STATE-OWNED RETAIL BANK (SORB) RESEARCH UNDER AMAP FSKG

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CONTENTS

INTRODUCTION TO SORBS

A. WHAT IS A SORB?

The term SORB was developed by authors writing for the Accelerated Microenterprise Advancement Project (AMAP) Financial Services Knowledge Generation (FKSG) project of USAID to refer to State-Owned Retail Banks (SORBs), institutions that:

- Are, or recently have been, completely or primarily owned by the state (including national or local governments);
- Engage in retail operations – lending and/or deposit services for individuals and businesses;
- Are financial institutions – which includes both banks offering lending and savings services and specialized financial institutions that may offer only a limited set of services. These may include postal banks, agricultural banks, finance companies, or even commercial banks.[1]

These institutions are ubiquitous. Young and Vogel compiled a listing of 234 institutions in 68 countries for FSKG, and recognized that this was not a complete census of the institutions.[2] Recent research by CGAP identified more than 270 institutions in 100 countries. Trivelli and Venero identified 30 “modern” institutions in Latin America which, unlike earlier versions of these institutions, were largely sustainable operations.[3] Although SORBs support other sectors (notably commerce, industry and trade), most attention has been paid to SORBs involved in the agricultural sector because of their prevalence, the importance of agriculture to developing economies, and their history of problems.

B. THE SORB MANDATES AND PERFORMANCES

SORBs are generally seen to have two major objectives:

1. A development objective that could stress extending financial services to deserving clients who have limited access to financial services, alleviating poverty, or promoting priority investment objectives, and
2. A sustainability objective that involves an efficient use of resources, profitability and maintenance of capital without continuous recourse to additional budget allocations for recapitalization.

These two objectives are often seen as being mutually exclusive, or at least in conflict with each other. Although most SORBs are supposed to operate on at least a break-even basis, development policies and mandates, exacerbated by specific policies and politics that mandate subsidized interest rates, periodic

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1 Robin Young and Robert Vogel, “State-Owned Retail Banks (SORBs) in Rural and Microfinance Markets: A Framework for Considering the Constraints and Potential,” Accelerated Microenterprise Advancement Project (AMAP), microREPORT 14, January 2005, p. 9.

2 Robin Young and Robert Vogel, “All – Census of State-Owned Retail Banks,” Accelerated Microenterprise Advancement Project (AMAP), January 2004.

3 Carolina Trivelli and Hildegari Venero, Banca de Desarrollo para el Agro: Experiencias en Curso en América Latina, Instituto de Estudios Peruanos (IAP), Lima, 2007.

loan forgiveness, delivery of non-financial services, and retention of staff, frequently undermine the financial sustainability objective.[4]

Unfortunately, the worldwide experience with SORBs has been rather negative, if not disastrous. Success stories are notable for their scarcity and for the extreme measures taken to achieve them. Most SORBs have suffered continuous losses and required repeated bail-outs by governments or donors. Few have fulfilled their potential or met their development objectives. All too often SORBs have implicit objectives, such as rewarding political allies and placating powerful economic and political groups.

The underlying arguments or rationales for establishing and maintaining SORBs are well known.

- They are often the only providers of financial services in rural areas, as commercial banks and financial intermediaries have not been interested in establishing branches and offering services in many locations;
- They can provide financial services to clients or sectors that are not attractive to commercial banks and financial institutions because of their specific developmental mandates;
- They typically have large branch networks that can support and serve as a distribution channel for other government services and activities;
- They often serve as de facto or official payments systems sites outside of major metropolitan areas.

Likewise, the deficiencies of SORBs, both in the underlying rationale for the institutions and their implementations are also well known. USAID's 1973 Spring Review of Small Farmer Credit introduced a discussion of the distorting impact of subsidizing credit through these institutions. Seibel provides an excellent overview of the insidious and pervasive corruption and inefficiency underlying the operations of most of the institutions formed during the 1960s and 1970s.[5] Young and Vogel concluded from a review of the literature and the key findings of six case studies that: (a) subsidized interest rates limited outreach and discouraged the entrance of private financial intermediaries in rural credit markets, (b) poor collection practices and frequent forgiveness schemes produced a poor credit culture that impacted the private sector's ability to operate in rural markets as well as the sustainability of the institutions themselves, (c) government mandates and political pressures led to an effective transfer of funds to government-favored groups and projects, and (d) the failure of the institutions to cover operational and program costs from earned income required repeated bailouts and recapitalization, frequently on a massive scale.

