

TECHNICAL COOPERATION PLAN OF OPERATIONS

I. BASIC PROJECT DATA

Country: Colombia
Name: **Promotion of Financial Access through Mobile Devices**
Number: CO-T1067
Team: Manuel Pacheco (Team Leader, ICF/CMF); Luis Giorgio (ICF/CMF), Christine Ternent (ICF/CMF); Gloria Lugo (ICF/CMF); Juan Carlos Perez-Segnini (LEG/SGO).
Date of Request: June 2007
Beneficiary: Government of Colombia
Executing Agency: Bancóldex–Banca de las Oportunidades
Basic and Technical Responsibility: Capital Markets and Financial Institutions Division
Name of the Fund: Knowledge Partnership Korean Fund for Technology and Innovation (KPKF)
Financing: KPKF US\$ 99,650
Counterpart US\$ 25,500
Total US\$ 125,150
Execution and Disbursement Dates: 12 months for execution and 18 months for disbursement
Tentative Dates: Loan Committee/EVP: August, 2007
DIR/PRE: August, 2007

II. BACKGROUND AND JUSTIFICATION

A. Mobile Technologies and Financial Access to the Poor

- 2.1. One of the latest innovations in mobile telecommunications is the provision of financial services to the poor and to those who live in remote areas. In developing countries, particularly in rural areas, access to financial services is limited, resulting in a large percentage of the population operating on a cash basis only, outside the formal banking system. The rapid growth of mobile devices has created a unique opportunity to provide financial services over the mobile network. This new application of technology has been called m-banking or m-commerce.
- 2.2. In the countries where it has been introduced so far, m-banking technology has had a positive impact on the poorer segments of the population because: (a) the use of mobile banking substantially reduces the cost of banking transactions by reducing the need for physical movements and carrying cash making financial services, including accessible transactions, banking services and receipt of remittances available even to people living in remote areas. (b) it supports income generating activities (such as micro enterprises) or asset creation (such as housing); (c) it offers a safer alternative to handling cash in high crime areas.

- 2.3. The case for donors to support m-banking is based on the link between access to financial services and reduction of vulnerability and creation of opportunity for poor households. Although m-banking is part of the e-banking, there are reasons to focus on the m-banking channel—particularly because mobile phone penetration has reached critical mass in many countries that also show large segments of the population with no access to financial services. ‘Transformational’ models (those that target unbanked segments of the population) in m-banking have considerable potential for broadening access to financial services. The sector as a whole has three main areas of need¹:

- a. More successful transformational models which have reached financial sustainability, to create a suitable demonstration effect.
- b. Systematic information collection and knowledge dissemination to guide potential entrants and policy makers by filling in the identified gaps.
- c. An enabling policy and regulatory environment which has sufficient openness and certainty to allow new models to startup and grow.

B. The Colombian Context for m-banking Development

- 2.4. Colombia has several characteristics that enable the implementation of m-banking: (a) the existence of a substantial degree of cell phone penetration²; (b) a sophisticated banking network with experience in micro-financing³; (c) some regions in Colombia face an ongoing conflict and have high crime rates, making the use of cash risky; (d) a large informal sector that has no formal access to financial services⁴; (e) limited access to financial services to the poor; (f) substantial remittances, both from outside the country and between urban and rural areas⁵; and (g) a government policy aimed at promoting financial access to the poor.

C. The Banca de las Oportunidades Initiative

- 2.5. In Colombia the access to financial services is limited in terms of both volume and coverage. The ratio of private domestic credit to GDP is around 23%, below the level of countries such as Brazil, Bolivia and Chile. Moreover there are several urban and rural zones of the country with little access to financial entities. According to figures up to September 2005, nearly 30% of the municipalities in Colombia did not have access to a bank branch and private banks are present only in 25% of the municipalities of the country. The Colombian Bankers Association (ASOBANCARIA) estimates that only 29.2% of the adult population has access to some type of financial service.
- 2.6. In this context, in order to promote the access to financial services in Colombia, the Government of Colombia (GoC) has developed the *Política Banca de las Oportunidades*. The goal of this policy is to create the necessary conditions for facilitating access to the formal financial system (credit and other financial services) to segments of the population that have been traditionally excluded from it. The target population of this policy is

¹ Porteous, David with Neville Wishart. 2006. m-Banking: A Knowledge Map. Washington, DC: infoDev /World Bank. Available at: <http://www.infodev.org/en/Publication.169.html>

² The ministry of Communications of Colombia estimated mobile phone penetration at 70% by December 2006.

