 1) Financial Inclusion in Brazil at Current Pace, 2000-2030

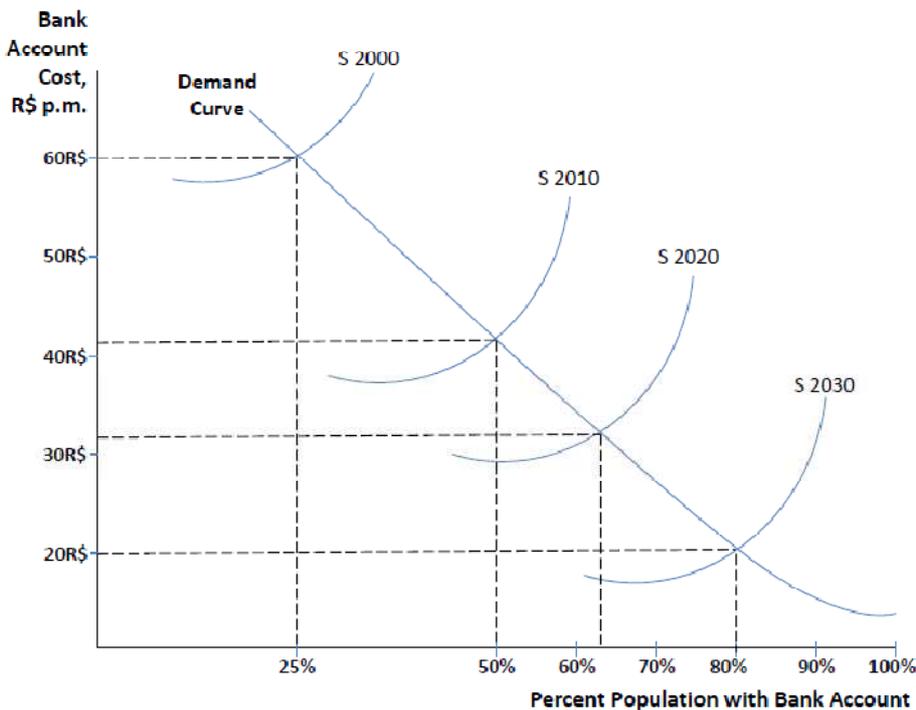
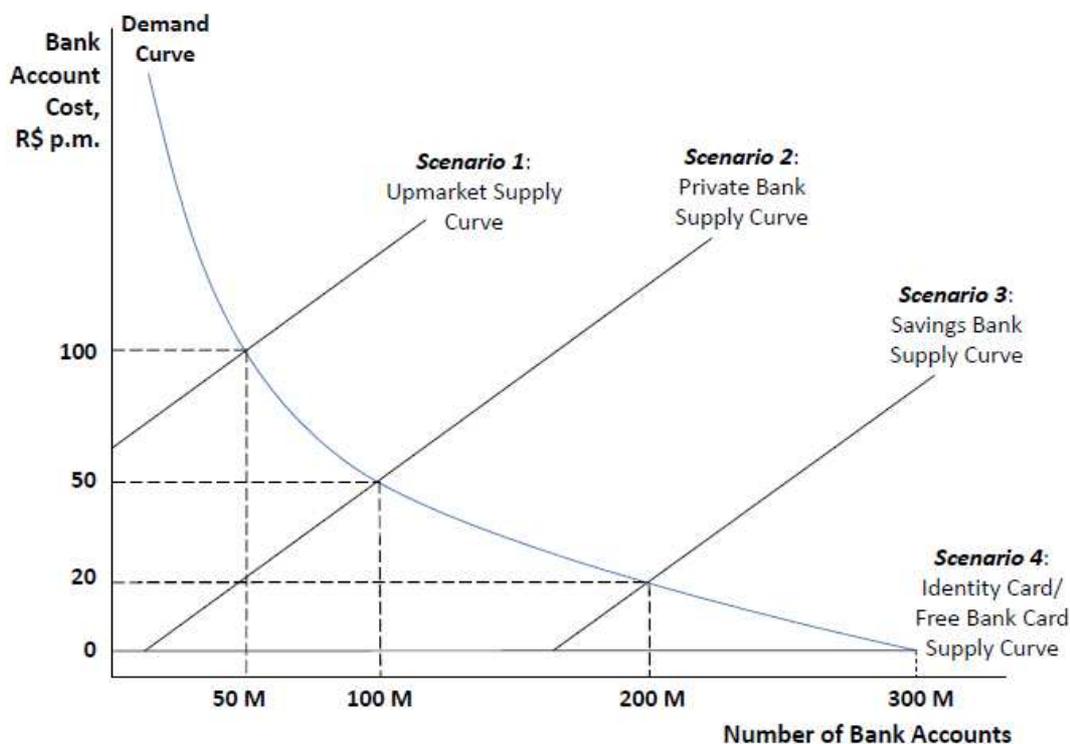


Figure 1 estimates the time needed for Brazil to reach levels of bank inclusion common to advanced economies under four different policy frameworks. Frameworks based on private banking and capital markets fare the worst. A simple linear projection of recent trends suggests that reaching levels of bank inclusion (say 80 percent) typical of advanced economies will take another two decades. To consider alternatives, we plot four different supply curve scenarios for a mature banking market in Brazil in 2030. Figure 3 suggests that, at the current pace of bank inclusion according to private bank supply curve, one can expect 50 percent or 150 of 300 million Brazilians to have bank accounts in 2030. In comparison, the lower supply curve of savings banks that specialize in simplified (no-cost, ‘no-questions-asked’) bank accounts, then one can expect roughly 66 percent or 200 of 300 million Brazilians to have bank accounts. If we plot the number of bank accounts to be expected from a more expensive, up-market supply curve of specialist private banks, then the total number of bank accounts would remain at roughly five percent or 60 million of the population projected for Brazil in 2030.

Figure 2) Four Supply Curve Scenarios for Mature Bank Market, Brazil 2030



The fourth scenario is based on recent experiments with issue of identity cards as no-charge bank cards. This supply curve at zero cost (to users) is horizontal. Accordingly, full bank inclusion of 300 million Brazilians could be completed before 2030. We conclude that reliance on private finance and banking to extend supply of banking products and services to the vast numbers of Brazilians still without bank accounts is sub-optimal. And without improved income distribution, high financial returns can be expected to sustain high levels of inequality. New social policies thereby provide new opportunities for social banking.

Two further policies have been critical for banks to accelerate financial inclusion in Brazil, creation of simplified bank accounts and correspondent banking.

