

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK
NOT FOR PUBLIC USE

REGIONAL

IMPROVING ACCESS TO FINANCIAL SERVICES OF THE POOR AND THE UNBANKED

(RG-T1737)

PLAN OF OPERATIONS

This document was prepared by the project team consisting of: Frank Nieder (ICF/CMF), Project Team Leader; Fernando De Olloqui (ICF/CMF); Shireen El-Wahab (CMF/CGU); Annabella Gaggero (ICF/CMF); Jaime Garcia Alba (MIF/MIF); and Rosina De Souza (LEG/SGO).

CONTENT

EXECUTIVE SUMMARY

I.	BACKGROUND AND JUSTIFICATION	1
A.	Problem Statement.....	1
B.	Relation with Bank activities.....	3
C.	Related Activities.....	3
D.	Added Value	4
II.	PROGRAM DESCRIPTION	4
A.	Program Goal and Purpose	4
B.	Beneficiaries	4
C.	Components and Activities.....	5
III. ...	BUDGET	6
A.	Description, Composition and Sources of Funding.....	6
B.	Sustainability	6
IV. ...	EXECUTING AGENCY AND MECHANISM.....	7
A.	Executing Agency.....	7
B.	Technical and Basic Responsibility	7
C.	Execution Mechanism	7
D.	Program Implementation Readiness	7
E.	Procurement.....	7
V.	MONITORING AND EVALUATION	7
VI. ...	PROGRAM BENEFITS AND RISKS	8
A.	Program Benefits and Developmental Impact.....	8
B.	Risk Matrix	8
VII. ..	ENVIRONMENTAL AND SOCIAL ASPECTS	9

ANNEXES

ANNEX I	Results Framework
ANNEX II	Detailed Budget
ANNEX III	Summary Procurement Table
ANNEX IV	Terms of Reference
	a. Business Models for Commercial Banks
	b. Legal and Regulatory Climate

ELECTRONIC LINKS

Procurement Plan:

<http://idbdocs.iadb.org/wsdocs/getDocument.aspx?Docnum=2241757>

BASIC SOCIOECONOMIC DATA

Basic socioeconomic data, including information on public debt, is available in the following address: <http://www.iadb.org/countries/>

ABBREVIATIONS

ATM	Automated Teller Machine
CGAP	
CMF/CGU	Capital Markets and Financial Institutions Division, Country Office in Guatemala
ICF/CMF	Institutional Capacity and Finance Sector, Capital Markets and Financial Institutions Division
ICT	Information and Communication Technologies
IID	Trust Fund on Information and Communication Technologies for Development
LAC	Latin America and the Caribbean
LEG/SGO	Legal Department, Sovereign Guaranteed Operations
MIF	Multilateral Investment Fund
VPC/GCM	Vice-presidency for Countries, Grants and Co-Financing Management Unit

**IMPROVING ACCESS TO FINANCIAL SERVICES OF THE POOR AND THE UNBANKED
(RG-T1737)
EXECUTIVE SUMMARY**

Beneficiary:	All Regions
Team Leader/ Members:	Frank Nieder (ICF/CMF), Project Team Leader; Fernando De Olloqui (ICF/CMF); Shireen El-Wahab (CMF/CGU); Annabella Gaggero (ICF/CMF); Jaime Garcia Alba (MIF/MIF); and Rosina De Souza (LEG/SGO).
Executing Agency:	The Bank, through the Capital Markets and Financial Institutions Division (ICF/CMF).
Target Beneficiaries:	Financial Services Providers, Financial Sector Regulators, Public-Private Sector Partnership Organizers or Research Institutions.
Sources of Funding:	Italian Trust Fund on ICT (IID): US\$600,000 Local: <u>US\$100,000</u> Total: US\$700,000
Objectives:	<p>The goal of the project is to expand the access of the non-banked and low-income households to more secure and lower costs financial services in Latin America and the Caribbean. The purposes are:</p> <ol style="list-style-type: none">a. To accelerate the implementation of: (i) financial service delivery systems using innovative technologies and business models to reach the unbanked and lower income households; (ii) legal and regulatory frameworks that support the implementation of these systems and provide effective consumer protection; and (iii) public/private sector partnerships designed to meet the objective of the project.b. To promote the understanding of these new technologies and business models by key actors in the public and private sectors.
Execution Timetable:	Execution Period: 24 months Disbursement Period: 30 months
Special Contractual Conditions:	None.
Exceptions to Bank Policies and Procedures:	None.
Environmental and Social Review:	The operation was reviewed on August 10, 2009 and received a "C" classification. No further action was requested.
Coordination with Other Development Finance Institutions:	None.