C. AMAP FSKG RESEARCH INTO SORBS

At the outset of FSKG research into SORBs, several reasons were given in support of studying these institutions.[6] In retrospect, this rationale boils down to the following:

1. SORBs' ubiquity warrants their consideration in approaches to improve financial services access to lower-income firms, farmers, and consumers. Both in efforts to improve SORBs, themselves, and to

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[4] CGAP, presentation on preliminary conclusions from a yet-to-be released review of this sector

[5] Hans Dieter Seibel, "Agricultural Development Banks: Close Them or Reform Them," in *Finance and Development,* Volume, 37, Number 2, International Monetary Fund, Washington, D.C., June 2000.

[6] Young and Vogel, 2005.

improve financial services access independent of these institutions, it is vital to understand SORBs' influence on local credit conditions and how past reform efforts have fared.

2. There is increasing interest in the donor community in strategies for reforming and refocusing SORBs to serve development objectives. USAID was crucial in supporting the successful turnaround and privatization of the Ag Bank of Mongolia (now called Khan Bank), among other institutions, and has insight to offer in the transformation of state-owned banks.

In light of the above, several studies were undertaken to understand the number and statuses of SORBs currently operating in developing countries, and the lessons learned from specific instances where SORB reform led to increased financial access for poor, rural communities.

A comprehensive census of SORBs gathered information on 234 institutions in 68 countries throughout the developing world. Analyzing that information, researchers isolated four key operational strategies: closure, continued government involvement, creation of new SORBs, and privatization. This is discussed in greater detail in the paper by Young and Vogel.

To understand the effect of SORB closure a case study of the Banco Agrario del Peru (BAP) was undertaken. It determined that, although government officials assumed the private sector would fill the gap left by the bank's closing, that gap persisted for five years until another government-sponsored bank was founded to replace BAP.

Five other case studies—looking at the Land Bank of the Philippines, Banque du Caire Egypt, Amhara Credit and Savings Institute in Ethiopia, Banco do Nordeste in Latin America, and Mongolia's Khan Bank—examined successful instances of reform followed by rapid growth of microfinance services offered by SORBs.

The six case studies are discussed in greater detail below.

SORBS CASE STUDIES

A. BANCO AGRARIO DEL PERU (BAP)[7]

Founded in 1931, BAP was a large agricultural bank working throughout Peru's rural and agricultural regions. Originally providing loans to agricultural commodity producers on the nation's coast, over time the bank grew to take deposits and, among its other missions, to provide subsidized credit to residents of remote locations. Inconsistent donor attention, political interference, poor performance and an extremely harsh macroeconomic environment of hyperinflation led, in 1992, to the bank's liquidation. Policy makers involved in the liquidation had assumed that commercial banks would step in to take BAP's place in rural and agricultural credit provision.

This FSKG case study argues that the void left in BAP's absence was not replaced by new or existing institutions, and that the foreseen benefits of liquidation came to be balanced, if not outweighed, by its unforeseen costs.

> "Would [policy makers] have closed the bank if they had known that few of BAP's loans would be collected later, that most of the bank's physical assets would have little salvage value, that employee compensation litigation would drag on for years, that five years later commercial banks would fill only about half the breach, that term lending for agriculture would disappear, that the government would be forced to do substantial ad hoc financing of agriculture after BAP's liquidation, and that replacement rural financial infrastructure would take so long to build?"
>
> *–Costs and Benefits of Liquidating Peru's Agricultural Bank, AMAP 2005.*

By 1976, BAP had captured more than 90 percent of Peru's formal agricultural loan market—its share fell to 80 percent thereafter. It could acquire such a huge share of the market because it was operating unsustainably, beating commercial rivals by offering subsidized rates in a volatile environment under a government guarantee of repayment for any loss. By the time BAP was shut down, estimates of government liabilities to the bank ranged up to $380 million (depending on whether one uses the official or black market exchange rate of the time).

