

Asia's Financial Industries that Contribute to Vitalizing Regional Economies

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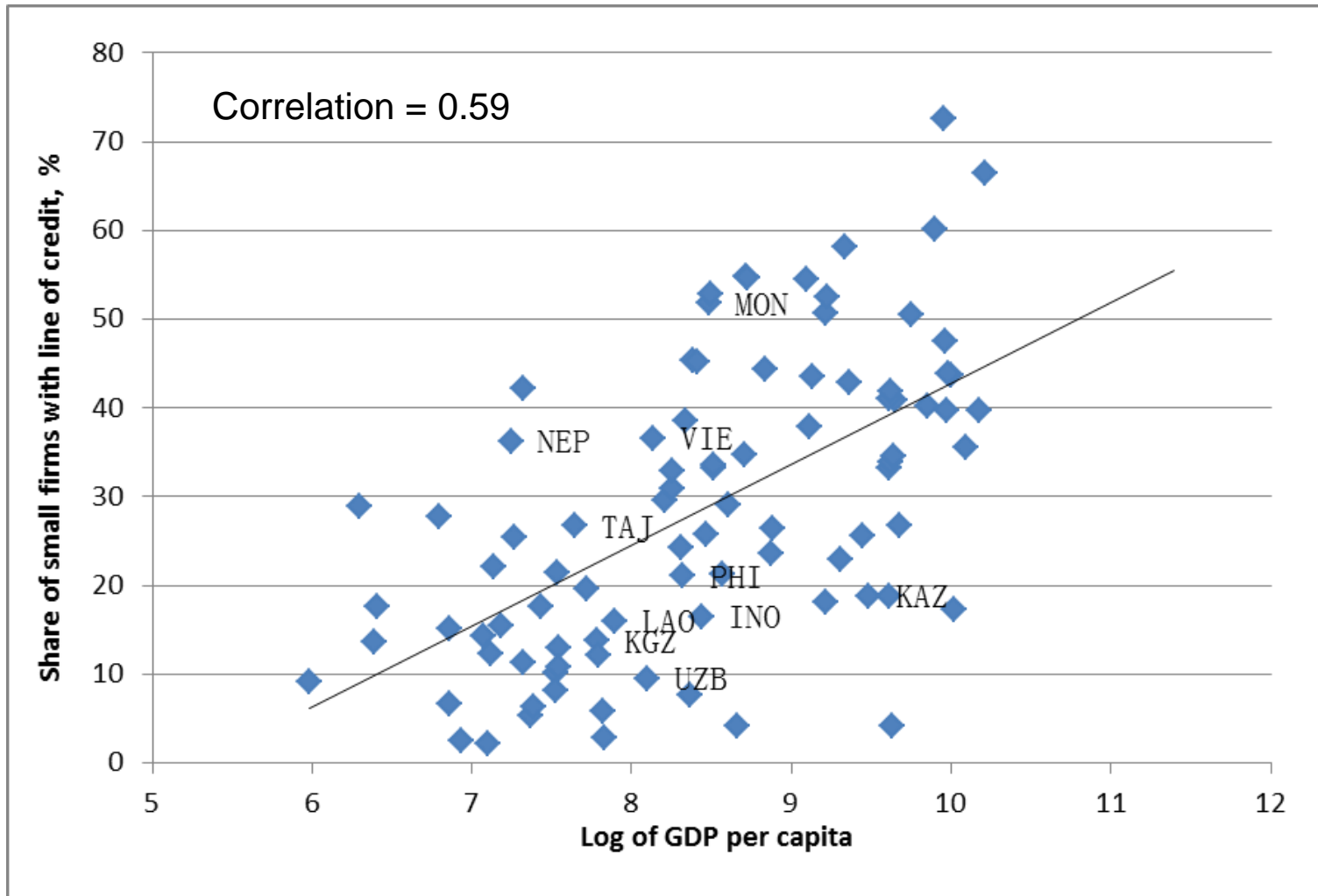
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1. Introduction

- MSMEs play a key economic role in Asia, including employment and output
- Access to finance remains problematic due to classic problems of lack of data, information asymmetry, small scale, lack of collateral and riskiness
 - Often difficult to distinguish MSMEs and households
- Asian governments have responded with a plethora of institutions and policies to promote inclusion for MSMEs
- But effectiveness has varied—important to learn lessons of positive experiences

2. Status of SME Lending in Asia



Source: World Bank GFDD (2012) (2006-10 avg.)