I. BACKGROUND AND JUSTIFICATION

A. Problem Statement

- 1.1 On average in Latin America only 30% of households have bank accounts, and physical access to locations of financial services, including bank branches and ATMs, is highly limited, especially for those in lower-income neighborhoods or rural areas. The result is that most households need to rely on cash transactions for the making and receipt of payments, transfers and even savings, and/or use unregulated or informal providers. This reliance on cash implies large risks in terms of security, high transactions costs in terms of the time and travel to make payments, such as for public services, and usually high fees for services, while unregulated and informal services providers tend to be more costly than regulated providers and provide little consumer protection.
- 1.2 The most fundamental obstacle for expanding access to financial services to lower income households is that the provision of services on a large scale is not profitable with currently utilized financial technologies and business models. Under current systems the administrative and operational costs for individual banking transactions are too high, and banks do not have the physical presence in lower-income neighborhoods or remote areas to generate large demand if costs could be lowered. In addition, the regulatory framework in most countries, such as minimum deposit levels and information and documentation requirements add additional costs and create barriers for the opening and maintenance of accounts.

Access to Financial Services: Traditional Technology

	Adults with Bank Accounts	Bank branches per/100,000 persons	ATMs per 100,000 persons
Latin America	30% (5-60%)	7	11
US	91%	31	121

Source: World Bank. 2007.

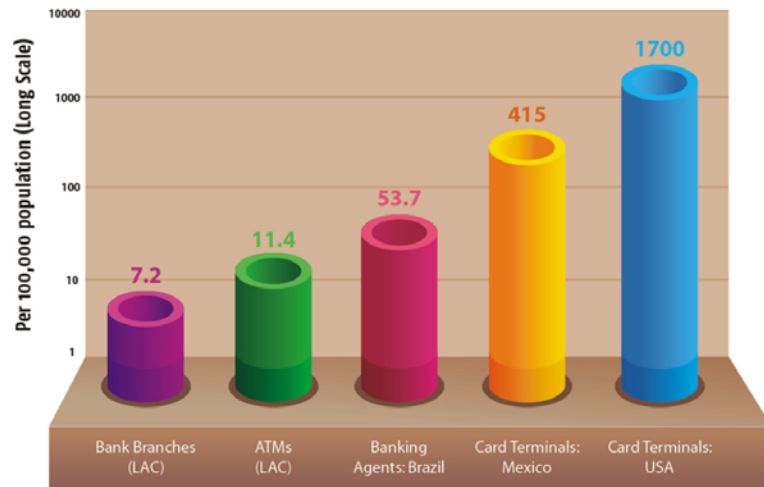
- 1.3 The application of increasingly lower cost information and communication technologies (ICT) and regulatory modifications can overcome these obstacles by replacing cash with electronic transactions, and expanding physical access to services by allowing transactions outside of banks' brick and mortar networks. Examples of the application of these technologies include mobile banking, bank agent networks, and pre-paid credit or smart cards.
- 1.4 Mobile banking is the use of cell phones for the communication and conduct of electronic financial transactions combined with a large network to provide cash-in and cash-out. With mobile banking, anyone with a cell phone can potentially have access to a full range of secure and low cost financial transactions, anywhere and anytime. In Latin America and the Caribbean, where it is estimated that 80% of persons have mobile phones, mobile banking has the potential to provide close to universal access to financial services. The effectiveness of mobile banking in

expanding access has been proven in numerous developing countries outside of the LAC region. In Kenya, within 18 months of the introduction of mobile banking, the percentage of persons with access to financial services increased by 150%. In the LAC region, however, implementation of these systems is still at an incipient stage.

- 1.5 Banking agents are contracted institutions that provide a full range of financial services for banks or other financial service providers. With the use of low cost and secure communication devices, these agents can be located in almost any area, allowing for access in lower income neighborhoods and remote areas. These entities can also serve as facilities for the critical cash-in cash-out network for mobile banking. Several LAC countries, including Brazil, Colombia and Peru, are leaders in the use of banking agent networks.

- 1.6 Prepaid credit or smart cards allow those without any bank account to have a mechanism for electronic payments and savings. With the combination of low-cost points-of-sale devices (credit card payment machines) and mobile or satellite communication networks, even smaller stores can

POTENTIAL FOR INCREASED ACCESS WITH BANKING AGENTS AND PREPAID CREDIT CARDS



provide payment services. These systems can also be effective for lowering the cost and expanding access to government assistance to lower-income households, and have been used in some countries in the region on a limited scale.