The Peruvian government enacted a series of measures designed to fill the void left by BAP's sudden absence, including putting agricultural quotas on commercial banks' loan portfolios and setting up funds to assist in the provision of agricultural inputs. However, these efforts succeeded in closing only about half of the gap. Other, unforeseen costs of closing the bank included:

- The loss of more than 99 percent of BAP's loan portfolio
- The loss of non- financial capital—i.e., the good will developed between the bank and clients representing about 250,000 rural households
- The firesale of BAP's physical assets

BAP's case provides a warning for policy makers looking to eliminate the harmful influence of poorly run state banks. Among the lessons gathered in the case study are the notions that 1) it is unrealistic to expect

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[7] Robert Vogel, "Costs and Benefits of Liquidating Peru's Agricultural Bank," Accelerated Microenterprise Advancement Project (AMAP), microREPORT 12, January 2005.

the private sector to fill the gap left in rural areas by the collapse of a state agricultural bank, 2) some measure of independence (perhaps by a mandate to mobilize deposits) can guard such institutions from the political interference that contributes to their poor performance, and 3) donors and national government officials must maintain high expectations of state bank performance while maintaining discipline and consistency in their interactions with, and policies affecting, such banks.

B. BANCO DO NORDESTE (BN)[8]

BN is a development and commercial bank founded in 1954 to serve Brazil's poor Northeast region. It offers a series of diverse banking services, ranging from financing for large agribusinesses to serving low-income microentrepreneurs through its microfinance program, CrediAmigo. This FSKG case study described CrediAmigo's design and roll-out.

CrediAmigo is the result of a partnership between the World Bank, BN and the microfinance organization, Accion. In 1996 the World Bank approached BN to discuss the development of a microfinance arm to serve some of the estimated 9.5 million microentrepreneurs working in Brazil. Based on Accion's group lending model and using specialized training funded by the World Bank, BN rolled out a five-branch pilot microfinance program based on three guidelines:

- Charge real market interest rates for loans
- Base staff salaries on results
- Decentralize credit decisions

The pilot issued 90-day, no collateral loans to groups of microentrepreneurs at above-market rates. After four months of successful operation, the bank hastily expanded the pilot to include another 50 branches. Unfortunately the expansion was poorly executed, resulting in about US$2 million in losses due to bad credit decisions. ACCION was then called in to help get the unit back on track. Six months later CrediAmigo was operating successfully under strict World Bank-imposed conditions.

At the time the case study was written, CrediAmigo had grown to 265 branches located in 195 municipalities in the Northeast region, and is one of Latin America's largest microfinance programs. It largely maintained its group lending model and offered clients loans on terms ranging from three to 12 months.

C. KHAN BANK,THE AGRICULTURAL BANK OF MONGOLIA[9]

Khan Bank was founded in 1991 as the Agricultural Cooperative Bank, a split-off from the former State Bank under communist rule prior to 1990's market reforms. The bank's obvious intended role was to finance the agricultural sector. However, it foundered under political interference that mandated loans to favored sectors and parties, and beneath the weight of nonperforming loans it had inherited from its predecessor.

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[8] Anita Fiori and Robin Young (ed.), "Banco do Nordeste," Accelerated Microenterprise Advancement Project (AMAP) microREPORT 10, January 2005.

[9] John Gutin and Robing Young (ed.), "Khan Bank, the Agricultural Bank of Mongolia," Accelerated Microenterprise Advancement Project (AMAP), microREPORT 11, January 2005.

By 1999, Khan Bank had fallen into receivership. The Mongolian government and donor community decided to restructure the bank instead of closing it, given its vital role in agricultural production. The government became full owner, while USAID found an outside manager, Development Alternatives, Inc., to operate the bank with full authority to make whatever reforms it deemed necessary.

The lynchpin of Khan Bank's turnaround was a meticulously developed product strategy tailored to the realities of Mongolian life and energetically deployed across the bank's huge branch network. For example, the bank developed "herder loans" designed for nomadic sheep herders who bring in large volumes of cash during part of the year and subsist on little or no income for the remainder. The loans covered living and operating expenses in the sparse months. Once new products had been successfully piloted, they were rapidly deployed countrywide, leveraging Khan Bank's vast network to quickly reach economies of scale.