³ Mixmarket lists fifteen NGOs providing micro-credit in 2006 in Colombia. Additionally 13 out of the 17 active Banks in Colombia (76%) have a portfolio of micro-credit according to the Colombian Bankers Association.

⁴ Depending on the source, the levels of informality are estimated between 30% and 60%.

⁵ It is estimated that only foreign remittances reached US\$4.2 billion (3.1% of GDP) in 2006.

composed of low-income individuals and families, micro and small businesses and recently graduated young professionals. This policy is being executed through the *Programa de Inversión de Banca de las Oportunidades* (Decree 2078 of September 2006), administered by Bancóldex under the mandate of the Ministerio de Hacienda y Crédito Público. The functions of the *Programa de Inversión Banca de las Oportunidades* are: i) to supervise the achievement of the goals of the *Banca de las Oportunidades* policy, ii) to design and propose reforms to the regulatory framework in areas/aspects that limit the access to financial services; iii) to design demand and supply incentives to promote access to financial services; iv) to develop methodologies to allocate incentives (such as technical assistance, institutional strengthening and subsidies to cover fixed costs); among others. Under this framework, the GoC has already implemented various activities aimed at strengthening the general environment and the regulatory framework to facilitate and promote access to financial services and microfinance. The Bank has been supporting those activities through the program Competitiveness Enhancement Program II (CO-L1027) and other non-financial instruments⁶.

B. The Technological Trend

- 2.7. A mobile network offers a high technology platform into which other services can be provided at very low cost to deliver effective results. The countries that have the most recent experiences, such as South Africa, Korea, the Philippines and Kenya have used a wide range of technologies and interfaces for the provision of m-banking. In general, most users have to have a Bank account, which can be opened and operated through cellular phones. Banking transactions such as money transfer, receipt of remittances and payments of goods and services are thus carried out through the cellular phone.

C. Bank's Support

- 2.8. Since there is limited experience on m-banking in Latin America and the Caribbean, the project will be a pilot, with the potential to be replicated in other countries in the region that have similar legal, regulatory and institutional conditions. In all countries in the Region, the poorer segments of the population could have access to a wider range of financial services, through the use of this technology.
- 2.9. Additionally, this Technical Cooperation fits into a Bank' strategy to support the improvement of the access to financial services in Colombia through financial and non-financial products. In particular the Competitiveness Enhancement Program (CO-L1027) has policy reforms aimed at deepening of the financial markets and easing the access to credit to productive units. Finally, this technical assistance is consistent with the Bank's new science and technology action plan in the sense that it shows a clear example of application of

⁶ For example, key policy and regulatory changes for the design and implementation of the Banca de las Oportunidades policy are included in the policy matrix of the Competitiveness Enhancement Program II (CO-L1027) under the "Access to Financial Services for the Majority" component. The Bank has also provided technical assistance in the form of resources and expert advice for the definition of the strategic plan of the *Programa de Inversión Banca de las Oportunidades* and in the organization of thematic workshops of best practices for improving access to financial services.

technology in addressing critical socio-economic development challenges facing developing countries.