3. Institutions and products for financial inclusion

- A wide range of inclusive entities and approaches can be found
- Importance of national strategy that includes all major stakeholders, as existing levels of financial inclusion are generally low
- Need for credit databases
- Need for national financial literacy data and financial education strategy

Wide range of approaches to inclusion

Elements of Financial Inclusion Strategies			
Country	Inclusive financial institutions	Subsidized funding	Innovative systems to enhance credit access
Bangladesh	Cooperative societies, postal savings bank, Grameen Bank, licensed NGO-MFIs	Palli Karma Sahayak Foundation (PKSF) for MFIs; refinancing of bank loans to SMEs	
PRC	Agricultural Bank of China, rural credit cooperatives, Postal Savings Bank of China, village and township banks, poverty alleviation microfinance, microcredit companies, P2P		SME Board and ChiNext of Shenzhen Stock Exchange, SME collective notes (bonds), Credit Reference Center
India	Regional rural banks, united community banks, Local Area Banks, NBFC-MFIs	MUDRA Bank	Stock-exchange platforms for SMEs, credit bureaus
Indonesia	Bank Perkreditan Rakyat (BPR), Bank Pembangunan Daerah (BPD), Bank Rakyat Indonesia (BRI), credit cooperatives		Loan guarantee programs
Philippines	Rural banks, cooperatives, credit cooperatives and credit NGOs		
Sri Lanka	Co-operatives, NGO-MFIs, CBOs, Samurdhi, rotating savings and credit associations		
Thailand	State financial institutions, cooperatives and occupational groups, savings groups for production, and village funds		Loan guarantee program, credit database (in development)

Note: CBO = community-based organization, NGO-MFI = non-government organization micro-finance institution, PRC = People's Republic of China, P2P = peer-to-peer lending.

Sources: ADBI (2014); BUCFLP (2014), Barua, Kathuria and Malik (forthcoming), Kelegama and Tilakaratna (2014), Khalily (forthcoming); Llanto (2015), Peng, Zhao and Wang (2014), Tambunan (2015), and Tambunlertchai (2015).

Elements of national strategies

Financial Inclusion Programs and Strategies			
Country	National	Central bank	Ministries, regulators
Bangladesh	No national strategy; legal basis for Grameen Bank; establishment of Microcredit Regulatory Authority (MRA)	Taka Ten Account for farmers, expansion of rural bank branches, refinancing, mobile banking, SME financing, and school banking	
PRC	Reform measures endorsed by State Council	Promotion of increased bank branches and services in rural areas	CBRC: Introduction of new kinds of rural financial institutions, guidelines for microcredit business; CSRC: guidance for SME stock exchanges
India	Priority Sector Lending (PSL) targets; PMJDY bank account strategy; biometric ID program	Rural branch opening rules; establishment of innovative bank types; promotion of 'no-frills' bank accounts; business correspondents; financial education	
Indonesia	Subsidized credit and bank lending targets for MSMEs and farmers; establishment of Grameen-type banks and other micro-finance institutions	National Strategy for Financial Inclusion (with MoF): payment system infrastructure; financial education; credit-related information; supporting regulation; campaigns; and consumer protection	MoF (see central bank)
Philippines	Included in Philippine Development Plan 2011–2016: Increase confidence in financial system; expand offerings of financial products; financial education	Lead government institution to formulate specific financial inclusion strategies: numerous circulars	Department of Finance-National Credit Council: Credit Policy Improvement Project (CPIP)
Sri Lanka	10% bank loan target for agriculture; creation of Samurdhi banking societies	Branch opening regulations	
Thailand	Aspects included in 11th National Economic and Social Development Plan: focus on SME finance, financial education		MoF: National Strategy for Financial Inclusion; OSMEP: Master Plan of SME Promotion

Note: CBRC = China Banking Regulatory Commission, CSRC = China Securities Regulatory Commission, PRC = People's Republic of China.