> "…Mongolia's low population density and low levels of rural economic activity mean that the demand for financial services is also highly dispersed and uneven. Moreover…rural financial service providers have specific problems to contend with, including seasonal fluctuations in demand, little available collateral security, and the high cost of serving the low-density rural areas. This may explain why only banks with existing infrastructure and capacity, like Khan Bank…have leveraged the potential of the rural microfinance niche."
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> *–Khan Bank, The Agricultural Bank of Mongolia, AMAP 2005.*

Bank executives (a mixture of expat and national personnel) also recognized that their main competition was informal lending, so they encouraged consumer loans as means for low credit-worthy individuals to move into the formal financial system.

Four months into 2000 Khan Bank was breaking even, and has taken off from there. It currently reaches almost every community in highly dispersed, rural Mongolia, with 354 countryside offices.

D. AMHARA CREDIT AND SAVINGS INSTITUTE[10]

ACSI opened its doors in 1995 as a branch of an Amharan non-governmental organization dedicated to local economic development. Its mission then was to provide financial services to poor, rural and remotely located communities in Ethiopia. It was split off and sold as a separate company in 1997 and the Amhara National Regional State (one of nine states in the Ethiopian federation) now effectively controls it through direct and indirect ownership. Despite heavy government ownership of, and interest in, the institution, it has maintained both its independence and its original mission, and has grown to be one of the most successful microfinance institutions in East Africa.

This FSKG case study details several factors that have contributed to ACSI's marked success.

Principle among those success factors is ACSI's financial independence, earned through efficient deposit mobilization and early government support. The institution's self-sufficiency buffers it from the outside interference—whether from local government and private interests or from international donors—that has foundered other state-owned financial institutions focused on poverty alleviation.

ACSI's financial success also owes to the fact that it operates unfettered by interest caps that would hinder its mission by impinging on its profitability.

[10] Neil Brislin, "Amhara Credit and Savings Institute: Ethiopia," Accelerated Microenterprise Advancement Project (AMAP) microREPORT 58, February 2006.

Another key to ACSI's success is its extreme standardization of policies and procedures. At the time the case study was written the institution continued to operate on a manual system, in part due to the lack of infrastructure existing in the remote areas in which it operates sub-branches. Adapting to that constraint required a clear codification of institution policies and a strong, singular sense of mission among ACSI staff that included a commitment to those policies.

> "…[ACSI] draw[s] on the support of the local community (the Credit and Savings Committee) to prioritize service delivery according to poverty levels and to screen all loan applications. Interestingly, these screenings are conducted in open forums, and the whole community can have a say… These committees are an effective way of using local knowledge to assess creditworthiness, and reflect in ASCI's portfolio quality. Committee members are representatives of the community and there is no financial or material benefit derived from their involvement…"
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> *–Amhara Credit and Savings Institution: Ethopia, AMAP 2006.*

Further, the study cited community involvement and the institution's aptitude for adapting global credit models to local circumstances as key contributors to its success. This required not only strong knowledge of the local context, but also a senior management team that was as deeply rooted in the local reality as it was qualified to drive ACSI.

E. LAND BANK OF THE PHILIPPINES[11]

Land Bank was founded in 1963 by the Philippine government as the financing agency for the government's land reform program. As such, it was dedicated specifically to provide financial services to so-called ARBs (agrarian reform beneficiaries—i.e., mostly farmers). It operated in a heavily regulated banking environment until the 1980s, when the government liberalized interest rate policies and reduced pressure on Land Bank to provide subsidized credit to the agricultural sector. Since 2000, the bank has diversified its client base to include small and medium enterprise (SMEs) in several sectors and a range of agriculture-related projects.

> "The composition of the board of directors acts as a natural barrier against politically motivated behest loans. The Secretary of Agriculture represents the farmers, many of who are ARBs. He found a natural ally in the Secretary of Agrarian Reform who is protective of the interests of the agrarian reform bloc. The Secretary of Labor represents the politically powerful labor sector, which is well organized and media savvy. The Secretary of Finance acts as Chairman of the Board of Directors and has pragmatic allies such as multilateral and bilateral lenders that would be the first to object to a possible misuse of Land Bank loans sourced from official development assistance. Private-sector representatives also are present to speak for the farming and labor sectors…
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> *–Successful Experience of Government-Owned Banks in Rural and Microfinance: The Case of Land Bank of the Philipines, AMAP 2006.*

This case study traces Land Bank's 40-year evolution from an agrarian bank to the most successful state-owned financial institution in the Philippines, paying particular attention to the organizational structure and policy environment that allowed the bank to grow and diversify while shielding it from political interference.