### Simplified Bank Accounts

The Central Bank of Brazil introduced simplified bank accounts in 1999 to reduce barriers that kept an estimated 80 percent of citizens bankless. Banks were therefore *required* to accept applications for simplified accounts based on presentation of identity cards, with no proof of income or residence needed. If clients of simplified accounts retained a positive balance for 90 days, then they became eligible for loans up to R\$200 (US\$117). Two further 90 day periods could increase credit lines to R\$600 – without any information about clients except for identity card numbers. The number of such Caixa Fácil accounts reached 8.75 million by 2010, increasing Caixa market share of simplified bank accounts from 58-87 percent 2004-10.<sup>8</sup>

Table 2) Simplified Bank Accounts, 2004-10

	Caixa	Total	Caixa Market	Active Accounts	Active as %
Jan-04	1,100,000	1,897,828	58%	1,882,648	99%
Jan-05	2,200,000	4,275,309	51%	4,117,667	96%
Jan-06	3,100,000	6,443,218	48%	4,467,924	69%
Jan-07	3,900,000	6,806,375	57%	4,520,620	66%
Jan-08	4,700,000	7,693,608	61%	4,424,697	58%
Jan-09	7,000,000	9,966,535	70%	5,644,471	57%
Jan-10	8,750,000	10,056,674	87%	5,612,934	56%

Source: Caixa Annual Reports and Central Bank of Brazil, <http://www.bcb.gov.br/?MICROFIN>

The Caixa seeks to build on these accounts. Interviews with Caixa managers and staff confirmed their new policy of offering simplified bank accounts to family grant recipients. Designed to enable direct deposit of grants, this implies opening bank accounts for the first time for most (women) recipients of family grants. Direct debit of family grants into bank accounts eliminates the need to appear in person at the branch office, reduces risk of theft, facilitates payments for goods and services by electronic cards instead of cash, and provides registry of addresses, often for the first time so women may access further public and private services requiring proof of address. The Caixa also began to *automatically* extend overdraft privileges if simplified account balances remained positive. This effectively transforms a simplified bank account into a payroll credit – on the income of R\$150-200 (US\$88-117) per month supplied by family grants. Further research into family grants and simplified accounts as gender based social policy will be required. However, this combination of basic income, social policy and social banking suggests fundamentally different experiences than expected by mainstream and critical theories, i.e. the predominance of private banking after financial liberalization. Use of bank correspondents by the Caixa also differs.

### Correspondent Banking

To reach the vast interior of Brazil still without bank branch offices and underserved urban areas, the Central Bank of Brazil freed banks in 2003 to contract with ‘bank correspondents’ to provide seven basic banking services.<sup>9</sup> Institutions such as supermarkets, lottery shops and pharmacies have since become bank correspondents and proved critical for expanding the supply of banking services in Brazil. Since liberalization of banking in 1995, the number of branch offices in Brazil has remained largely the same. In comparison, the number of bank correspondents increased from 1,373 to 110,000 by 2010 (for comparison, ATM machines increased 54,075 - 150,000).<sup>10</sup>

Serving as agent for federal government social policy also provided competitive advantages for the Caixa to extend correspondent bank networks. In March 2011, the Caixa retained 32,712 bank correspondents, the second largest network in Brazil.<sup>11</sup> In 2009, the Caixa specialized correspondent bank operations by creating three categories of participating institutions; transactional, business and housing. *Transactional* bank correspondents are predominantly lottery shops acquired at auction by entrepreneurs, a class of business owners represented by a professional association that negotiates terms, prices and payments with the Caixa. In comparison, *business* and *housing* correspondents tend to build more complex sales and business relations with clients and Caixa branch office management and staff.

Caixa bank correspondents stand out as channels for payments of family grants and management of other social policies. Of 11.92 million payments of family grants in September 2010, 7.86 million were processed at correspondent banking institutions (remainder = 1.77 million

via direct deposit, 810,000 at ATMs, 140,000 online and 134,000 at Caixa branch offices).<sup>12</sup> Family grant recipients prefer bank correspondents such as lottery shops for processing of payments and transactions.

In Guianases, *business* correspondents were mostly building material shops and depots. In 2010, the Caixa launched a new credit card (Construcard) for sale of credit lines at building material shops. Business correspondents tend to offer few other services such as payment transactions, largely because shops became correspondents to eliminate the need to retain cash on hand in favor of electronic payments via connections to the Caixa intranet.

Finally, *transactional* bank correspondents (mostly Lottery Shops) specialize in providing social payments and banking services. Supermarket foyers are favored locations for transactional bank correspondents because of the cheap rental space and contribution of keeping payment channels local. Caixa clients consistently cited provision of banking services by lottery shops as critical for increasing local business and improving life by reducing the need to leave the neighborhood.

## **The Importance of New Technologies**

Information and communication technologies (ICT) are important sources of innovation in microfinance and banking. ITC has stimulated the geographical diffusion of banking services and greatly increased operational proximity of banks to local economies. Automated teller machines (ATMs), Internet banking and new point of sale (POS) are examples of how technology can foster geographical expansion of banking services. Opportunities abound for banking technology to connect lower income citizens at reduced costs and bring millions of consumers to the formal financial marketplace through electronic channels (Weissbourd 2002). Numerous studies emphasize how technology may play a significant role in improving access to banking for the poor by delivering sustainable financial services to distant and underserved locations (Stegman et al. 2005; Claessens 2006).

In the last decade, ICT has been at the center of innovations in branchless banking in Africa (Kenya and South Africa), Asia (Philippines and India) and Latin America (Peru and Brazil), most of them associated with strategies for financial inclusion. Low cost channels for banks have been widely adopted by low income groups for basic financial services such as remittances, bill payments or receiving governmental aid, extending the distribution of financial services to poor and remote areas, usually underserved by traditional bank branch networks (Ivatury and Mas 2008).

Branchless banking may be based on many configurations between banks and business partners. However, the most successful experiences of the last decade rely on infrastructure that connects a diverse group of actors involved in the network arrangement designed to deliver financial services outside regular bank channels. Mas (2009) note that three main elements typically compose the network: (1) retail stores easily accessible by low-income clients (2) an electronic payment infrastructure and (3) an account platform. The latter is provided mostly by traditional banks. Account platforms necessarily operated internally within banks. Retail establishments, in contrast, are obviously outside agents, acting as intermediaries between the institution and its customers. The payment infrastructure may either be operated internally by the bank or supplied by third parties.

There are two main approaches for ICT-based branchless banking, one of them related to mobile phone networks and the other one to points-of-service (POS) or personal computers (PC) terminals (Prochaska and Brix 2008). The first approach tends to be dominant where bank penetration is very low and client interaction with the network is driven by mobile phone use and so controlled by telecom firms. These experiences related to mobile phone projects tend to be more common in Africa and Asia.