Sources: Barua, Kathuria and Malik (forthcoming), Kelegama and Tilakaratna (2014), Khalily (forthcoming); Lianto (2015), Peng, Zhao and Wang (2014), Tambunan (2015), and Tambunlertchai (2015).

Bangladesh

Bangladesh: Uses of Funds by Institution-Type, June 2014, % of Total

Uses of Fund	State-Owned Banks	Private Banks	Specialized Banks	Foreign Banks	Microfinance Institutions	Non-Bank Financial Institutions	Total
Agriculture[1]	0.9	1.0	2.7	0.2	3.1	0.1	8.0
Industry[2]	5.7	22.2	1.3	1.7	3.1	2.4	36.4
SMEs	3.3	4.9	0.8	0.6	3.1	0.3	12.9
Construction	1.7	5.6	0.3	0.0	0.1	0.7	8.4
Transport	0.1	0.7	0.1	0.0	0.2	0.3	1.5
Trade and Commerce	5.8	26.3	1.5	1.0	0.0	0.8	35.4
Other Institutional Loan	0.0	1.2	0.0	0.0	-	-	1.3
Consumer Finance	1.2	3.1	0.1	0.9	0.0	-	5.4
Others	0.3	1.6	0.1	0.1	-	1.4	3.5
Total	15.7	61.8	6.2	4.1	6.4	5.7	100.0
Aggregate (Taka in Billion)	838.5	3,305.3	334.1	217.9	343.9	307.3	5,347.1

Note: No disaggregated information on the uses of loans from cooperatives are available. . Bank statistics are for 2014 and MFI-statistics are of 2013. Specialized banks like Bangladesh Krishi (Agricultural) Bank provide agricultural credit and finances working capital of the agriculture-based industrial undertakings. Microfinance institutions finance portfolio of poor households. It provides loans for financing agriculture and micro enterprises as well as micro cottage industries. Maximum loan that an MFI provide is US\$15,000.

[1] Bangladesh Krishi (Agricultural) Bank (BKB) is a specialized bank that provides agricultural credit for farming, livestock, fisheries and forestry. In addition, it also finances agriculture-related industries by term loans (more than one-year) and working capital loans (one or less year). Commercial banks also finance agricultural sector but their role is very limited. MFIs are the major providers of agricultural credit compared to the specialized banks.

[2] Commercial banks mostly provide working capital loans for industries, and often provide long-term loans. A specialized bank for industrial finance operates in Bangladesh, but its contribution has been negligible because of poor performance. BKB provides term and working capital loans for agriculture-related industrial activities. MFIs finance micro-enterprises and micro and small manufacturing undertakings to a maximum amount of US\$15,000. Industrial loans provided by banks are of large size and the ones provided by MFIs are micro in size.

India

Structure of Banking in India			
Type of Bank	Composition	Bank Name	Number of Branches
Commercial Banks	Public sector banks (26) (72,661 branches)	State Bank of India	14,699
		Associate banks	5,482
		Nationalized banks	52,480
		Other public sector banks	1
	Private sector banks (20)	Old private sector	6,047
		New private sector banks	9,522
	Foreign banks (43)	Branch mode of presence	332
	Regional rural banks (64)	Limited area of operation	
Local area banks (4)	Limited area of operation		
Cooperative Banks	Urban cooperative banks (1,606)	Multistate urban cooperative banks	43
		Single state urban cooperative banks	1,563
	Rural cooperatives (93,551)	Short term	92,834
		State cooperative banks	31
		District central cooperative banks	371
		Primary agriculture operative societies	92,432
		Long term	717
		State cooperative agriculture and rural development banks	20
Primary cooperative agriculture and rural development banks	697		
Microfinance Institutions	52 microfinance institutions have either received or applied for registration from the RRBI as of June 2015. They constitute over 90% of total microfinance industry business in the country.	Arohan, Bandhan, BSS, Cashpor, Disha, Equitas, ESAF, Grama Vidiyal	10,553

Sources: RBI (2014a), MOF (2015a).

