

Financial Inclusion in Emerging Markets: challenges and opportunities

2011 IIF Spring Membership Meeting

Carlos Gustavo Cano

Codirector Banco de la República (Central Bank of Colombia)

New Delhi, March 2-4, 2011



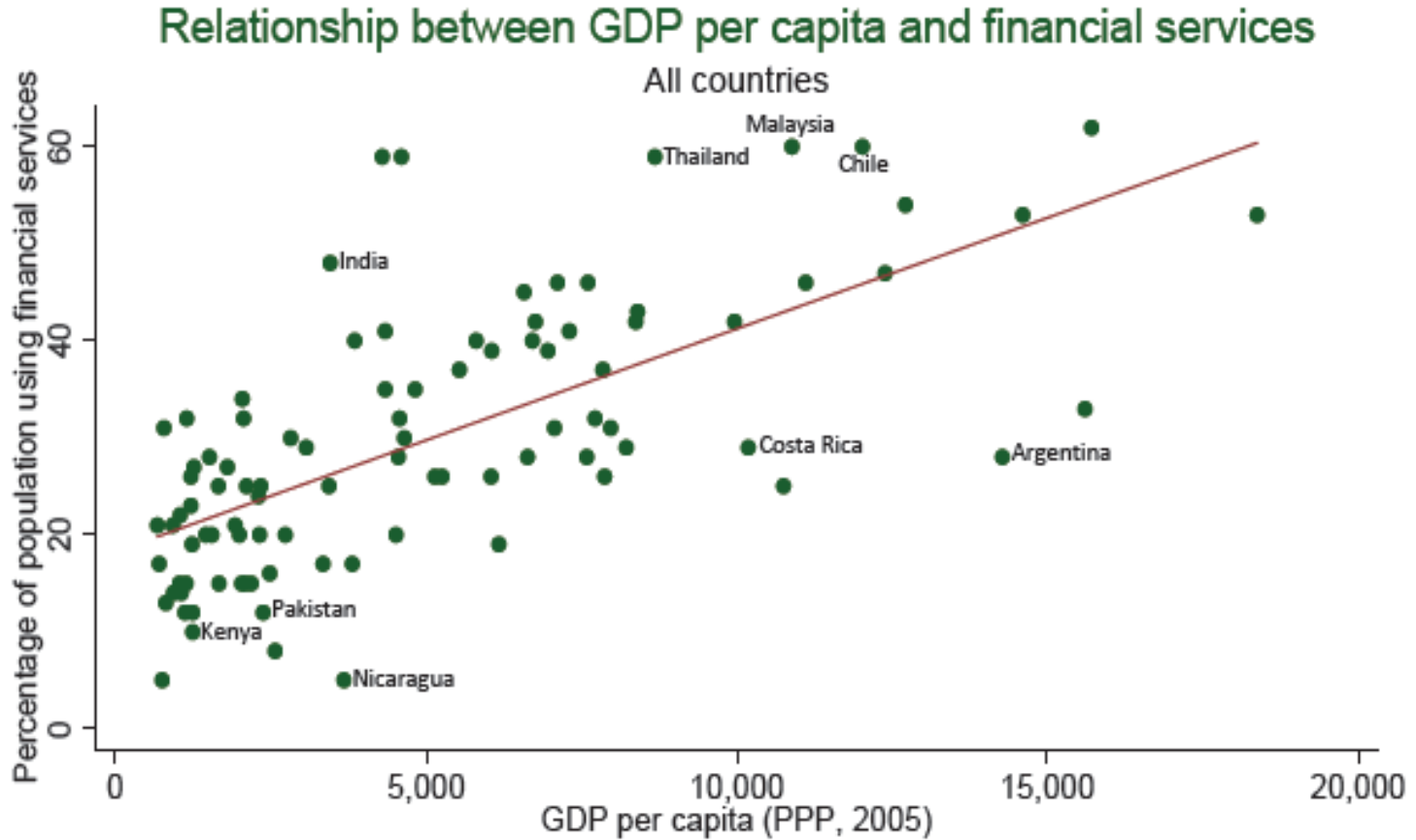
The Key Issues

- Besides the lack of access to good quality education, the lack of Effective Access to Financial Services (EAFS) represents one of the main driving forces of economic inequality in emerging markets
- EAFS should be considered and treated as a fundamental Human Right in the contemporary age
- EAFS should constitute the core business of the banking sector in the process of building Shared Value, as a prerequisite for its social competitiveness, a new concept developed by Professor Michael Porter



Figure 5: There is a moderate to strong relationship between GDP per capita and usage of financial services

Correlation between levels of financial inclusion and GDP per capita for Arab states, Africa, Asia and Latin America (for countries with complete data)



The red line indicates the linear prediction.