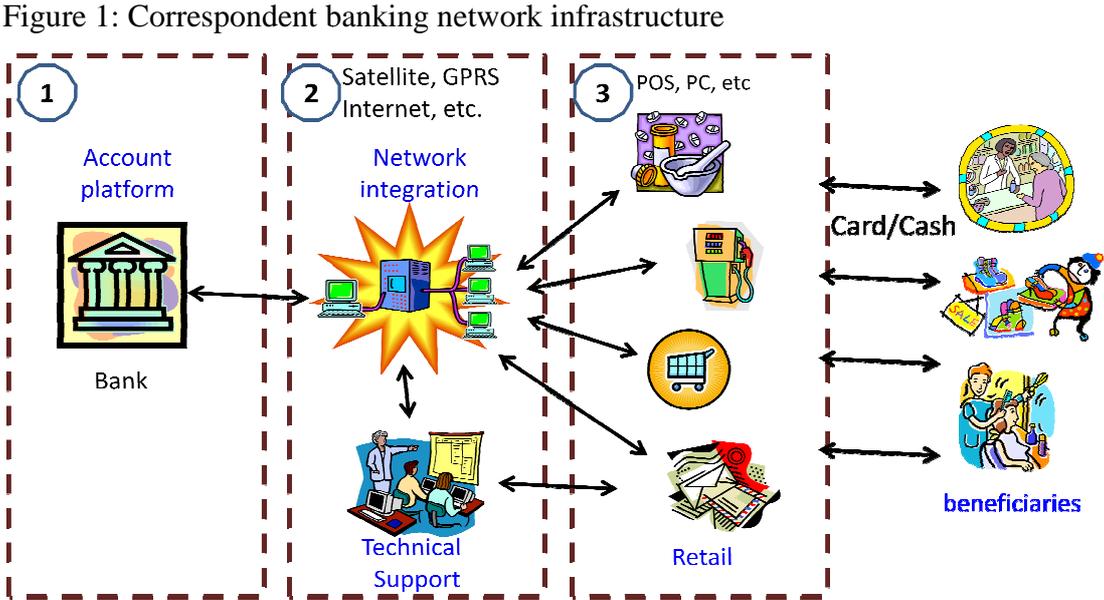
The second approach tends to be bank-led, and client interactions with the network are made through technologies that are commonly used in the bank industry, such as plastic cards. This bank-controlled model has been most successful in Latin America in arrangements usually called “correspondent banking”. We return to this innovative approach to financial inclusion to examine the dimensions of ITC.

**Technologies for Correspondent Banking**

Correspondent networks are based on agreements involving a diversity of social groups, some identified with local interests (local government, small retailers and clients) and others with non-local interests (national government, big banks, technology providers, network integrators). To reach the vast interior of Brazil still largely without bank branch offices and underserved urban areas, the Central Bank of Brazil freed banks in 2003 to contract with ‘bank correspondents’ to provide seven basic banking services.<sup>13</sup> Institutions such as supermarkets, lottery shops and pharmacies have since become bank correspondents and proved critical for expanding the supply of banking services in Brazil. Since liberalization of banking in 1995, the number of branch offices in Brazil has remained largely the same. In comparison, the number of bank correspondents increased from 1,373 to 110,000 by 2010 (for comparison, ATM machines increased 54,075 - 150,000).<sup>14</sup>

An important aspect of correspondents is that the information and communication technology (ICT) they use (traditional POS terminals or PCs, connected to banks’ transaction processing systems through already existing transmission technologies), do not represent an innovation per se. Instead, innovation involves new types of arrangements and business partnerships between banks and a various entities such as small retailers and MFIs across the Brazilian territory. In this sense, correspondents and correspondent networks are a *social innovation*, leading to new uses of existing banking technologies to bridge the gap between banks and the poor.

Figure 1 illustrates the three main blocks of branchless banking model in a correspondent banking infrastructure: 1) the account platform; 2) the network infrastructure; and 3) delivery points, usually related to a retail outlet.



Source: Adapted from Diniz (2009)

Correspondent networks can be seen as (1) *technological innovation* from a supply-side perspective. Each correspondent network provides a flexible and low-cost technological infrastructure to ensure access of microfinance services in a more cost-effective way than other alternatives. From a demand-side perspective, correspondent networks represent a social achievement, a (2) *social innovation*, giving the poor easier access to essential banking services, even in remote locations where traditional banks branches usually do not reach. Finally, correspondent networks can also be an (3) *adaptive innovation*, but here we need more knowledge about what adaptations are necessary regarding the integration microcredit-correspondents in order to increase their scale and transferability to other contexts.

Correspondent networks have dramatically increased bank outreach and proved an attractive way for banks to reach an estimated 40 million previously bankless Brazilians (Soares and Melo Sobrinho 2007). This use of ITC significantly reduces the costs and increases the reach of banking in Brazil, making correspondents an attractive vehicle for the underserved low income population (Kumar et al. 2006). Correspondent banking provides significant opportunities for reassessing how policies and bank initiatives may bridge the gap and accelerate financial inclusion.

## Mobile

The use of cellular phones has spread with astonishing speed among the poor all over the world. Much of the success of mobile phones is a consequence of the prepaid model, which enables the possibility of not charging incoming calls. In developing countries, where more than 80 percent of cellular phones are prepaid, the poorest benefit from the possibility of receiving incoming calls even when they cannot afford to make calls themselves. As more mobile phones reached the hands of people who lacked access to formal financial services, the concepts of mobile money, mobile payment and mobile banking became consolidated. This phenomenon appears widespread, inevitable and irreversible, although it is still under debate in terms of regulation, business models, security and a variety of other concerns. Countries with the largest deficits in access to formal financial services have developed the most innovative solutions for using mobile phones as a payment instrument.

As a payment channel, cellular phones have the potential to tackle two questions simultaneously. On the demand side, they promise to accelerate financial inclusion of immense populations underserved in terms of banking services. On the supply side, cellular phones open new horizons for delivering a greater diversity of financial services than offered by traditional banks and financial institutions, generally constrained by cost barriers in reaching the poor in the more remotely located areas. It is important to note that examples such as mobile money have been disseminated in nations where technology and financial infrastructure are precarious, such as Kenya (Souza 2011). However, guaranteeing that a mobile payment operation works demands a complex operation for payment clearing and logistics.

