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Promoting Financial Inclusion: Branchless Banking in Colombia

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Promoting Financial Inclusion: Branchless Banking In Colombia

Recent Experience and Lessons Learned

By Paul Davis

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The Challenge: Promoting Financial Outreach in a Fragile, Conflict-Ridden Institutional Setting



- Half-century old civil conflict
- “City-State”-oriented economic development process
- Virtual isolation of vast areas of rural territory from state presence and from formal economy



The Challenge: Promoting Financial Outreach in a Fragile, Conflict-Ridden Institutional Setting



- Limited sense of “social contract” between the state and citizenry across much of country
- Low financial intermediation rates
- Limited presence of formal financial system throughout much of the country (approx. 30% of municipalities lacked formal banking system presence in 2006)

Implementation Context: Traditional Alternative Development Paradigm



- Top priority: replace coca with licit crops (crop-substitution)
- Core intervention target: individual farm unit or group of farms within a community
- Core Intervention Goal: Immediate introduction of licit income-generation options in targeted areas

Implementation Context: Traditional Alternative Development Paradigm



- Provide targeted technical and financial support programs to encourage crop substitution activities
- Provide emergency-support to promote livelihood enhancement for displaced population
- De-facto separation of alternative development implementation strategy from GOC sustainable development/poverty reduction strategy



Implications for Donor/Government Financial Outreach Strategies?

Traditional Financial Sector Intervention Approach



- Core focus on getting financial support out to targeted groups; independent of sustainability implications
- Ongoing reliance on state-backed directed credit/guarantee programs at subsidized rates
- Lack of focus on major regulatory regime distortions (e.g interest rate ceilings), which create major disincentives for market-based provision of services
- High non-repayment rates and limited sustainability for government and donor-backed lending programs

New Intervention Approach: Sustainable Alternative Development



- Take stock of lessons learned from traditional crop—substitution based alternative development programs; and “emergency” financial sector support programs
- Focus on the sub-regional polity and economy as the intervention locus, rather than on converting a particular volume of “hectareage” at the local level
- Re-build the sense of social contract between citizenry and state

New Intervention Approach: Sustainable Alternative Development



- Re-build state presence in isolated areas
- Forge sustainable trade/finance linkages between the formal economy and the traditionally isolated conflict-prone areas of Colombia
- Create an institutional “Comfort Zone” linking disenfranchised citizens to public services and to licit economic activity

Financial Sector Intervention Approach



- Forge sustainable linkages between formal/semi-formal financial system and isolated/under-served areas
- Focus on key regulatory reforms required to jumpstart intermediation activities
- Disseminate best practice standards in client identification and financial service outreach policies/practices

Financial Sector Intervention Approach



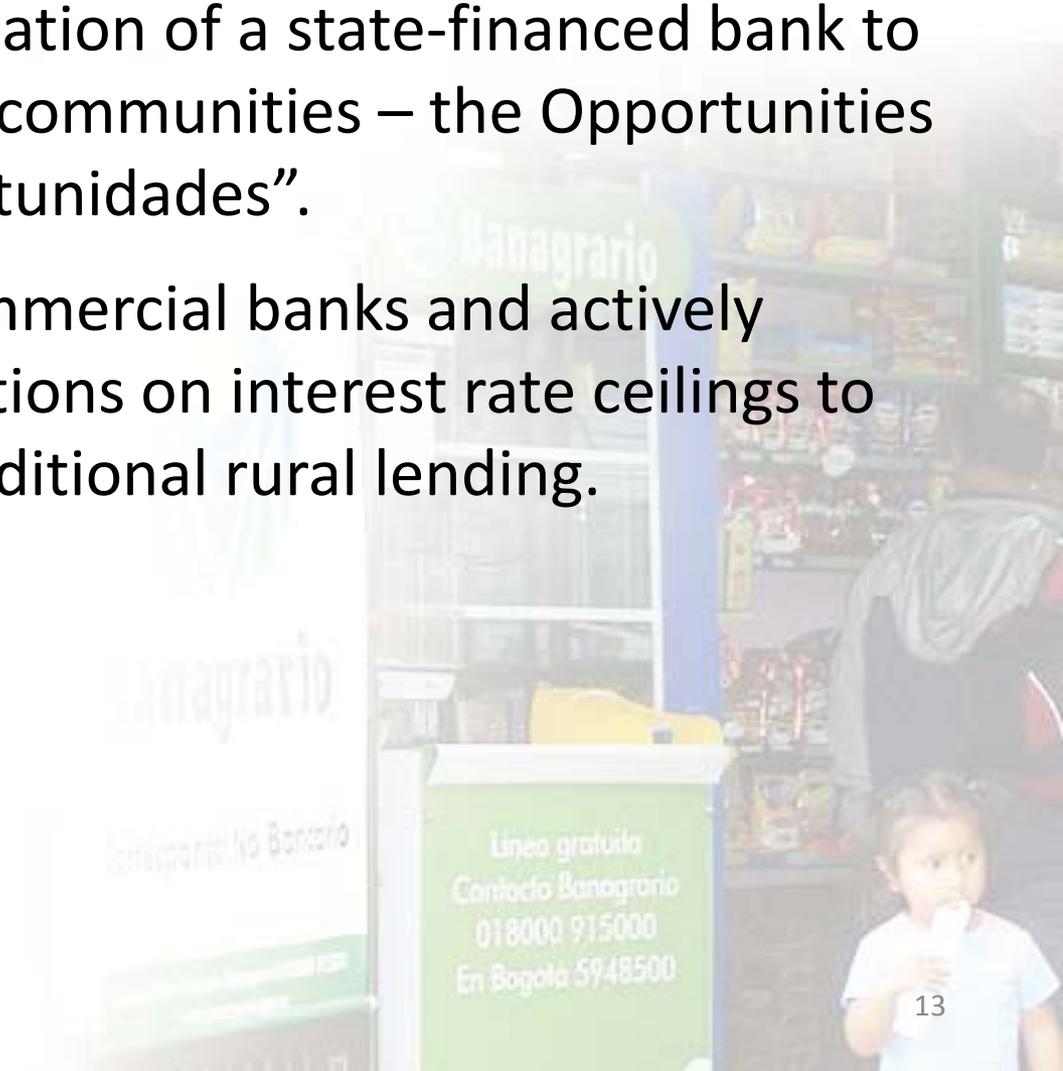
- Implement innovative institutional approaches to address information imperfection/operational cost constraints
- Change mindset of public sector and industry participants from a public sector-guided/ financed approach to a private sector-led/risk management-based approach