SOURCE: Honohan, 2008; Human Development Index; World Bank

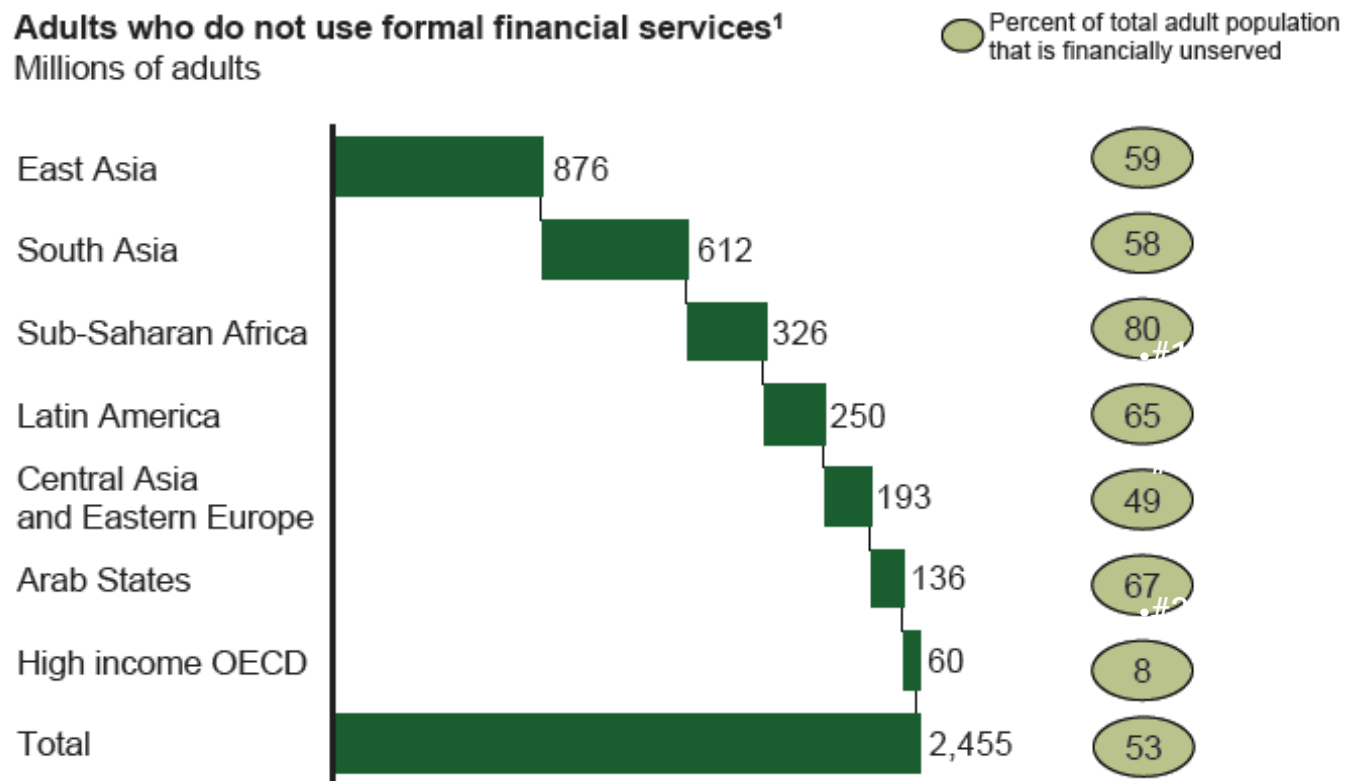


•Fuente: *Financial Access Initiative, "Half of the world is unbanked"*, October 2009.