Land Bank's two state-owned cousins, The Philippine National Bank and The Development Bank of the Philippines, both required bailouts and reengineering, offering Philippine politicians a lesson in the costs of political interference. Taking advantage of this opportunity, Land Bank pushed for increased capitalization even as it argued for an extended mandate, allowing it to move beyond targeting ARBs with a diversified portfolio that promised to ensure its ability to fulfill its original mission. It nonetheless maintained its extensive service provision

[11] Robert Vogel and Gilberto Llanto, "Successful Experience of Government-Owned Banks in Rural and Microfinance: The Case of Land Bank of the Philippines," Advanced Microenterprise Acceleration Project (AMAP), microREPORT #56, June 2006.

to the agricultural sector, which includes not only financial products but also technical assistance to help farmers and fisherfolk improve productivity, product quality and value-adding operations.

Lastly, as in other examples, Land Bank makes extensive use of deposit mobilization, the majority of which are from small rural depositors, to support its financial and political independence.

F. BANQUE DU CAIRE EGYPT (BDC)[12]

BdC offers a unique perspective into the fates of SORBs that endeavor to expand downmarket. It was founded in the 1950s, nationalized shortly thereafter, and then reformed in 2000 to become a competitive retail bank. Shortly after its reform, BdC rolled out a microfinance operation through its existing network without any comprehensive strategy, with no market survey and no microfinance experience, and with no more motivation than a need to use excess staff it was forbidden from laying off. Despite all of this, in fewer than five years BdC became Egypt's premier microfinancier, with a larger (and mostly better performing) portfolio than all other MFIs in the country.

This case study describes the factors that contributed to BdC's unlikely success. Among its many observations are some familiar points, such as the advantage of capitalizing on a SORB's existing, huge branch network. One factor that is somewhat unique to BdC is the fact that Environmental Quality International (EQI) was contracted by USAID to build a comprehensive microfinance operation within the bank, although we also see this in DAI's involvement in the Khan Bank turnaround.

Another crucial factor in BdC success in microfinance was that the Egyptian microfinance market (unbeknownst to those involved with the BdC roll-out) was characterized by a host of small MFIs with little ability to scale up, and much room for growth serving unreached or underserved portions of the population. This gave the bank ample room to expand without the need to compete on price or product differentiation. Indeed, BdC at the outset of its microfinance initiative offered financial products that were indistinguishable from those of its competitors.

G. RELEVANCE OF SORB REFORM TO MICROFINANCE AND RURAL AND AGRICULTURAL FINANCE

SORBs were usually founded with a development objective and often explicitly focused on promoting a nation's agricultural sector, as agriculture has traditionally been the major employer in developing countries and the health of a nation's farming sector translated directly to opportunities for the poor to improve their circumstances. However, it was only in the 1990s, with the microfinance boom and its host of emulators, that SORBs began to move into an explicitly microfinance focus. There are several lessons that can be drawn from these case studies regarding the relevance of SORB reform to both microfinance, and rural and agricultural finance.

THE RIGHT POLICY ENVIRONMENT IS VITAL

SORBs must be allowed to be profitable. No amount of institutional reform will remedy poor performance if a state-owned bank is fettered by interest rate caps or prohibited from mobilizing deposits.

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[12] Carlos Abreu and Tillman Bruett, "Banque du Caire Egypt: A State-Owned Retail Bank Case Study," Advanced Microenterprise Acceleration Project (AMAP), microREPORT #59,February 2006.

However, while policy makers should keep SORB profitability as a central focus in policy reform, it is important not to err too far in support of state-owned banks. Overly generous government support can poison the competitive environment by allowing SORBs to lend at subsidized rates. Thus, the right policy environment supports SORB financial health while helping to prevent them from crowding out competition.

The case of Land Bank of the Philippines could also advocate that policy makers should loosen SORB mandates to allow them to diversify their portfolios and reduce their risk, though that was a relatively recent measure and it will be interesting to see to what degree Land Bank maintains its commitment to serving the agricultural sector as it proceeds to diversify its portfolio.