III. OBJECTIVES AND PROJECT DESCRIPTION

A. Objectives and Description

- 3.1 The general objective of the technical cooperation is to support the GoC to set an enabling environment for the provision of m-banking services with the objective of increasing access to financial and banking services for the poor.
- 3.2 **Component 1: Diagnostics of Legal, Regulatory and Institutional Framework and Identification of best practices.** (US\$30,000) This component will hire an international consultant to carry out a diagnostic on the current situation regarding the enabling environment required for the provision of m-banking. The consultant will work closely with the working group to be formed and led by Bancóldex (see ¶5.2).
- 3.3 The objective of this diagnostic is to identify what measures are needed to ensure that m-banking services are introduced in Colombia and become widely available to the poorer sections of the community. The diagnostic should include a review of the following issues: (a) the current legal and regulatory framework (including recent reforms and their implications on m-banking and identification of required laws and regulations in the matter); (b) the institutional framework including the roles and responsibilities of key policy and regulatory stakeholders such as the Ministry of Communications, (MINCO), the Financial Superintendence, the Ministry of Finance (MOF) and the Central Bank (*Banco de la República*), and Bancóldex; (c) identification of legal, regulatory and institutional as well as technological bottlenecks that may hamper the provision of the service (including the required legislation, technology and supervision to ensure the safety of the transactions); (d) special attention should be given to issues regarding *know your customer* requirements, money laundering regulations and their impact on the possible expansion of m-banking in Colombia; (e) preliminary analysis of the potential demand, in terms of the size, profile (income, region, age etc.) and limiting factors to access to financial services (including cultural factors and other potential factors that can shed some lights on the nature and speed of adoption of m-banking services); (f) definition of baseline indicators to assess the impact of the TC and the progress in the sector; (g) identification of current banking, financial services, telecommunication providers and market players that could play a role in the implementation and their constraints. The later will include an assessment of the current technologies used by the Banks and the need to incorporate new technology. In addition, a mapping of investment and training needs, as well as the readiness of the Banks to make the new investment will be carried out.
- 3.4 **Component 2: Drafting of an Action Plan.** (US\$18,000) This component will provide resources to hire a consultant to draft a time bound action plan, which will define the activities necessary for the implementation of the use of m-banking in Colombia and the creation of an enabling environment. The action plan should include a dissemination plan and the execution of a workshop and conference on the principal issues regarding m-banking. The action plan should include: (a) Detailed legal and regulatory reforms required; which

should be discussed with MOF, MINCO and the Financial Superintendence; (b) actions required to foster the participation of key players (cellular phone companies, banks, providers of technology and users; (c) actions to overcome the main bottlenecks identified; and (d) workshop to show lessons learned from other international experiences such as South Africa, the Philippines and Korea, and their applicability in Colombia and current technological trends and best practices in m-banking in other countries in the world. The consultant will work closely with the working group to be formed and led by Bancóldex (see ¶5.2).

- 3.5 The Action Plan will address issues and questions that have emerged from the lessons learned from the introduction of m-banking services in other countries. The issues and elements to be reviewed during the process of designing the Action Plan will include: (1) How to ensure that the sign up process is simple and transparent; (2) ensuring that text messaging linked to the users' accounts to acknowledge transactions is functioning effectively; (3) establishing cash deposit and withdrawal centers, which in other countries can include accredited retailers; and in Colombia should include the role of the *Corresponsales No Bancarios* (non-bank correspondents), (4) the extent to which charges must be regulated; (5) the structure of the network and the relationship between the cell phone network provider and financial institutions must be carefully delineated from the outset; (6) ways to ensure that the network does not become a vehicle for money-laundering; (7) how to foster competition in m-banking services while ensuring that the necessary investment is forthcoming; how best to combine the opening of bank accounts for those who currently do not have one, with the extension of m-banking services.
- 3.6 **Component 3: Implementation of Action Plan.** (US\$62,150) This component will provide resources to finance the activities required for the implementation of the proposed action plan including; (a) drafting of required legislation and regulation if necessary (b) advising the relevant institutions such as MINCOM, MINFIN and the Central Bank on implementation issues (competition, fare regulation, information disclosure, security and technological standards), such as technical specifications, standards, safety and security protocols and levels of service through position papers (c) workshop and dissemination activities. The workshop will be carried out at a national level, inviting all the relevant stakeholders. This component will also include raising awareness over the use of m-banking for the potential beneficiaries, in particular those who live in remote areas. In this regard, the dissemination activities will include information over TV, radio and local newspapers, among others. The selected consultants will consult and work in close coordination with the working group to be formed and led by Bancóldex (see ¶5.2).
- 3.7 **Component 4: Monitoring and Evaluation.** (US\$8,000) This component will provide resources to supervise the execution and collect and monitor key indicators to assess the impact of the TC.