Mobile operators have the expertise to make connections. However, clearing to complete the payment process is not in their core business. The issue of payment clearing is easier to solve when it is limited to databases inside a single company. This can be exemplified by the Kenyan case, where the whole process is controlled by Safaricom. Another alternative would be to establish a partnership with a financial institution, such as a bank, which happens in South Africa, and also facilitates the process as banks are better prepared to deal with payment clearing processes. However, neither of these usually takes place in most contexts.

In most countries, in order to enable the possibility of mobile payments it would be necessary to design adequate infrastructure to guarantee the interoperability among a diversity of banks and mobile operators. This means that in more developed markets, where there is a greater probability of observing a more balanced competition environment among a number of banks and also a number of mobile operators, developing and implementing a mobile payment solution

accepted by all parts involved would be a much more complicated task. In Kenya, with one single company controlling the whole mobile market and with most of the population not being served by the formal financial system, meaning that banks are largely irrelevant to most of the population, the M-pesa could be widely adopted very rapidly.

Another important aspect that needs to be better understood refers to the distinct mobile payment models that can be built based on three basic models: bank-led, non-bank led, and partnerships between banks and non-bank agents. In the first model, the bank-led model is the most common in developed countries and serves mainly the citizens who already have a bank account, having little relevance in terms of financial inclusion purposes. The non-bank led model can be exemplified by the Kenyan and Philippine cases, where non-bank agents, such as mobile operators, are protagonists and banks play only a supporting role.

The partnership model would be the case in most countries, where banks want to play a protagonist role and operators have access to most clients underserved by banks. The case of MTN and Standard Bank in South Africa illustrate this kind of partnership. This type of arrangement raises an important question referring to how much of the market would actually be served by “one bank and one operator”, or “one bank and many operators”, or “many banks and one operator” partnerships, and also what kind of impact these different kinds of partnerships would have on mobile payment delivery.

Naturally, the ideal alternative would be a “multi bank and multi operator” arrangement in one single clearing process, but this would demand regulation and infrastructure that has not yet been made available in any developing country. Central Bank and telecommunication regulators would have a crucial role in such a process, given their relevance in the control of the money flow in the country, and thus in the whole economy. The idea of exchanging credit minutes for cash in retail outlets, the way it happens in Kenya, it is highly regarded by most central banks who want to continue having a strong control over currency value and the availability of money in the market to limit inflation, restrict money laundering and so on.

### **Conditional Cash Transfers**

Cash transfer programs represent another innovative strategy to reduce poverty that has been increasingly adopted in developing countries, experiencing varying degrees of success. Most cash transfer programs provide money to poor families conditional on children attendance in school and regular medical visits. Conditional cash transfer (CCT) programs therefore target two interrelated causes of poverty: consumption levels and the lack of investment in human capital. Unlike traditional social assistance programs that focus exclusively on short-term poverty alleviation and food or income distribution, CCT programs tend to focus on long-term investments in human capital, thus aiming to reduce structural poverty (Rawlings and Rubio 2003, Rawlings 2004, Sadoulet and Finan and Janvry and Vakis 2004, Borriquignon and Ferreira and Leite 2002, Handa and Davis 2006, Brito 2004).

CCT programs have shown several advantages over traditional social assistance programs. They allow families to allocate money according to immediate needs. Benefits extend beyond the beneficiary, having an impact on local shops and warehouses, as the family’s spending in the local market increases. CCT programs extend beyond the guarantee of food to the general well-being of the family and community, as they empower poor families to spend locally and invest in human capital by keeping children in school and working on illness prevention through regular visits to the local health clinics. Thus, in CCT programs, governments, providers and families are all co-responsible for service improvements in both health and education (Rawlings 2005:144).

However, the CCT programs’ success in reaching the poor is highly dependent on the efficiency and availability of Information and Communication Technologies (ICTs) infrastructure. In Brazil, the Bolsa Familia Program (BFP) has been largely successful due to the adoption of an

innovative ICT model, known as the correspondent banking, or branchless banking. Since bank branches and ATMs are usually located quite far from where most CCT program beneficiaries live, the Caixa Economica Federal (CEF), a Brazilian state-owned bank, has extended the payment process of the BFP to the correspondent banking system, which includes local shops and lotteries. These alternative payment channels have considerably decreased the logistical costs of the benefit payment process making the BFP much cheaper. The correspondent banking model has also contributed to undermine clientelism and vote buying behavior at the local level by monitoring the benefit distribution through a centralized computer system.

In addition to the payment process, the correspondents may provide easy access to other banking services, such as access to saving and checking accounts, credit, and insurance, among others. Although every BFP beneficiary receives a magnetic and personalized card to cash the benefit, not every beneficiary opens a checking account in the bank. The financial inclusion through the correspondent banking model is simple and feasible, but there are still numerous challenges that need to be faced in order to expand the system to a greater number of beneficiaries.

As previously mentioned, CCT programs are highly dependent on ICT infrastructure to be efficiently operated and managed. ICTs play an essential role in the BFP providing infrastructure for all processes involved: a) family registration, b) storage and maintenance of data on beneficiary families, c) payment logistics and d) production of program monitoring and evaluating reports. Registration is done locally, close to where the BFP families live, and is managed at the municipal level. As the registration process does not involve financial transfers, nor is it time sensitive, it demands relatively low computing power that can be made available at a low cost. Usually in this process, PCs and hand held devices are sufficient to ensure the needed ICT operative infrastructure, since the data will enter the system through the work of people in the field in some sort of local agency. The use of hand held devices as an ICT instrument can mean a significant improvement in the registration process since it reduces the need of data reentry in the system. As such, the major focus in this phase is on human resources as a well-trained team is critical to guarantee that the system will operate well.

Storing and processing data from families as well as producing control reports can demand high computing capacity, but they are usually performed in a centralized way and can be done where the central government already has good computing power installed. Once municipal governments have locally collected the data, they send it to some sort of centralized account platform, which can be accessed and handled by government officials and technicians to generate all sort of analysis needed to monitor and evaluate the CCT program.

In terms of the ICT infrastructure, the most complex operation needed to operate a CCT program is the payment logistics. This process demands highly integrated, secure and time sensitive systems for paying the benefits locally, close to where the beneficiary families live. Since the effect of such programs are directly dependent on the capacity of making the payment in attendance points as close to the beneficiary families as possible, the correspondent banking model is crucial to the BFP's success.

The logistics of issuing the benefit payment of a CCT program involves the process of planning, implementing and controlling flows required to trigger the payment network in order to allow the withdrawal of the benefit by beneficiary families, including cash management. There are two main processes related to the payment logistic: the delivery of the payment authorization and the payment itself. As some of the most important CCT programs are based on payments through electronic cards, the payment authorization process is mostly done by delivering an electronic card to the beneficiary families. The payment process is complete when the payment, usually in cash, is withdrawn by the beneficiary. Conditional cash transfers provide an essential addition to policies and debates about reaching the bankless – the missing dimension of income among the poorest.