TAILOR PRODUCTS AND PROCEDURES TO LOCAL CIRCUMSTANCES

Successful SORB reformers capitalized on knowledge of the local (mainly rural) economy to structure products and procedures that met the needs and capitalized on the understanding of their client base. Thus, in Mongolia Khan Bank developed herder loans that enabled sheepherders to smooth consumption despite the cyclical nature of their business.

ASCI capitalized on existing tribal structures to incorporate local credit committees into their review process for microfinance loans. This loss of control by the bank was more than compensated, according to our case study, by the bank's reduced cost of credit evaluation and the resulting improved portfolio performance.

CAPITALIZE ON A SORB'S BRANCH NETWORK

In situations in which SORBs developed new strategies to go downmarket with a microfinance offering, their ability to leverage their existing, huge networks of branches and sub-branches allowed them to scale up quicker and cheaper than a newly established competitor. This allowed them to reach remote populations with more appropriate financial products and played a large role in the success stories examined above.

PROTECT SORBS FROM POLITICAL INTERFERENCE

The deleterious effect of political interference on SORB performance cannot be overstated. The case studies highlighted how financial independence provides a bulwark against political meddling by alleviating the bank's need to seek funding from government institutions staffed by rent-seeking politicians, as well as funding from international donors captivated by the latest trend in financial sector reform or poverty alleviation. Financial independence, in our case studies, was often a function of a bank's ability to mobilize deposits. Thus the ability to collect savings from their rural clients not only provides rural areas with a valuable financial service while promoting the financial health of the bank, it also promotes a bank's ability to defend itself from external influences.

> "The problem with closing SORBs was that, in many settings, private institutions were not emerging to take their place. While SORB service quality was generally low, in some cases SORBs were the only financial service providers in rural areas, and in many countries acted as the de factor payments system sites outside the main cities."
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> *–SORBS in Rural and Microfinance Markets: a Framework for Considering the Constraints and Potentials, AMAP 2005.*

EXPERT TECHNICAL ASSISTANCE IS HELPFUL

In three of our case studies, expert technical assistance provided through donor funding proved vital to successful turnaround and/or roll-out of microfinance services. Accion assisted BN's CrediAmigo program, DAI piloted (and continues to pilot) Khan Bank's remarkable turnaround, and EQI's complete microfinance package was essential to BdC's unlikely success as a microfinancier. In all cases technical assistance was funded by an interested donor who also chose which implementer would provide the assistance.

SORB LIQUIDATION CAN BE DISASTROUS

The case of Peru's BAP, although anecdotal, is indicative of the difficult situation presented by a leviathan state-sponsored lender that requires government assistance to survive but will sink a nation's rural economy of it is liquidated or otherwise allowed to collapse.

In such situations, reform is not one of many options—it is the only option.

3. DISCUSSION OF OTHER SORB-RELATED DONOR PROJECTS AND RESEARCH

Since the early 1990s much of the SORB debate in the donor community has centered on the merits of liquidating as opposed to reforming SORBs. International donors, even those who were instrumental in creating and capitalizing these institutions, became convinced of the need to either close the institutions or privatize them.[13] The World Bank and IMF, in particular, have often taken a position during structural adjustment loans of forcing the closing of deficit-ridden SORBs. In 2003 the World Bank sponsored a conference on the benefits to privatizing state-owned banks, featuring panels that explored privatization efforts by region. In general, the conference's stated purpose was to understand what factors, in addition to privatization, improved the performance of formally state-owned banks.

Other international development banks—The InterAmerican Development Bank, African Development Bank and Asian Development Bank—have generally supported the restructuring and recapitalization of these institutions.

In 2000 Dr. Hans Dieter Seibel, technical advisor for rural finance at the International Fund for Agricultural Development (IFAD), published an article discussing the merits of closing or reforming poorly-performing SORBs.[14] In 2006, Dr. Seibel again addressed the issue in an article entitled "Agricultural Banks: Ignore them, close them or reform them?"[15] Seibel's latter paper gives a good review of the evolution of donor attitudes to SORBs, before evaluating the implications of the three options he mentions in the title.