Branchless Banking – Creating the Target of Opportunity



- GOC was focused on creation of a state-financed bank to get funding out to rural communities – the Opportunities Bank or ‘Banco de Oportunidades’.
- GOC was jawboning commercial banks and actively weighing further restrictions on interest rate ceilings to further “incentivate” additional rural lending.



Branchless Banking – Creating the Target of Opportunity



- USAID initiated a two-pronged dialogue to shift the focus of these discussions in a more systemic direction:
 - With commercial banks on branchless banking strategy/opportunities (including study tours to examine Brazilian branchless banking experience)
 - With government authorities on how the public sector could most effectively support sustainable financial service expansion; and how financial inclusion goals could be promoted in a prudentially sound manner.

The background of the slide is a faded image of a bank branch. A young child in a light blue shirt is in the foreground, looking towards the camera. In the background, there are shelves stocked with various products, likely in a kiosk or small branch. A green sign is visible with text in Spanish.

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Branchless Banking – Creating the Target of Opportunity



- Key public sector roles:
 - Promulgate critical regulatory reforms which promote sustainable financial service access in isolated areas
 - Avoid establishment of additional public sector financial service providers which disincentivate expansion of commercial service networks
 - Support cost effective dissemination of financial inclusion-related best practice strategies/standards

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Branchless Banking Support Strategy/Program



- Core public sector role shifts from financial service provider to sustainable financial service access “facilitator”
- “Banco de Oportunidades” becomes “Banca de Oportunidades” – a financial access facilitation body promoting market-based expansion of financial services to the under-served
- Banca de Oportunidades provides best practice guidance and temporary operational subsidies to financial institutions prepared to expand financial access, including through branchless banking services