IV. COST AND FINANCING

4.1 The total cost of the technical cooperation is US\$125,150 as shown on the budget table.

Table 1

	TOTAL	TC Funds	Counterpart
Component 1: Diagnostic of Legal, Regulatory and Institutional Framework			
1.1 Consultancy for carrying out a diagnostic of the current situation (International Consultant/ 43 days@ US\$550)	30,000	27,000	3,000
TOTAL COMPONENT 1	30,000	27,000	3,000
Component 2: Drafting of an Action Plan			
2.1 Consultancy for designing Action Plan (Local Consultant/ 40 days@ US\$450)	18,000	18,000	
TOTAL COMPONENT 2	18,000	18,000	
Component 3: Implementation of an Action Plan			
3.1 Drafting of required legislation and/or regulations (Local Consultant/ 30 days@ US\$450)	15,000	7,500	7,500
3.2 Advising on implementation issues	30,000	30,000	-
- Competition Expert (Local Consultant/ 25 days@ US\$400)	10,000	10,000	
- Security Expert (Local Consultant/ 25 days@ US\$400)	10,000	10,000	
- Technology expert (Local Consultant/ 25 days@ US\$400)	10,000	10,000	
3.3 Workshop and Dissemination Activities	17,150	11,150	6,000
- Expert Panelists 3 International experts/ 4 days each@ US\$550	11,150	11,150	
- Venue and logistics	3,000	-	3,000
- Dissemination Activities	3,000	-	3,000
TOTAL COMPONENT 3	62,150	48,650	13,500
Component 4: Monitoring and Evaluation			
Monitoring and Evaluation	6,000	3,000	3,000
Logistics and equipment	2,000		2,000
TOTAL COMPONENT 4	8,000	3,000	5,000
SUBTOTAL PROGRAM			
COMPONENT 1:	30,000	27,000	3,000
COMPONENT 2:	18,000	18,000	2,000
COMPONENT 3:	62,150	48,650	13,500
SUBTOTAL COMPONENTS	110,150	91,650	18,500
COMPONENT 4:	8,000	3,000	5,000
Subtotal	118,150	94,650	23,500
Financial Audit and Evaluation			
Financial Audit and Evaluation	1,000	1,000	
Contingencies	6,000	4,000	2,000
TOTAL	125,150	99,650	25,500
PERCENT		80%	20%

V. EXECUTION

- 5.1 Given its institutional capacity, Bancóldex–*Banca de las Oportunidades* will be the executing agency. Bancóldex is a supervised financial institution linked to the Ministry of Commerce, Industry and Tourism. Bancóldex–*Banca de las Oportunidades* reports to an *Intersectoral Committee* with representation of the Ministry of Finance, Ministry of Commerce, Industry and Tourism, National Department of Planning and the Presidency. This committee will facilitate the engagement and the commitment from the top policy level and provide leadership for action plan implementation.
- 5.2 The contracting activities will be carried out by the executing agency using applicable Banks procedures (GN-2349-7 “Policies for the procurement of works and goods financed by the IDB” and GN-2350-7 “Policies for Selection and Contracting of Consultants Financed by the IDB”). The selection of consultants will be carried according to the GN-2350-7.
- 5.3 Bancóldex - *Banca de las Oportunidades* will assemble and lead a working group of stakeholders for the implementation of the TC. Bancóldex will ensure that this working group will include representation from all relevant stakeholders including Ministry of Finance, Central Bank, Ministry of Communications, Financial Superintendence, Ministry of Commerce, Industry and Industry, Telecom companies, Bankers Associations, etc. The working group will convene periodically to monitor the status of implementation of the TC and will review, provide guidance, feedback and help in the disseminations of the results of the consultancies to be hired under this TC.
- 5.4 Bancóldex has a track record of managing IDB and other multilateral organizations’ operations. The efficiency and high degree of professionalism of the institution were key components for the decision to locate in Bancóldex the *Iniciativa de Banca de las Oportunidades*, a high priority initiative of the Government of Colombia.