More recently, Carolina Trivelli and Hildigardi Venero will soon publish a book on state-owned development finance institutions in Latin America, drawing on seven institutional case studies. As Trivelli and Venero point out, love them or hate them, SORBs exist and they are here to stay. CGAP recently carried out a desk study of 26 SORBs that will be released soon.

There has never been a comprehensive or consistent framework for studying the institutions. Different authors have concentrated on different issues, and there has been no systematic testing of the different hypotheses to see if they produce consistent results. Moreover, as the CGAP researchers noted, it is very difficult to gather performance data of SORBs, there are issues of data quality and consistency that make comparisons difficult, and there are no common standards for preparing and reporting financial information formats. They note that it is especially difficult to obtain data about institutions that have not been supported by donors, institutions that are not supervised, and poorly performing institutions. The soon-to-be-completed review of State Owned Rural Finance Institutions (SORFIs) by CGAP and the in-

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[13] Young and Vogel, "Relevance of State-Owned Retail Banks for Development Finance," Accelerated Microenterprise Advancement Project (AMAP), microNOTE #13, March 2006.

[14] Seibel, 2000.

[15] Hans Dieter Sieble, "Agricultural Development Banks: Ignore them, close them or reform them?" in *Agricultural and Rural Development*, Volume 13, Number 1, 2006.

progress review of development financial institutions by Trivelli and Venero may shed new light on the factors that contribute to successful SORBs, and generate a better ability to compare institutions using consistent measures and approaches.

4. FUTURE DIRECTIONS AND CONCLUSION

SORB research under AMAP FSKG was motivated primarily by the relevance of state-owned banks to rural and agricultural development, as well as the increasing prevalence of SORBs (like Banco do Nordeste) or former SORBs (such as Khan Bank) in microfinance. USAID's experience promoting SORB reform offers valuable opportunities to gather lessons that practitioners have learned in the process of transitioning these institutions to more efficiently serve their target communities. In particular, case studies under this topic focused on the effects of SORB reform on the availability of microfinance and rural and agricultural finance.

FSKG research started with a broad framework for categorizing SORB reform: outright closure, continued government involvement, creation of a new SORB, and privatization. Within each of these categories one can find scores of examples, indicating that there is much left to research in this field. Researchers composed case studies looking at examples of closure, continued government involvement and privatization. Some of the significant lessons learned that came out of those case studies were:

- The importance of the policy environment to successful SORB reform,
- The need to tailor new products and procedures to local realities,
- The benefit of capitalizing on existing branch and sub-branch networks,
- The need to protect SORBs from political interference,
- The constructive potential of outside technical assistance, and
- The tremendous risk involved in liquidating SORBs.

Several questions remain. Because researchers examined BAP's case, in which the institution's closure left a gap the private sector failed to fill, one might ask if there are cases in which SORBs were successfully closed without harming target client's access to financial services? What were the policies that surrounded successful reform—i.e., how did policy makers avoid the collapse of service provision to remote clients?

Another avenue for future research is of SORBs as second tier financiers of MFIs. There are examples of SORBs acting as providers of wholesale finance, particularly in Latin America, to retail providers. Is wholesale finance, in a deregulated era, a better means for governments to ensure access to finance for underserved populations?

Also, how are SORBs with mandates to provide agricultural finance dealing with the global food crisis and the increase in prices for agricultural commodities? Are they taking advantage of higher farm incomes with new products? Are they expanding consumer lending to help rural residents' smooth consumption? Are there unforeseen complications for SORBs associated with dramatic increases in agricultural commodities?

Further, when FSKG researchers began examining SORBs the expectation was of a continued trend of privatization. Against those expectations, the agenda for privatizing SORBs has stalled. National governments have not only stopped privatizing, for the most part, but have begun developing new state-run financial institutions, especially in countries such as Venezuela with an anti-Western bent to their political agendas. In such situations state-run banks are seen as guarantors of regional political independence. The structure, capitalization and mandates of these banks are worthy directions of inquiry.

While FSKG research into SORBs has shed much light on these institutions, it is clear that much remains to be learned. One can hope that new research soon to be published by CGAP, and Trivelli and Venero, will provide more insight into successful SORB reform and policies to optimize their development impact. Either way, the hundreds of state-owned banks operating in developing countries around the world will continue their work, for better or for worse, as some of the principle tools by which governments promote development among disadvantaged populations.

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