## Conclusion

The arguments presented in this paper derive from our research on banking and financial inclusion in Brazil and other developing countries. Given the current post-crisis disappointment with market based models and private bank led microfinance strategies, we have attempted to raise several promising areas for reassessment of mainstream microfinance. New policies, new technologies, and new experiences involving public savings banks deserve further attention. Like many other countries, the combination in Brazil since the 1990s of economic reforms, financial liberalization and democratization provides a quasi experimental situation to examine banking, new technologies and strategies for financial inclusion. Change has differed from expectations. Opening the Brazilian bank system has transformed the old, inefficient state-centered banking system built during the 20<sup>th</sup> century by national-populists, developmentalists and sustained by military rulers through the 1980s.

Since the liberalization of banking in the 1990s, many state government banks were privatized and new foreign banks have entered the market. However, instead of transition to private banking and market-based microfinance, Brazil instead has experienced a different outcome in the 21<sup>st</sup> century. Three findings from Brazil and comparisons with other emerging and developing countries stand out. First, liberalization has induced a ‘back to the future’ modernization of social banking.<sup>15</sup> The combination of social agency and savings bank policies proved key for Caixa leadership in expanding access to banking, both in the geographical sense of reaching into the vast interior of the country and in the social sense of reaching poor regions left unbanked by private banks. Large savings banks in developing and advanced economies appear to have passed through similar processes of modernization since liberalization. This provides many opportunities for reassessment of core assumptions about microfinance.

Second, this dual role of social policy agent and savings bank provides competitive advantages in banking over profit-maximizing shareholder banks controlled by local private and foreign capital. Caixa policies such as free ‘no questions asked’ accounts, use of correspondent banking (over 34,000 institutions) and management of social policy concessions suggest that scale, scope, tradition, confidence and universal approaches based on citizenship and public policy provide competitive advantages for the Caixa as a bank, especially downmarket. The Caixa has used its traditional institutional foundations of competitive advantage in housing and construction, urban development, social policy transactions and lottery management to modernize since financial liberalization in the 1990s. This is an anomaly for mainstream conceptions of microfinance that expected convergence toward private, market-based banking.

Third, policies designed to expand family grant management into simplified banking accounts suggest that conceptions of citizenship and basic income policies appear more promising than policies designed to usher all citizens into private sector employment and/or entrepreneurship driven by private banking and capital markets. Programs for financial inclusion at the Reserve Bank of India (2010) and Bank of Indonesia (2010) call for issuing identity cards as bank cards for all citizens. These ideas, although embryonic, promise to reshape core ideas about reaching the bankless. These new channels of financial inclusion will require further study. However, in terms of broader concerns about banks may bridge the gap and reach the unbanked, the evidence reported in this paper suggests that social banking, monetary policy and theory, and new technologies provide grounds for reassessing core assumptions about microfinance and the means to radically increase the pace of financial inclusion.

## References

Aghion, Beatriz & Morduch, Jonathan.(2010). *The Economics of Microfinance*. Cambridge, MA: MIT Press.

Ayadi, R., Schmidt, R.H. & Carbò Valerde, S. (2009). *Investigating diversity in the banking sector in Europe: the performance and role of savings banks*. Brussels: Center for European Policy Studies.

Bourguignon, F., Ferreira, F & Leite, P (2002). “Ex-ante Evaluation of Conditional Cash Transfer Programs: the case of Bolsa Familia,” Policy Research Working Paper n° 2916. Washington, DC: The World Bank.

Bresler, N., I. Größl & A. Turner. (2007). The Role of German Savings Banks in Preventing Financial Exclusion, in Anderloni, L, MD. Braga & E. M. Carluccio (eds). *New Frontiers in Banking Services*. Berlin: Springer, 2007

Brito, T.F (2004). “Conditional Cash Transfer: Why have they become so prominent in recent poverty reduction strategies in Latin America”. Working Paper Series n° 390. The Hague, Netherlands: Institute of Social Studies.

Claessens, S. (2006). “Access to financial services: a review of the issues and public policy objectives”. *The World Bank Research Observer* 21 (2): 207-240

Diniz, E., Pozzebon, M. & Jayo, M. The role of ICT in helping parallel paths to converge: microcredit and correspondent banking in Brazil. *Journal of Global Information Technology Management*, v. 12, p. 80-103, 2009.

Dornbusch, R & S. Edwards. (eds). (1991). *The Macroeconomics of Populism in Latin America*. Chicago, IL: University of Chicago Press.

Gonzalez, Lauro, Piza-Toledo, Caio, & Garcia, Daniel (2009). “Sinergia entre microsseguro e microcrédito e o crescimento dos mercados no Brasil.” *Revista Brasileira de Risco e Seguro*. 5: 45-84

Handa, S and Davis, B. (2006). “The Experience of Conditional Cash Transfer in Latin America and the Caribbean.” *Development Policy Review* 24(5): 513-536

Kumar, A. (2005). *Access to Financial Services in Brazil*. Washington, DC: World Bank.

Lavoei, Frederic, Pozzebon, Marlei and Gonzalez, Lauro. “Challenges for Inclusive Finance Expansion: the Case of CrediAmigo, a Brazilian MFI.” *Management International*.15/3: 57-69.

Mas, Ignacio. (2009). “The Economics of Branchless Banking”. Innovations: Technology, Governance,” *Globalization*, Vol. 4, No. 2.

Neri, Marcelo & Buchman, Gabriel (2008). “CrediAmigo: o Grameen tupiniquim.” In: Neri, M. (ed) *Microcredito: O Mistério Nordestino e o Grameen Brasileiro*. Rio de Janeiro, FGV.

Paulet, E. (ed). *Financial Markets and the Banking Sector: Roles and Responsibilities in a Global World*. London: Pichering and Chatto, 2009

President of Indonesia, 2010. Address to Alliance for Financial Inclusion Meeting,

Rawlings, L.B (2005). “A new approach to Social Assistance: Latin America’s experience with conditional cash transfer programmes.” *International Social Security Review*. 58 (2-3): 133-61

Rawlings, L.B and Rubio, G (2003). “Evaluating the Impact of Conditional Cash Transfer Programmes: lessons from Latin America.” Policy Research Working Paper n° 3119, Washington, DC: The World Bank.