The situation in Emerging Markets

In Latin America 65% of de adult population (250 million people) do not use formal financial services

Figure 2: Nearly all of the world's financially unserved adults live in Africa, Asia and Latin America

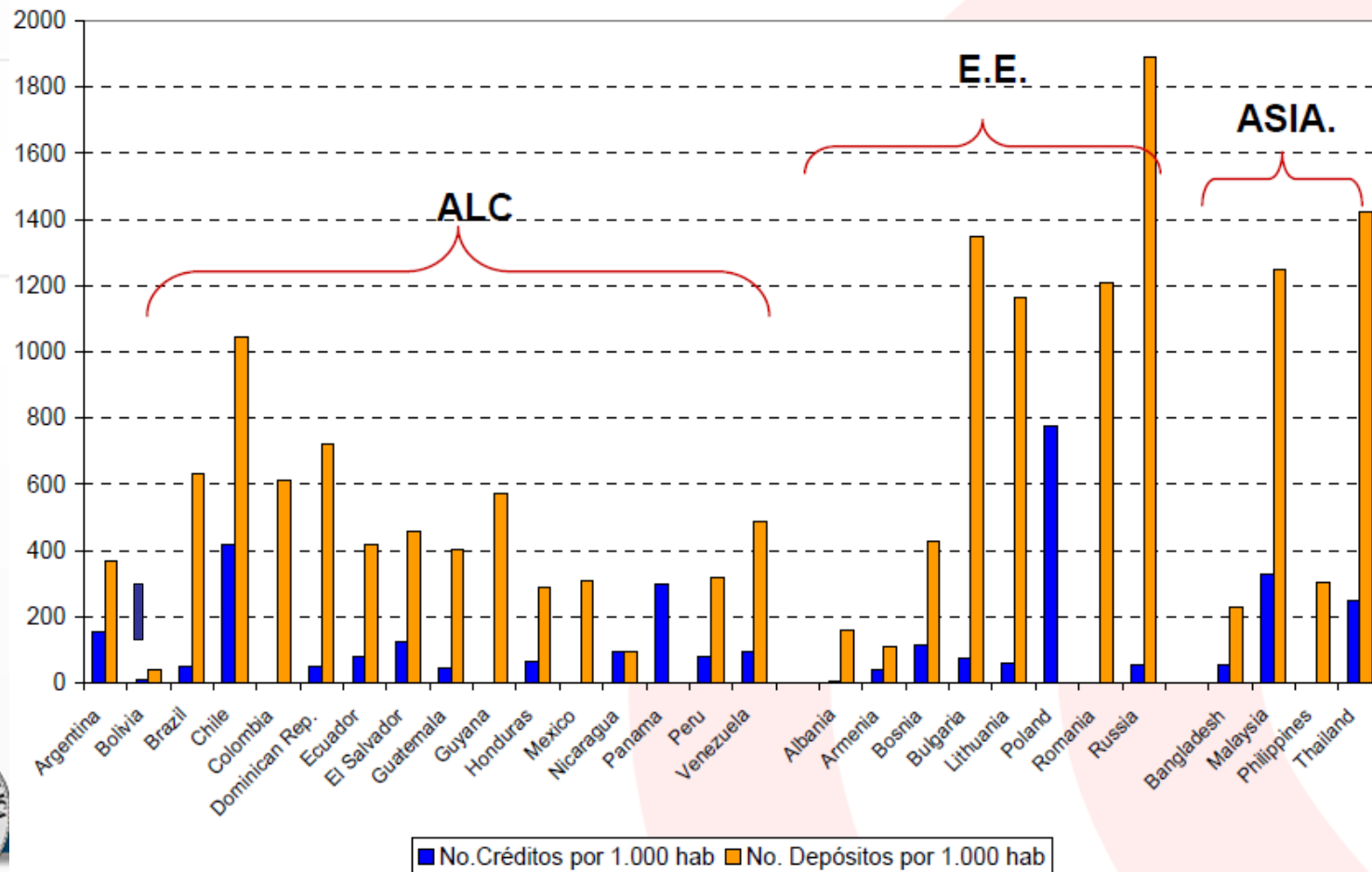


¹ Regional groupings based on UN Human Development Index

SOURCE: Honohan, 2008: Human Development Index: World Bank



The gap between the number of borrowers (blue bars) and depositors (yellow bars) in some emerging markets



Factors that limit access to savings

From Supply Side

- ✓ High fixed costs to expand outreach
- ✓ High management costs and cash transportation
- ✓ High operative costs for small amounts captured
- ✓ Regulatory requirements increase the cost of products
- ✓ Lack of knowledge about micro savings “technologies”