Indonesia

Microfinance by Key Institutions in Indonesia

Institution	Number Units or Offices	Borrowers (‘000)	Outstanding Loans	Depositors (‘000)	Deposits
			(\$ million)		(\$ million/
Commercial banks’ micro loans (2006)	8,069	14,271	14,036	na	na
(2014)	18,704	na	na	na	14,466
- BRI units (2005)	4,046	3,211	2,134	31,271	3,288
(2014)	9,350	9,795	2,426	na	na
Rural banks (BPR) (2005)	4,482	395	21	466	51
(2014)	4,717	na	5	na	3
- BKD (2005)	2,062	2,331	1,380	5,864	1,223
LDKP (2005)	1,620	1,326	45	na	42
Credit cooperatives (2004)	1,596	885	116	481	33
- Credit Unions (2004)	1,041	na	958	480	1
S&L Units (2004)	36,466	10,524	1,349	5,016	145
- BMT (2004)	3,038	1,200	20	na	26
Grameen Bank Replicators (2007)	21	20	1	20	0

BKD = *Badan Kredit Desa*; BPR = Bank Perkreditan Rakyat; BMT = Koperasi Baytul Maal wat Tamwil; BRI = *Bank Rakyat Indonesia*; LDKP = Lembaga Dana Kredit Perdesaan; na = not available; S&L = savings and loans.

Sources: Martowijoyo (2007) and OJK (2014).

Indonesia

Origin of Loans for MIEs and SEs in the Manufacturing Sector in Indonesia, 2005

(% of total sampled enterprises)

Origin of Loan	MIEs	SEs
Formal Sources		
Bank	54.5	15.6
Cooperative	5.6	3.8
Venture capital	1.6	1.3
Nonbank institutions	4.8	3.1
Informal Sources		
Family	12.6	11.2
Friends	23.6	44.4
Others	14.2	28.4

MIE = micro enterprise; SE = small enterprise.

Source: BPS (2010).

Philippines

Philippines: Compliance with Mandatory Credit of 8% to Micro and Small Enterprises

(%)							
Bank Type	2008	2009	2010	2011	2012	2013	2014
All	10.0	9.7	8.5	7.6	6.4	5.6	4.9
Universal and commercial banks	7.1	7.1	6.8	5.8	5.3	4.6	4.0
Thrift banks	16.4	16.1	14.0	16.2	11.3	9.8	7.4
Rural banks	51.8	41.1	34.1	29.6	22.3	26.0	24.8

Source: Bangko Sentral ng Pilipinas.

Thailand

Landscape of All Financial Service Providers (Microfinance and Non-microfinance)

Sector	Key Players	Number ^a	Credit Volume ^b
Formal	Commercial banks, finance companies, credit fonciers	36 ^c	\$395.5 billion (92.7%) <i>(non-bank \$3.9 billion)</i>
	Specialized financial institutions (SFIs)	8	
	Non-bank financial institutions (NBFIs)	28 ^d	
Semi-formal	Cooperatives and occupational groups, savings groups for production village funds	13,000 ^e 27,000 80,000	\$29.8 billion (7%)
Informal	Self-help/community financial organizations (Sajja savings groups, village banks, etc.)	28,000 ^b	\$1.26 billion (0.3%)

^d NBFIs registered with Bank of Thailand only. Non-banks offering credit services not registered with Bank of Thailand are not included.

^e Includes cooperatives (7,000) and agricultural and occupational groups (6,000).

Source: Lewis et al. (2013).