- 1.7 In Latin America and the Caribbean the level of implementation of new financial technologies and business models to reach the poor and the unbanked lags behind other areas of the developing world. However, the potential for these new technologies in the Region are amongst the highest, given that 80% of the population use cell phones, and that the geographic coverage of cell phones is extensive, which also facilitates the use of the other technologies, such as networks of banking agents and the points-of-services of pre-paid credit cards. Also, literacy rates are relatively high, which facilitates the broad use of these systems.
- 1.8 In spite of the current low-level of implementation, interest is building, with Bank support, for the use of new means of providing financial services to the poor and the unbanked. Several countries, including Colombia, Mexico and Peru, are

designing, or are now implementing, regulatory reforms to support the use of these new technologies. Bank operations are supporting these efforts in Colombia and Peru (CO-T1067 and PE-T106). In addition, a series of mobile phone operators are developing mobile banking systems with plans to implement them on a pilot basis this year¹. Their efforts, however, have been constrained by the lack of a supportive regulatory framework. Also, social ministries in a range of countries are considering the use of the aforementioned technologies for social payments.

- 1.9 A series of factors limits progress in the Region. These include: (i) the lack of a supportive legal and regulatory framework; (ii) continued questions within financial institutions about the profitability of these new technologies and lower-income market segments in general; (iii) the higher risks and higher costs for first-movers; and (iv) the consequent lack of successful experiences to serve as models and generate demonstration effects.

B. Relation with Bank activities

- 1.10 The Program has been designed to build upon the aforementioned ongoing Bank operations, and also to complement new Bank activities. In particular, the Program has been designed in coordination with that of a recently approved Multilateral Investment Fund (MIF) Program that includes a Line of Activity and a complementary Regional Technical Cooperation, "Technology for Increased Access to Finance" (RG-M1155). The coordination will ensure that the two programs reinforce each other and also allow for a well coordinated Bank/MIF communication strategy in the area of increased access to financial services. Coordination measures include that: (i) the projects supported by the Bank Program will be eligible for the larger levels of support available from the Program, which will help to scale up the projects, (ii) there would be a joint call for proposals; and (iii) the two programs would jointly finance some knowledge dissemination activities. In addition, it is expected that the Program will also complement potential Bank private sector projects by providing the technical assistance that firms or their partners may require to make projects viable.

C. Related Activities

- 1.11 Other development institutions are involved in promoting innovative technologies and business models to expand access to financial services to lower-income households and the unbanked. However, they tend to concentrate their efforts in other parts of the world, and in the case of CGAP, it has made the decision to sharply limit its efforts to financing projects and will focus almost exclusively on knowledge generation and dissemination. The Program will be coordinated with potential donors by helping supported institutions gain access to support from them in some cases to jointly finance initiatives and complement activities.

¹ A Bank regional TC (RE-T1536) is expected to provide support to the first three pilot programs, once the final decisions to move ahead with implementation has been taken.

Discussions have already been held with the Gates Foundation and the Alliance for Financial Inclusion, whose members are primarily financial sector regulators.

D. Added Value

- 1.12 The Program fills a gap for development assistance by: (i) being able to provide support for all of the key actors, both in the private and public sector, and to address obstacles both with regard to the implementation of the financial delivery systems and the business environment; (ii) focusing on the specific problems in Latin America and the Caribbean; (iii) providing support for the initial stages of development and implementation, when assistance may be most needed, but where access to other sources of finance may not be available because initiatives are not sufficiently advanced to demonstrate their viability. Once viability is demonstrated, participants should be better able to obtain larger amounts of external finance, from the Bank/MIF, other development institutions, and from private sources. Finally, the Program provides a vehicle to identify lessons learned for initiatives to expand low-income household access to financial services in the Region.

II. PROGRAM DESCRIPTION

A. Program Goal and Purpose

- 2.1 The goal of the project is to expand the access of the non-banked and low-income households to more secure and lower costs financial services in Latin America and the Caribbean. The purposes are: (i) to accelerate the implementation of: (a) financial service delivery systems using innovative technologies and business models to reach the unbanked and lower income households; (b) legal and regulatory frameworks that support the implementation of these systems and provide effective consumer protection; and (c) public/private sector partnerships designed to meet the objective of the project; and (ii) to promote the understanding of these new technologies and business models by key actors in the public and private sectors.