From Demand Side

- ✓ High commissions for account management and transactions
- ✓ Taxes on Financial Movements that make expensive cash use
- ✓ Difficult and long processes to open accounts
- ✓ Absence of products that suit their needs
- ✓ Self-exclusion



Factors that limit access to credit

From the Supply Side

Costs

- ✓ High costs of personalized attention and monitoring
- ✓ Information for risk evaluation
- ✓ Lack of knowledge about Microcredit technologies

Risks

- ✓ High risk perception for credit to micro and small businesses
- ✓ Difficulty to obtain adequate information to estimate repayment capacity
- ✓ Difficulty to validate guarantees

From the Demand Side

- ✓ Difficulties to meet documentation and guarantees requirements
- ✓ Micro, Small and Medium sized enterprises are sensitive to interest rates. Micro entrepreneurs and households value more easiness to access than cost
- ✓ Self-exclusion



Types of Incentives – Support to Microfinance Network

Subsidy to Cost	Give a fixed amount of resources to an intermediary, for an activity or product when these are not profitable Requires homogeneity and standardization <ul style="list-style-type: none">• Solid and regulated institutions, with institutional, financial and operative capacity• Transitory and decreasing
Project Coo finance	Partial finance of pilot projects that are nor profitable or whose profitability has not been demonstrated
Technical Assistance	“In species” input by hiring an adviser or institution with broad international or local experience in microfinance technologies, institutional strengthening of cooperatives and NGOs



Environment and Regulation to promote access to financial services

Propitiate Reforms to the Regulatory Framework

- Activities that allow the mass expansion of micro insurances..
- Review the regulatory framework for interest rates.
- Support reforms to the guarantee regime
- Promote necessary reforms for the implementation of mobile banking as a mechanism to facilitate bancarization
- Promote reforms to facilitate the creation and consolidation of Risk Capital Fund and Seed Capital Funds



Support Microfinance Network

Expand geographic outreach of the Network

- Convocation for Non-Bank Agents (NBA) in municipalities without bank presence
- Expand outreach of NBA in marginal areas of big cities
- Expand outreach of NGO
- Expand outreach of Cooperatives

Increase access of low income families

- Technical Assistance on Village Banking
- Technical Assistance for Self- Help Groups
- Pilot project for incentives for savings
- Pilot project of Micro insurances



Support to Supply and Demand of Financial Services

Financial Education

- a. Promote new schemes of use of the financial education methodology of Microfinance Opportunities (MO)
- b. Promote the utilization of the MO methodology among the institutions that received the first training
- c. Learn about new schemes of financial education schemes for the objective population

New Product Design

- Promote studies that help to design new products and services in the country
- Technical Support and Services
- Identify the needs in the supply of financial services and design technical assistance schemes to attend them



- Development of new and low cost distribution channels
 - ✓ Non Bank Agents
 - ✓ M-banking *

- Development of special products for lowest income population
 - ✓ Microsavings *
 - ✓ Microinsurance *

- Rapprochement b/w supply and demand of financial services
 - ✓ Financial Education *
 - ✓ Promotion of Savings Culture



An essential new product to face the climate change risks for the poor

Microinsurance: Promote the development and use of adequate instruments to mitigate the adverse effect of economic shocks, natural disasters and emergencies, for the lowest income population.