Reserve Bank of India. (2008). *Report of the Committee on Financial Inclusion*, Delhi: Reserve Bank of India, available on: [http://www.nabard.org/lpdf/report\\_financial/Full%20Report.pdf](http://www.nabard.org/lpdf/report_financial/Full%20Report.pdf)

Saboulet, E and Finan, F. and Janvry, A and Vakis, R (2004). “Can Conditional Cash Transfer Programs Improve Social Risk Management? Lessons for Education and Child Labor Outcomes.” SP Discussion Paper n° 04200. Washington, DC: The World Bank

Schmidt, Reinhard, (2010). “Microfinance, Commercialization and Ethics.” *Poverty & Public Policy*, 2/1:

Soares, F., Ribas, RP. & Osório, RG. (2010). Evaluating the Impact of Brazil's Bolsa Familia: Cash Transfer Programs in Comparative Perspective. *Latin American Research Review*, 45: 173-90.

Souza, Fabrício S. (2011) “A eficiência no Sistema de Pagamentos Brasileiro e suas perspectivas,” in: Dodl, Alessandra & Barros, José. *Desafios do Sistema Financeiro Nacional: o que falta para colher os benefícios da estabilidade conquistada*. Rio de Janeiro: Campus, pp. 155-74

Stegman, A; Rocha, M. Davis, W. (2005). *The role of technology in serving the unbanked*. Chapel Hill, NC: The Frank Hawkins Kenan Institute of Private Enterprise, University of North Carolina.

Stiglitz, Joseph E. & Weiss, A. (1981). “Credit Rationing in Markets with Imperfect Information.” *The American Economic Review*, 71/3: 393–410.

Weissbourd, R. (2002). *Banking on technology: Expanding financial markets and economic opportunity*. Prepared for the Brooking Institution Center on Urban and Metropolitan Policy, the Financial Services Roundtable and the Ford Foundation. Washington, DC.

Yunus, Muhammad. (2003). “Banker To The Poor: Micro-Lending and the Battle Against World Poverty,” *Public Affairs*.

Zysman, John. *Governments, Markets and Growth: Financial Systems and the Politics of Industrial Change*. Ithaca, NY: Cornell University Press, 1983

<b>Appendixes</b>								
<b>Appendix 1: Overview of World Savings Bank Institute Member Banks, 2010</b>								
<b>Country</b>	<b>Savings Bank</b>	<b>Assets US\$mi</b>	<b>Loans</b>	<b>Deposits</b>	<b>% Capital adequacy</b>	<b>Outlets</b>	<b>Employees</b>	<b>Customers</b>
Albania	Banka Kombetare Tregtare (BKT)	1 504	631	1 333	13.06	80	922	321 269
	Caisse Nationale d'Epargne et de Prévoyance							
Algeria	(CNEP)	11 278	3 616	10 206	13.37	209	5 108	
Angola	Banco de Poupança e Crédito (BPC)	5 845	3 169	4 489	.	132	2 836	
Austria	Österreichischer Sparkassenverband	216 147	154 776	134 970	27.37	1 071	12 559	3 109 173
Azerbaijan	Kapital Bank	960	595	259	25.00	96	2 043	2 500 000
Belgium	Argenta Spaarbank n.v.	44 115	24 511	30 257	18.61	524	2 118	
Benin	La Poste du Bénin	.		123		105	565	41 795
Bolivia	UNIVIV	568	365	440	43.00	40	525	
Botswana	Botswana Savings Bank	51	27	36		121	180	190 000
Brasil	Caixa Econômica Federal do Brasil	227 696	95 043	121 913	15.44	7 261	83 200	
Bulgaria	Bulgarian Post Bank	4 046	2 665	3 166	13.34	220	2 660	
Burkina Faso	Société nationale des Postes (SONAPOST)	323		304		88	978	4 266
Cameroon	CAMPOST	227		140		339	1 077	
Cape verde	Caixa Económica de Cabo Verde (CECV)	441	342	397	14.1	33	260	
Chile	BancoEstado	36 848	21 902	24 782	12.14	4 992	8 739	8 500 000
China	Industrial and Commercial Bank of China (ICBC)	1 987 901	978 303	1 782 488	12.36	16 232	386 723	219 610 000
China	Postal Savings Bank of China	501 726	80 392	31 225		45 000		
Colombia	BCSC	4 224	2 278	3 466	17.31	261	6 485	4 096 037
Comoros	Soc. Nat. des Postes et des Services Financiers (SNPSF)	.	8	12		10	250	17 859
Costa Rica	Federación de Mutuales de Ahorro y Préstamo	889	606	737		89	1 061	257 000
Croatia	Hrvatska Poštanska Banka (HPB) (Croatia Postal Bank)	2 724	1 627	2 070	16.99	53	1 051	
Cuba	Banco Popular de Ahorro	825	411	449		421		

*New Perspectives on Banking and Financial Inclusion*

Czech Republic	Ceska Sporitelna AS	46 163	32 238	37 348	14.14	667	10 111	5 265 097
Czech Republic	Československá Obchodní Banka - CSOB	46 342	20 607	32 805	18.03	3 677	7 641	3 078 000
Denmark	3S Group	24 318	16 106	16 336		232	3 180	
Dominican Rep.	Asociación La Nacional de Ahorros y Préstamos (ALNAP)	472	276	98	17.82	45	693	307 144
Dominican Rep.	Asociación Popular de Ahorros y Préstamos (APAP)	952	625	717	36.23	50	859	1 498 179
Dominican Rep.	Banco Nacional de Fomento de la Vivienda y la Producción (BNV)	480	156	294	5000,00%	2	466	
Egypt	Principal Bank for Development and Ag. Credit (PBDAC)	5 906	3 465	5 012				
El Salvador	FEDECRÉDITO	833	615	344	24.89	115	1 835	649 138
Ethiopia	Construction & Business Bank	219	109	163	.	38	1 074	.
Finland	Säästöpankkiliitto	9 705	7 979	8 033	22.3	214	1 293	581 023
France	BPCE	1 390 825	932 722	662 081	11.6	7 543	117 000	36 000 000
Gabon	La Poste Gabonaise	73	5	73	.	59	515	15 320
Germany	Deutscher Sparkassen- und Giroverband e.V. (DSGV)	3 451 318	2 333 712	2 338 999	1600,00%	20 850	363 000	50 000 000
Ghana	HFC Bank (Ghana) Limited	255	127	129	.	.	.	.
Greece	TT Hellenic Postbank	21 976	11 848	20 200	18.5	147	2 510	6 024 520
Guatemala	Banrural	3 576	2 200	2 896	.	700	.	4 000 000
Guinea	Office de la Poste Guinéenne	.	.	.	.	.	.	.
Hungary	OTP Bank Plc.	47 036	32 418	31 136	17.48	1 890	30 367	13 055 887
Iceland	Samband Islenskra Sparisjóða	532	311	368	.	23	150	.
India	National Bank for Agriculture and Rural Development (NABARD)	29 806	26 354	15 308	23.47	423	4 607	.
India	National Savings Institute	145 030	145 030	145 030	.	11	134	.
Indonesia	PT Bank Tabungan Negara (Persero) Tbk	7 523	5 671	5 292	16.74	3 077	4 231	6 023 246
Iran	Postbank Iran (PBI)	1 584	1 007	1 171	7.2	14 059	2 909	4 253 283
Italy	Association of Savings Bank Foundations (ACRI)	271 958	129 549	185 287	.	4 529	38 162	.
Ivory Coast	Caisse Nationale des Caisses d'Epargne (CNCE)	215	.	167	.	108	673	20 820
Kazakhstan	JSC Halyk Bank	14 237	7 407	10 084	20.5	632	11 648	5 271 290
Kenya	Kenya Post Office Savings Bank	250	.	169	.	546	786	
Korea	Korea Federation of Savings Banks (KFSB)	65 308	51 738	57 350	9.83	118	7 749	4 498 317
Korea	Dongbu Savings Bank (Member of KFSB)	1 498	1 028	1 300	11.5	9	156	66 660