B. Beneficiaries

- 2.2 The primary beneficiaries will be the lower-income households and the currently unbanked who would obtain greater and lower cost access to financial services via the implementation of the projects supported by the Program and the systems developed in response to the demonstration effect of the supported projects. The direct beneficiaries will be the participating institutions in the Program. Eligible institutions include current and potential financial service providers, financial sector regulators, research institutions, and public sector institutions and business organizations responsible for the design and implementation of financial inclusion initiatives.

C. Components and Activities

1. Component 1. Technical assistance for the development, implementation and evaluation of new technologies and business models (US\$500,000).

- 2.3 Technical assistance will be available on a competitive basis for: (i) the preparation and initial stages of implementation of financial service delivery systems for the target market; (ii) the design and implementation of supportive legal and regulatory frameworks; (iii) the development of public/private initiatives to expand access to financial services of the poor and unbanked; and (iv) the evaluation of financial service delivery systems to low-income households and the unbanked.
- 2.4 This component will allow the potential participants to address the full range of obstacles that are limiting a more rapid and broader expansion of the innovative technologies and business models. The amount of technical assistance provided will be relatively small, between US\$25,000 and US\$100,000. Support will be provided to assist the participants, especially financial service providers, surmount specific critical obstacles in the development and initial implementation process that they may not be able to address or as quickly address without the support of the Program.
- 2.5 The Component will be implemented via a demand-driven mechanism where eligible institutions will present applications for technical assistance projects that explain their overall initiative, an action plan, their budget, and technical assistance needs. Four projects will be selected on a competitive basis based on the meeting of transparent and objective selection criteria and process which will be made public. For service providers, these criteria will include: (i) a focus on service provision to low-income households and the unbanked; (ii) the degree of innovation of the technologies or business models, with respect to the region, country, type of service or type of financial institution; (iii) the income level of the country; (iv) the relative size of the requesting institution; and (vi) prospects for additional support from other sources. For financial regulators and other public sector entities, the criteria will include: (i) a focus on enhancing service provision to the target market; (ii) the income level of the country; and (iii) prospects for additional support. The aforementioned joint call with the MIF program, will help to generate sufficient demand for a competitive process.

2. Component 2. Enhancing the Knowledge Framework (US\$130,000).

- 2.6 This component will finance two priority studies and complementary seminars:
- a. The first would be on best practices and options for legal and regulatory frameworks to increase access of the poor and the unbanked to non-credit financial services in the LAC region. As noted above, the lack of supportive regulatory frameworks is a major obstacle for the implementation of many of

these systems. In most countries, regulators are concerned that some of these new systems could affect negatively their abilities to maintain the integrity of the payment system, provide adequate consumer protection and limit money laundering. Experiences in other parts of the world have demonstrated that by taking a risk-based approach, modifications can be implemented that facilitate the implementation of these new modes of service delivery to the poor and the unbanked, without jeopardizing financial market regulators primary responsibilities. While the results of the study will be of interest to all relevant actors, the seminar will be limited to regulatory agencies.

- b. The second would be to identify effective business models and strategies for financial institutions to provide financial services to the unbanked and lower income markets. Successful business models for regulated deposit taking institutions are not as obvious as they are for non-traditional financial service operators, as these new modes of service delivery create greater competition from non-traditional financial service providers and can lead to lower fees for financial services. The primary audience for the study and seminar will be banks and microfinance institutions.

III. BUDGET

A. Description, Composition and Sources of Funding

- 3.1 The total cost of the project will be US\$700,000, of which US\$600,000 will be financed from the Italian Trust Fund on Information and Communication Technology for Development (IID Fund) and US\$100,000 from counterpart contributions by participant beneficiaries. Beneficiary contributions can be made in kind or in cash.

Budget Table

Activity	Expected Output	Cost (US\$)		
		Italian Fund	Counterpart	Total
Technical Assistance	4 - 16 technical assistance/grant projects @ US \$25,000-100,000	400,000	100,000	500,000
Knowledge Framework	2 Studies @ US\$ 50,000 2 Seminars/Workshops @ US\$ 15,000	130,000		130,000
Administration	Part-time administrator 8 months @ \$4,500 month.	36,000		36,000
Contingencies		34,000		34,000
Total		600,000 (85%)	100,000 (15%)	700,000

B. Sustainability

- 3.2 The expected profitability of these new technologies and business models should allow for their continuation and expansion without continued Program support.

IV. EXECUTING AGENCY AND MECHANISM

A. Executing Agency

- 4.1 The Bank will be the executing agency because there are not alternatives for this type of regional project, given that there are not other regional institutions dedicated to serve this range of actors and activities.