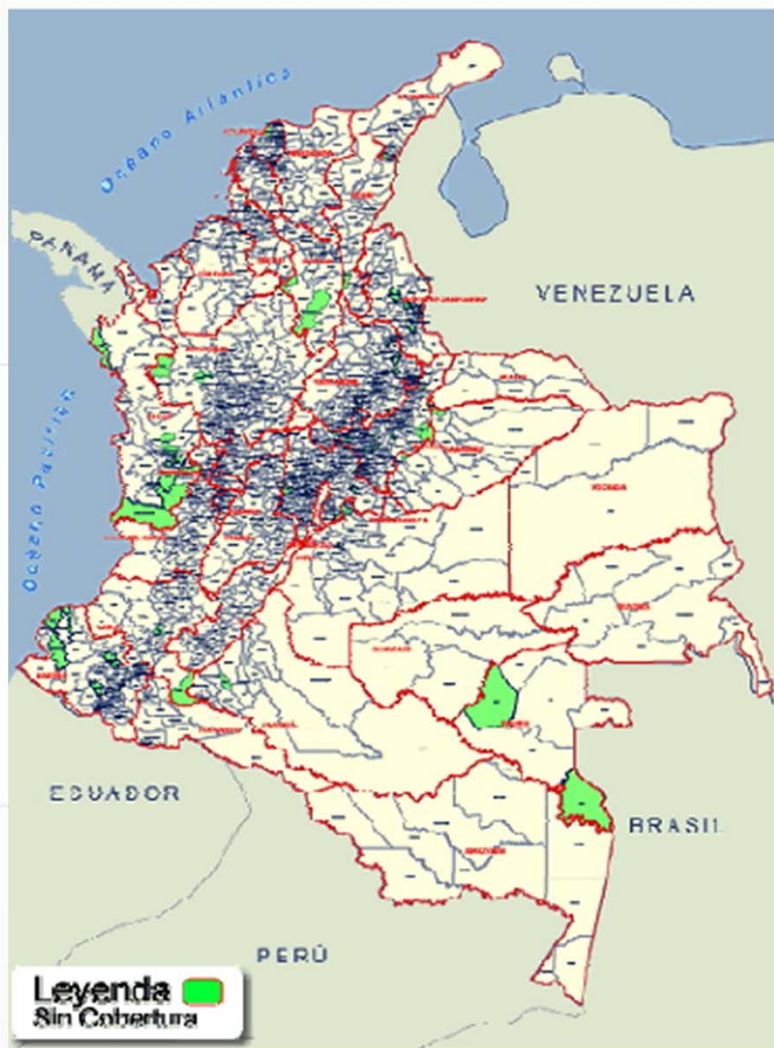


Micro savings: promotion of saving culture

- Financial Inclusion: Savings account as gateway to have access to other services of the formal sector
- Transformation of informal savings to formal ones
- Increase savings and promotes assets accumulation
- Facilitate financial transactions through efficient and secure means.



Brief Factsheet about Colombia



Concept	Number
Total Population	45 M
GDP per Capita (PPP)	US \$ 9.000
Gini Coefficient	5.9
Population under poverty line	46% (20.7M)
Population under extreme poverty line	17.8% (8M)
Population under Poverty Line including Gov. Subsidies	31%

Banked population:

July 2006: 47%
 June 2010: 60%
 Sept. 2010: 63%

Municipalities without bank presence

August 2006: 309
 Sept. 2010: 4



Network and first steps

Non Bank Agent (Agent Banking): Low cost distribution channel, for financial institutions to offer their services through commercial establishments which allows to extend outreach and to facilitate clients to do their transactions closer to home

- Development of regulatory framework, required for its implementation in Colombia
- Authorization to open savings accounts at NBA
- Incentive (Subsidy) for financial institutions to open NBA in municipalities that didn't have financial presence: 187 CNB
- Incentive (Co-finance) to banks, to open NBA in marginal neighbourhoods



Some examples of Non Bank Agents



BANCARIZATION RATE OF COLOMBIAN POPULATION OLDER THAN 18

July, 2006: 47.06 %

December, 2006 51.10%

March, 2007 51.98%

June, 2007 54.04%

December, 2007 55.21%

March, 2008 55.52%

June, 2008: 55.49%

Sept, 2010 63.00%



BANCARIZATION RATE OF COLOMBIAN POPULATION

July, 2006:	30.17 %
October, 2007	30.96%
March, 2007	33.56%
June, 2007	35.06%
September, 2007	36.57%
December, 2007:	37.81%
March, 2008:	38.02%
June, 2008:	38,37%
June, 2010	40.00%



*

Why is there state intervention in the financial market?

- ✓ Market failures
- ✓ When social profit > private profit
- ✓ When private profit is uncertain

Principles to take into account

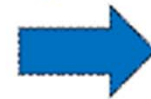
- ✓ DON'T intervene to try to make profitable a project that isn't !!
- ✓ Intervention should be sustainable to assure long term impact
- ✓ It shouldn't distortion the market!



Financial Education: strategic key

Financial Education: To improve capacity of lowest income population to manage their personal finances, providing complete information about the benefits and principles of using financial services such as savings, credit, microinsurance and also basic concepts such as budget and financial planning

- Project with Central Bank (Banco de la República) to include financial education on school pensums
- Design of strategies for massive outreach (radio, TV cell phone) to reach more people at low costs.



THANK YOU!