*New Perspectives on Banking and Financial Inclusion*

Korea	Korea Post, Postal Savings Division	47 915	414	44 876	.	2 761	43 920	.
Latvia	Latvijas Krajbanka	1 237	821	1 093	14.33	110	895	257 000
Lesotho	Lesotho PostBank (LPB)	35	1	30	18.99	13	140	104 895
Luxemburg	Banque et Caisse d'Epargne de l'Etat (BCEE)	50 435	23 821	35 814	21.6	75	1 811	.
Macau	Caixa Económica Postal de Macau	135	19	85	117.45	1	24	.
Madagascar	Caisse d'Epargne de Madagascar S.A.	118	96	95	90.02	27	444	.
Malaysia	Bank Simpanan Nasional	6 299	3 258	5 560	15.24	384	5 827	8 000 000
Mali	Banque de l'Habitat du Mali	.	.	.	.	.	.	.
Malta	Bank of Valletta Plc	8 404	5 257	7 339	1500,00%	53	1 570	380 575
Mexico	Banco del Ahorro Nacional y Servicios Financieros (BANSEFI)	1 186	.	995	99.6	494	1 477	5 703 933
Mongolia	Savings Bank of Mongolia	326	172	247	14.8	478	2 700	.
Morocco	Poste Maroc - Al Barid Bank	3 137	.	2 895		1 784	7 936	1 433 256
Morocco	Caisse de Dépôt et de Gestion	17 373	4 119	10 431				
Namibia	Nampost Savings Bank	249	.	206				
Netherlands	SNS Bank	104 690	88 474	54 357	16.7	680	2 639	
Nigeria	Nigeria Postal Service (NIPOST)							
Norway	Sparebankforeningen i Norge	403 505	276 876	251 804	13.5	745	18 311	
Pakistan	Central Directorate of National Savings					356	3 377	
Panama	Caja de Ahorros de Panama	1 607	1 154	1 322		42	1 560	788 814
Peru	Fed. Peruana de Cajas Municipales de Ahorro y Crédito (FEPCMAC)	3 587	2 791	2 712	16.51	450	10 199	926 264
Philippines	Philippine Postal Savings Bank	118	81	101	16.95	25	347	
Poland	PKO Bank Polski	55 463	43 549	46 249	11.99	3 150	26 770	
Portugal	Caixa Economica da Misericordia de Angra do Heroismo (CEMAH)	358	170	317		10	88	
Portugal	Caixa Geral de Depositos	166 964	113 198	99 244	12.3	869	23 083	4 548 605
Portugal	Montepio	27 704	19 040	16 654	12.8	335	2 914	1 285 092
Romania	Bancpost SA	4 448	3 134	3 494	13.99	2 975	3 906	1 381 635
Senegal	POSTEFINANCES			212		174	30	25 000
Slovakia	Slovenska Sporitelna AS	14 628	9 199	12 368	13.52	291	3 816	2 509 671
South Africa	Postbank	747		544		2 443	205	

*New Perspectives on Banking and Financial Inclusion*

Spain	Confederación Española de Cajas de Ahorros (CECA)	1 682 329	1 230 063	1 130 178	12.05	23 360	128 165	
Sri Lanka	Sinhala/Tamil (National Savings Bank)	3 573	821	3 143	19.2	4 239	3 050	16 700 000
Sudan	Savings and Social Development Bank	227	124	149	20.1	38	806	282 790
Sweden	Sparbanken Riksförbundet (Swedish Savings Banks Association)	30 155	25 600	26 043	16.15	258	3 388	1 995 114
Sweden	Swedbank	238 040	187 810	93 098	13.3	986	17 224	10 177 000
Tajikistan	Amonatbank, State Savings Bank of Tajikistan Republic	200	71	143	13.3	581	2 623	
Tanzania	Tanzania Postal Bank	86	46	76	9.31	148	392	670
Thailand	Government Savings Bank	46 115	34 312	37 529	11.78	955	11 153	17 312 874
Togo	Banque Populaire pour l'Épargne et le Crédit	64	1	55		28	145	
Tunisia	La Poste Tunisienne	8 321		7 973		1 177	9 288	5 296 540
Turkey	Turkiye Vakıflar Bankası TAO	49 215	29 834	31 740	14.35	636	11 077	10 876 551
Uganda	PostBank Uganda	49	33	42	20.2	31	430	438 962
Uganda	Pride Microfinance Limited (PML)	37	27	11		29		23 558
Uganda	Uganda Finance Trust (UFT)	18	14	7		28	312	
Ukraine	State Savings Bank of Ukraine - Oschadny Bank Ukrainy	10 971	7 100		35.71	6 158	36 720	
United Kingdom	Lloyds Banking Group	1 532 147	962 436	686 048	15.21	.	104 230	25 000 000
USA	Independent Community Bankers of America (ICBA)	1 200 000	700 000	1 000 000		19 150	287 884	
USA	Wells Fargo	1 258 128	734 245	847 942	15.01	6 239	272 200	70 000 000
Uzbekistan	XALQ BANKI	726	538	559		3 603	12 000	
Vietnam	LienViet Bank (1)	1 880	822	1 393	18.09	43	1 392	20 608
Vietnam	Vietnam Postal Savings Service Company (1)	393		379		821	131	383 607
Vietnam	Vietnam Bank for Agriculture and Rural Development (VBARD)	28 513	22 283	22 033	6.15	2 330	37 000	9 283 075
Zambia	National Savings & Credit Bank of Zambia	42	19	34	6.3	29	334	
Zimbabwe	People's Own Savings Bank of Zimbabwe	47	24	38	16.75	196	400	243 093
WSBI total		15 647 177	9665410	10217809		226929	2 235 266	574567845