B. Technical and Basic Responsibility

- 4.2 Technical responsibility: Frank Nieder, Senior Financial Institutions Specialist, Capital Markets and Financial Institutions Division (ICF/CMF). (202) 623-3446. frankn@iadb.org. Responsibility for Disbursements. Contracts and Budget Unit (ICF/ICF).

C. Execution Mechanism

- 4.3 A part-time professional (8 months over the 24 month execution) will be hired to administer the Program, to assist participating institutions in identifying qualified consultants and firms for their technical assistance projects, organize seminars, monitor the implementation of the Program and provide the first level of supervision of Program activities.
- 4.4 The execution period of the project will be twenty-four months with a disbursement period of 30 months.

D. Program Implementation Readiness

- 4.5 Steps have been taken to assure that there is effective demand for the Program, by surveying a number of potential clients and key actors during the preparation of the Program. Some of these institutions have already indicated their willingness to apply to participate. As such, it is expected that there will be a strong response to the call for proposals that will be conducted soon after the Program is approved.

E. Procurement

- 4.6 Goods and services will be procured in accordance with the provisions of documents GN-2349-7 and GN-2350-7, respectively.

V. MONITORING AND EVALUATION

- 5.1 Monitoring indicators will include: (i) the technical assistance agreements with participants; (ii) the signing and satisfactory completion of the supported technical assistance contracts; (iii) the meeting of the steps in the action plans submitted as part of applications; (iv) the signing and satisfactory completion of the contracts for the Program supported studies; and (v) the completion of Program seminars.

- 5.2 Annual progress reports will be provided to the Trust Fund Manager in VPC/GCM, and a final report to the Italian Fund authorities.
- 5.3 A final evaluation will be conducted that will focus on analyzing the activities of Component 1 in order to identify lessons learned regarding the development and initial implementation of initiatives to improve access to finance, at the level of financial service providers, financial sector regulators or organizers of public/private sector partnerships. For Component 2, a sample of the institutions that receive the documentation and all of the institutions that participate in the seminars will be surveyed to try to determine the effectiveness of the component activities in encouraging them to advance initiatives to expand access to financial services.
- 5.4 Standard procedures for financial reporting and audit of projects executed by the Bank will be applied.

VI. PROGRAM BENEFITS AND RISKS

A. Program Benefits and Developmental Impact

- 6.1 The benefits of the Program will be a more rapid implementation of new financial delivery systems that are designed to expand the access of lower income households and the unbanked to a full range of financial services. This will be achieved by direct assistance for the design and implementation of these technologies and business models, improvements in the business environment and improving the knowledge base of key actors. With a demand-driven mechanism, one cannot know a priori how many or what type of projects will be supported with the technical assistance component, and as such the number of systems for which the implementation has been accelerated. For the knowledge generation component, expected benefits in terms of the number of actors receiving the information are defined in the Results Framework.
- 6.2 The developmental impact will be the increased access of the target population to the lower cost and more secure financial services, which should serve to increase incomes by reducing costs of financial management and increasing economic opportunities.

B. Risk Matrix

- 6.3 **Effective Demand.** As a demand-driven project, sufficient effective demand is critical. As noted above, there appears to be strong demand to participate from a range of institutions, including individual and networks of private financial institutions, as well from supervisory institutions.

VII. ENVIRONMENTAL AND SOCIAL ASPECTS

- 7.1 The ESR reviewed and cleared this operation on August 10, 2009. The operation received a “C” classification and no further action was requested.

VIII. CERTIFICATION OF FUNDS

- 8.1 I hereby certify that this operation was approved for financing under the Italian Trust Fund on Information and Communication Technology for Development (IID) through a letter dated on July 3, 2009 and signed by Cons. Amb. Filippo Scammacca, Head of the Financial Cooperation Office of the Ministry of External Relations. Also, I certify that resources from the Italian Trust Fund on Information and Communication Technology for Development (IID) are available for up to \$600,000 in order to finance the activities described and budgeted in this document. This certification reserves resources for the referenced project for a period of twelve (12) calendar months counted from the date of signature below. If the project is not approved by the IDB within that period, the reserve of resources will be cancelled, except in the case a new certification is granted. The commitment and disbursement of these resources shall be made only by the Bank in US dollars. The same currency shall be used to stipulate the remuneration and payments to consultants, except in the case of local consultants working in their own borrowing member country who shall have their remuneration defined and paid in the currency of such 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 Plan of Operations. 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.

Original signed

Marguerite S. Berger
Grants and Cofinancing Management Unit, Chief

Date: November 30, 2009

IX. APPROVAL

Original signed

Kurt S. Focke
Division Chief, ICF/CMF

Date: December 2, 2009