VI. CRITICAL ASPECTS

- 6.1 The critical aspect of this technical cooperation is the need for coordination between different public agencies, private sector organizations and other relevant stakeholders. This risk is exacerbated by the rapid nature of the technological change in this area and the need to provide a regulatory environment that does not repress financial innovation and investments in the sector while it responds appropriately to challenges posed by the new technological trends. To mitigate this risk Bancóldex–*Programa de Inversión Banca de las Oportunidades* will serve as coordinator and supervisor of the different activities related to the technical cooperation. It will assemble and lead a working group of stakeholders to facilitate the dialogue and execution of activities of the technical cooperation and the dissemination of the results.
- 6.2 In terms of sustainability, it is important to note that *Política de Banca de las Oportunidades* has been conceived as a long-term policy⁷ that has one of the highest priorities for the GoC. In addition, the results of this TC will feed the continuous policy dialogue of the IDB and the GoC in the design of future competitiveness programs that could provide follow up to the current Competitiveness Enhancement Program II and/or build upon the results of this TC.

⁷ See <http://www.bancadelasopuntidades.gov.co/preguntas.html#1>

VII. DURATION AND IMPLEMENTATION PLAN

- 7.1 The TC will be executed in 12 months and disbursed in 18 months. Based on the activities described in section III, five major actions form part of the present initiative, consistent with the guidelines of the Knowledge Partnership Korea Fund for Technology and Innovation (GN-2374-1), as presented in the following table.

Table 2

Activity	Month	Deliverable
1.1 Consultancy for carrying out a diagnostic of the current situation	1-4	Diagnostic for the environment for enabling m-banking and key bottlenecks identified
2.1 Consultancy for designing and Action Plan	2-5	Action Plan with activities for enabling environment for m-banking
3.1 Drafting of required legislation and/or regulations	6-8	Drafts of regulations
3.2 Advising on implementation issues	8-10	Specific recommendations on technical implementation issues
3.3. Workshop and Dissemination Activities	11	Workshop and dissemination material
4. Monitoring and Evaluation	1-12	Monitoring report

- 7.2 The deliverables will be broadly disseminated, both to the participants in the Knowledge Partnership as well as to other relevant stakeholders and participants.

VIII. SOCIAL AND ENVIRONMENTAL STRATEGY

- 8.1 The TC will not generate any significant social or environmental negative impacts. On the contrary, since it will support the Government of Colombia in improving the access to financial services to the poor, it will have positive social impacts.
- 8.2 According with the Toolkit program this Technical Cooperation was classified with "C", meaning that no environmental assessment studies or consultations are required for this Category.

IX. RESPONSIBILITY IN THE BANK

- 9.1 The project will be under the technical and basic responsibility of the Capital Markets and Financial Institutions Division (ICF/CMF), which will monitor and evaluate the progress of the technical cooperation, based on the agreed detailed work plan and deliverables. Monthly progress reports, a mid-term report and all deliverables will be provided in a timely manner. ICF/CMF will oversee the quality of the outcomes by providing feedback to the executing agencies as the draft and final products are delivered. Standard Bank procedures for auditing and financial management will be followed.

X. RECOMMENDATION

- 11.1 Manuel Pacheco, designated team leader for the project of the reference, recommends the approval of this operation and the use of resources from the Knowledge Partnership Korea Fund for Technology and Innovation Fund totaling up to ninety-nine thousand six hundred fifty dollars from the United States of America (US\$99,650) in order to finance the corresponding project.

XI. CERTIFICATION

- 12.1 I hereby certify that this operation satisfies the eligibility criteria approved for financing by the donor of the Knowledge Partnership Korean Fund for Technology and Innovation. Also, I certify that resources from the Knowledge Partnership Korean Fund for Technology and Innovation are available for up to ninety-nine thousand six hundred fifty dollars from the United States of America (US\$99,650) in order to finance the activities described and budgeted in this document. The commitment and disbursement of these resources shall be made only by the Bank in dollars of the United States of America. The same currency shall be used to stipulate the remuneration and payments to consultants, except that local consultants working in their own borrowing member country shall have their remuneration defined and paid in the currency of that country. No resources of the Fund shall be made available to cover amounts greater than the amount certified herein above for the implementation of this Technical Cooperation. Amounts greater than the certified amount may arise from commitments on contracts denominated in a currency other than the Fund currency, resulting in currency exchange rate differences, for which the Fund is not at risk