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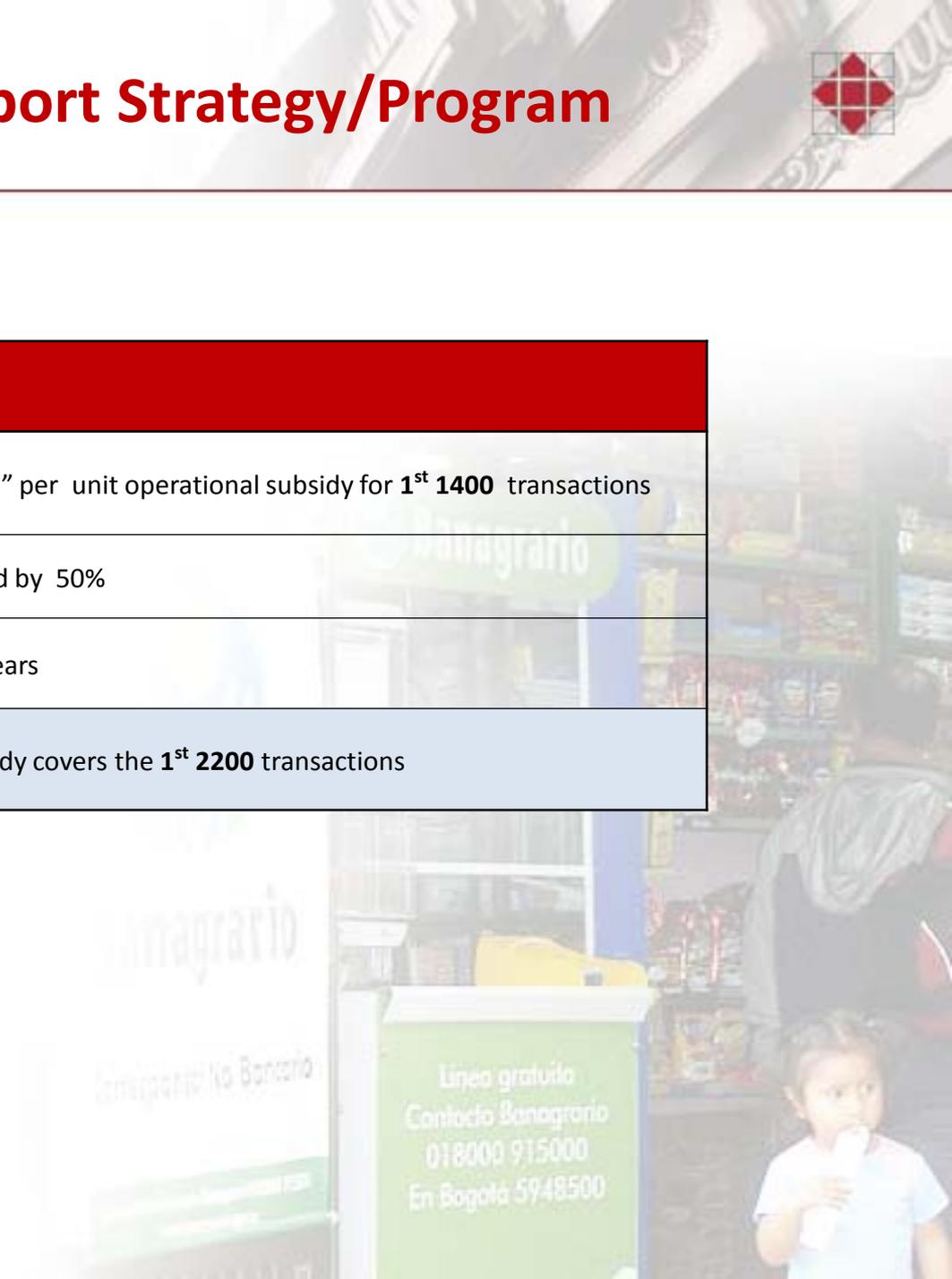
Branchless Banking Support Strategy/Program



Operational Subsidy Scheme

Year 1	BdeO provides “Guaranteed” per unit operational subsidy for 1st 1400 transactions
Year 2	Operational subsidy reduced by 50%
Year 3	Operational subsidy disappears

For the most isolated municipalities, the subsidy covers the **1st 2200** transactions



Branchless Banking Support Strategy/Program



- GOC promulgates key legal/regulatory reforms which promote expanded financial service access:
 - Establishment of core regulatory framework for “agency-based” provision of financial services
 - Know-Thy-Banker reforms
 - Interest rate ceiling reforms
 - Streamlining administrative requirements for establishing “small-holder” accounts

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Branchless Banking Support Strategy/Program



- Provides advisory and outreach support to BDO to promote understanding of/commitment to program on the part of commercial banks
- Works with GOC and Financial Superintendency to promote understanding of/build support for key regulatory reforms required to promote branchless banking and expand service access
- Works with partner financial institutions to promote effective provision of branchless banking services

Building the Branchless Banking Outreach Network



- Development/dissemination of branchless banking manuals with guidelines for partner selection and for technological/ operational/financial performance
- Work with partner financial institutions to promote effective technical/training outreach to branchless banking service providers
- Provide outreach support to build prudential oversight awareness/compliance capacity

Branchless Banking Results (2006-2010)