4. Regulatory infrastructure for financial inclusion

- Traditional promotion methods such as lending quotas and subsidies have not generally been successful
 - Generally aimed at banks, which typically find it uneconomical to provide small deposits and loans, especially in remote areas
 - Results in “gaming” of rules and under-provision of services in most needed areas
 - Interest rate caps frequently have been counter-productive
 - Government funding programs also had performance problems
- A thriving micro-finance sector is major element of strategy
 - Regulatory frameworks should allow for higher costs faced by MFIs
 - Proportionate regulation in line with financial systemic risk
 - Licensing of MFIs increases pressure for efficiency, allows deposit-taking, and increases public trust
 - Allow for experimentation and pilot schemes
- Regulatory consistency needed as well
 - Bangladesh, Philippines have unified approach

Regulation of financial inclusion varies substantially by country

Financial Inclusion Regulatory Measures			
Country	Regulatory agencies	Regulation of MFIs	Lending regulation
Bangladesh	Bank of Bangladesh, Microcredit Regulatory Authority (MRA), Insurance Development and Regulatory Authority (IDRA)	Licensing of MFIs over certain size, can take deposits	Interest rate cap, deposit rate floor
PRC	China Banking Regulatory Commission (CBRC)	Credit cooperatives can take deposits; microcredit companies cannot, also limits on funding	
India	Reserve Bank of India, MUDRA Bank	Not licensed, self-regulated, but rules on disclosure; can convert to Small Bank	Lending rate caps for banks, NBMFIs
Indonesia	BI, OJK, multiple others	Multiple regulatory entities	Interest rate caps: KUR (22%), 5%-7% for agriculture/energy programs
Philippines	Bangko Sentral ng Pilipinas (BSP), Insurance Commission	BSP regulates most entities; only rural banks and credit cooperatives can accept deposits	Only disclosure rules
Sri Lanka	Central Bank of Sri Lanka	NGO-MFI's can register under various acts; not licensed; only co-operative societies and Samurdhi Banking Societies can take deposits	
Thailand	Bank of Thailand (BoT), Ministry of Finance, multiple others	Various agencies depending on type of MFI, some not regulated at all	Interest rate cap of 28% for SFIs, 15% for non-formal lenders

Note: BI = Bank Indonesia, BoT = Bank of Thailand, BSP = Bangko Sentral ng Pilipinas, CBRC = China Banking Regulatory Commission, CDFI = Community Finance Development Institution, FCA = Financial Conduct Authority, KUR = non-collateralized credit scheme for MSMEs, MSME = micro, small and medium-sized enterprise, NAPC = National Anti-Poverty Council, NCC = National Credit

Sources: Barua, Kathuria and Malik (forthcoming), Kelegama and Tilakaratra (2014), Khalily (forthcoming); Llanto (2015), Peng, Zhao and Wang (2014), Tambunan (2015), and Tambunlertchai (2015).

Micro-finance entities should be regulated “proportionately” in line with financial system risk

- Costs are proportionate or balanced to the risks and benefits of regulation
 - Micro-finance institutions tend to be small, and hence have less financial systemic risk
 - Adjust prudential norms to requirements of micro-finance
 - Requires “cultural change” on part of regulators
- Aspects of proportionate regulation
 - Reduced capital and documentation requirements
 - Loan appraisal based on personal contact rather than scoring
 - More emphasis on overall risk management practices than collateral
 - Develop appropriate micro products: micro-deposits, micro-enterprise loans, micro-agriculture loans, housing microfinance, and micro-insurance
 - Open to new delivery technologies and other systems to enhance access to credit

Source: Llanto (2015)

5. Conclusions

- A broad range of policy initiatives have been taken to increase access, but how to put them together effectively?
- Importance of national strategy that includes all major stakeholders, as existing levels of financial inclusion are generally low
- Financial access needs to be promoted in ways that are aligned with economic returns, with consistent regulation
- Micro-finance entities should be regulated “proportionately” in line with financial system risk
- Need to promote credit databases
- Need for national financial literacy data and financial education strategy

Thank you