## Descriptive Data on Cooperative Banks, 2008

Full Member Organizations (a)	Members / clients ratio	New employees hired 2007	Expenses staff training / payroll	SME loans % of total loans	Market share of SME loans, %	Nr. of clients / Nr. branches	Market share of ATM's (%)
<b>Austria</b>							
Österreichische Raiffeisenbanken	47%	500	n.a	n.a	n.a	1,569	39%
Österreichischer Genossenschaftsverband	87%	371	2%	n.a	n.a	1,302	11%
<b>Bulgaria</b>							
Central Co-operative Bank	1%	286	2%	17%	n.a	3,511	14%
<b>Finland</b>							
OP-Pohjola Group	38%	332	3%	n.a	n.a	6,486	n.a
<b>France</b>							
Crédit Agricole	29%	4,640	6%	27%	28%	2,847	25%
Crédit Mutuel	65%	1,070	6%	25%	16%	2,894	14%
Banques Populaires	42%	2,700	7%	46%	8%	2,655	9%
<b>Germany</b>							
BVR/DZ BANK	54%	-399	2%	27%	25%	2,201	34%
<b>Hungary</b>							
Federation of Savings Coops	23%		1%	50%	4%	688	15%
<b>Italy</b>							
Assoc. Nazionale Banche Popolari	11%	2,240	1%	49%	23%	1,018	26%
FEDERCASSE	17%	1,223	1%	29%	17%	1,299	10%
<b>Luxemburg</b>							
Banque Raiffeisen	5%	59	0%	17%	6%	1,963	16%
<b>Lithuania</b>							
Assoc. Lithuanian credit	99%	42		42%		539	

*New Perspectives on Banking and Financial Inclusion*

unions							
<b>Netherlands</b>							
Rabobank	18%	n.a	3%	19%	38%	7,765	33%
<b>Poland</b>							
Krajowy Związek Banków Spółdzielczych	24%	1201		20%	13%	2,611	17%
<b>Portugal</b>							
Crédito Agrícola	15%	362	0.40%	n.a	n.a	3,011	10%
<b>Slovenia</b>							
Dezelna Banka Slovenije d.d.	n.a	34	2%	40%	n.a	85,215	2%
<b>Spain</b>							
Unión Nac. Coop's de Crédito	19%	1,034	n.a	n.a	n.a	207	8%
<b>United Kingdom</b>							
Co-operative Bank	50%	-1,789	5%	0%	2%	28,440	4%
<b>AVERAGE (EU 27)</b>	37%	2,124	4%	29%	25%	3,068	25%
Associate Member							
<b>Japan</b>							
The Norichukin Bank / JA Bank Group	19%	n.a	n.a	n.a	n.a	5,021	9%

Source: International Association of Cooperative Banks.

## Notes

---

<sup>1</sup> ‘A peculiarity of public banks [was] the original nature of their founders, specifically philanthropic institutions, whose mission included aid to particularly weak social classes (orphans, abandoned children prisoners, unmarried mothers), sanitary assistance (like hospital institutes) and granting particular accessible forms of credit to the poorest people (the system of loan pledge on the Monti di Pietà is a typical example)’ Giannola (2009:19).

<sup>2</sup> For example, the *Banco de Napoli* was created by consolidation of eight popular pawn banks in the 16<sup>th</sup> century.

<sup>3</sup> ‘Authorizations granted in the course of time by the Spanish Vice-royalty to the Philanthropic Institutes so that they could extend their activities usually controlled by the ‘money lenders’ quickly made them dominant on the market.’ Giannola (2009:20)

<sup>4</sup> ‘The co-operative societies which have prospered are those that have made up their own capital by the heroic setting aside of part of working men’s daily wages.

Those to whom the Government made loans in 1848 have soon broken up.’ Des Essars (1896:210)

<sup>5</sup> In 1876 and 1893, small farmers composed 16.8 and 24.1 percent of members, while small manufacturers and merchants declined from 32.1-25.2 percent and teachers and clerks increased 16.5-18.6 percent (Des Essars (1896:210-16)

<sup>6</sup> Aghion (1999) cites: Société Nationale de Crédit à l’Industrie (Belgium, 1919), Crédit National (France, 1919), 1928, National Bank, Poland, 1928), 1928, Industrial Mortgage Bank (Finland, 1928), Industrial Mortgage Institute (Hungary, 1928), 1933, Istituto Mobiliare Italiano (Italy, 1933), Istituto per la Ricostruzione Industriale (Italy, 1933).

<sup>7</sup> Many developing country governments created development banks after World War II to channel World Bank loans and foreign aid - and retain such institutions today. This increases the importance of understanding European development banks.

<sup>8</sup> The number of simplified savings accounts *decreased* to just 6031 in June 2010, after reaching over 230,000 in 2006. Expansion of banking services from simplified banking accounts to simplified savings accounts appears to have largely failed. Interviews with Caixa staff and clients – and the aggregate data on income declines among lower income quintiles - confirm the difficulty of accumulating savings.

<sup>9</sup> The correspondent banking model dates to Central Bank of Brazil Circular 220, October 1973 and resolution 2.166, 1995. However, banks began to sign correspondent bank contracts only after resolutions 3.110 and 3.156 in 2003 defined seven services banks could legally delegate to correspondent institutions (Diniz, Pozzebon & Jayo 2008).

<sup>10</sup> Data from Central Bank of Brazil and Federation of Brazilian Banks.

<sup>11</sup> Of four banks retaining correspondent networks over 10,000, two are federal banks – the Caixa and the Banco do Brasil. Moreover, because Aymore (Santander) correspondents offer loans but not accounts or payment services they remain finance franchises.

<sup>12</sup> Central Bank of Brazil, *Relatório de Inclusão Financeira*, Brasília: No. 1, 2010, p. 20

<sup>13</sup> The correspondent banking model dates to Central Bank of Brazil Circular 220, October 1973 and resolution 2.166, 1995. However, banks began to sign correspondent bank contracts only after resolutions 3.110 and 3.156 in 2003 defined seven services banks could legally delegate to correspondent institutions (Diniz, Pozzebon & Jayo 2008).

<sup>14</sup> Data from Central Bank of Brazil and Federation of Brazilian Banks.

<sup>15</sup> Ayadi et al (2009) report similar modernizations of European savings banks not privatized.