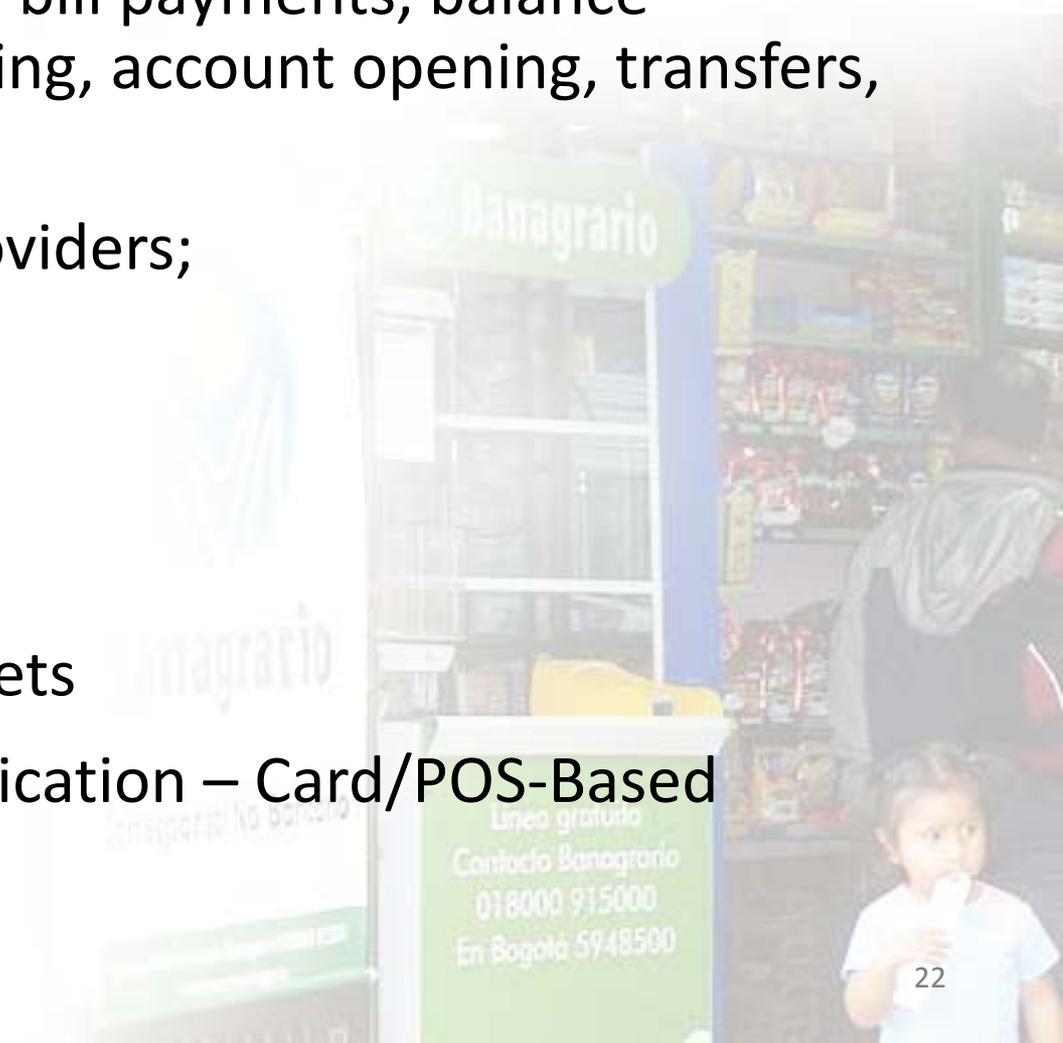
	2006	2010
Number of CNB's	0	9600
Number of Banks with CNB's	0	11
Number of municipalities with financial presence	793	1,096
% of covered municipalities	72%	99.70%
Volume of monthly branchless banking transactions	-	~ \$250 M
Number of monthly transactions	-	~ 1.5M
Average size of transaction	-	~ \$160
Coverage density	1 access point per 9,200 persons	1 access point per 4,000 persons
Number of savings accounts opened	-	~ 38,200
Number of loans requested	-	~ 33,200



Branchless Banking Results (2006-2010)



- Nature of transactions – bill payments, balance verification, deposit-taking, account opening, transfers, loan applications...
- Main agency service providers;
 - Pharmacies
 - Food stores
 - Retail shops
 - Telecom service outlets
- Main technological application – Card/POS-Based



Broader Financial Inclusion Program Results



- Financial Inclusion Strategy/Institutional Strengthening programs implemented with 27 Banks/NBFI's
- Approx. \$870 million in micro-loans generated
- Aprox. 440,000 micro-entrepreneurs received lending resources for the 1st time
- The number of municipalities in which micro-credit services are offered increased from 240 to 600 (i.e from 22% to 55%)



Key Lessons Learned?



Lessons Learned



- Promoting *sustainable* expansion of financial service access requires:
 - Buy-In from key governmental/regulatory authorities
 - Regulatory framework reforms which incentivate market-based service provision while maintaining sound risk management standards
 - Galvanizing commercial awareness of the opportunities for profitably expanding services to isolated semi-rural/rural areas (“de-mystifying” branchless banking)
 - Integrating branchless banking into the overall client outreach and market development goals of commercial financial institutions

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Future Directions



- Build on confidence gained in the functionality/impact of branchless banking approaches by governmental/regulatory authorities and service providers.
- Focus on technological adaptations which can further lower the operational costs of expanding financial service networks (e.g M-banking applications).
- Further expand commercial bank institutional capacity to expand a full range of services (i.e lending services) through branchless banking networks.
- Encourage proactive inclusion of MFI's in branchless banking outreach strategy

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