

TECHNICAL COOPERATION PROFILE

August 1, 2009

I. BASIC PROJECT DATA

- **Country/Region:** All Regions
- **Program Name/Number:** Improving Access to Financial Services of the Poor and the Unbanked. (RG-T1737)
- **Team Leader/Members:** Leader: Frank Nieder (ICF/CMF); Rosina De Souza (LEG); Fernando De Olloqui (ICF/CMF); Francisco Demichelis (ICF/CMF); and Annabella Gaggero (ICF/CMF).
- **Date of Request:** May 27, 2009
- **Beneficiary:** The unbanked and low income households
- **Executing Agency:** Inter-American Development Bank
- **Financing plan:**

| | | |
|--------|------|----------------|
| IDB: | US\$ | 600,000 |
| Local: | US\$ | <u>100,000</u> |
| Total: | US\$ | <u>700,000</u> |
- **Tentative dates:** Approval September 15, 2009

II. BACKGROUND AND PROBLEM STATEMENT

- 2.1 **Background.** The vast majority of households in Latin America and the Caribbean, especially low-income households, do not have access to secure and reasonably priced non-credit financial services. On average, in Latin America only 30% of households have bank accounts, and physical access to banks, including bank branches and ATMs, is extremely low. The result is that most households need to rely on cash transactions for the making and receipt of payments, transfers, remittances, and even savings, and/or use unregulated or informal providers. This reliance on cash implies large risks in terms of security, high transactions costs, high fees for services, and little consumer protection when using unregulated or informal providers of services.

Table 1. Access to Financial Services

| | Adults with Bank Accounts | Bank branches per/100,000 persons | ATMs per 100,000 persons |
|---------------|---------------------------|-----------------------------------|--------------------------|
| Latin America | 30% (5%-60%) | 7 (1-15) | 11 (3-24) |
| US | 91% | 31 | 121 |

Numbers in parentheses reflect the range amongst Bank borrowing countries.
Source: World Bank. 2007.

- 2.2 The most fundamental obstacle for expanding access to financial services to lower income households is that the provision of services is not profitable with standard 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 volumes of transaction. 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 (e.g. mobile banking, bank agent networks and pre-paid credit cards). In other parts of the world, these systems, especially mobile banking, have proven to be an efficient and effective means to dramatically increase the unbanked's access to a broad range of financial services.

- 2.3 **IADB Experience.** The Bank, and in particular the Capital Markets and Financial Institutions Division (ICF/CMF), is already working on several fronts to promote the implementation of new technologies and business models to improve access to financial services for the poor and the unbanked. These include three country programs (CO-T1067, JA-T1021 and PE-T1006) that focus on improving the legal and regulatory framework for m-banking and a regional program (RG-T1548) that supports the implementation of pilot m-banking systems by mobile network operators and financial institutions. These programs all were approved in 2008 and are moving forward with their implementation.
- 2.4 **Problem Statement.** 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 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.
- 2.5 A series of factors limits progress, 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 the lower-income markets in general; (iii) the higher risks for first-movers; and (iv) for smaller financial institutions, the high initial costs for the design and implementation of these systems. In addition, financial sector regulatory institutions are not well informed about how a supportive regulatory framework can be implemented while maintaining prudential financial sector regulation.

III. PROGRAM OBJECTIVE AND DESCRIPTION

- 3.1 The objective of the Program is to increase access to financial services of the poor and the unbanked via: (i) The acceleration of the preparation and the initial steps of implementation of both: (a) systems to utilize new financial technologies and business models to increase low income household's access to financial services, as well as (b) complementary improvements in regulatory frameworks and public/private sector initiatives. (ii) Promoting the understanding of these new

technologies and business models by financial service providers, regulatory and other responsible public sector institutions.

- 3.2 **Component 1. Technical assistance for the development, implementation and evaluation of new technologies and business models.** Technical assistance will be available to: (i) financial institutions and other financial service providers for the development and initial stages of implementation of systems to expand access of the poor and the unbanked to financial services using new low-cost ICT technologies and innovative business models; (ii) financial regulators for the design and implementation of supportive regulatory frameworks; (iii) responsible public sector institutions for the development of public/private sector initiatives to expand low-income household access to financial services, and (iv) research institutions to evaluate new means to provide financial services to the target market.
- 3.3 **Component 2. Generation and Dissemination of Information to Accelerate Implementation of new financial technologies and business models.** This component will finance two priority studies: (i) the first would be on best practices and options for legal and regulatory frameworks to increase access to financial services in the LAC region, while maintaining prudent practices for financial stability, the security of the payments system, and the control of money laundering and consumer protection; (ii) 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.

IV. COST AND FINANCING

Table 2: Estimated Project Budget (US\$)

| Activity | Expected Output | Italian Fund | Counterpart | Total |
|----------------------|---|----------------|----------------|----------------|
| Technical Assistance | 6-10 technical assistance/grant projects @ US\$25,000-100,000 | 400,000 | 100,000 | 500,000 |
| Knowledge Framework | Studies @ US\$50,000 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 | 100,000 | 700,000 |

V. EXECUTING AGENCY AND EXECUTION STRUCTURE

- 5.1 The Bank, via the Capital Markets and Finance Division, will be the executing agency for the Program. The Program will be executed as a demand driven fund, where projects will be identified through a call for proposals, and will be selected,

by the project team, based on a set of objective eligibility and selection criteria. The selection criteria will give greater weight to eligible projects: (i) with financial institutions that already have a focus on the low-income market; (ii) from countries with lower per capita income and lower percentages of persons without bank accounts; (iii) with a high potential demonstration effect; (iv) using more innovative financial technologies or business models; and (v) those linked to or that can facilitate larger and more comprehensive support from other development institutions.

VI. MAJOR ISSUES

- 6.1 **Effective Demand.** As is the case for all demand-driven funds, a sufficient level of effective demand is critical for their success and implementation. In this regard, there is already evidence of strong demand, as a range of institutions have already contacted the Bank for support of the type provided by this Program. The widely distributed call for proposals and the identification of projects by Bank staff and other institutions will also help to generate effective demand.
- 6.2 **Coordination.** The program will be implemented in coordination with other institutions that provide support to increase access to financial services. These include other units in the Bank –in particular the MIF, Opportunities for the Majority, and RES– and institutions outside of the Bank, such as the Gates Foundation. The Program can help fund the development of projects, which could be supported with more extensive funding by these institutions, or which can be executed in tandem in a complementary manner.

VII. ACTION PLAN

- 7.1 (i) Approval of Program: September 15, 2009. (ii) Call for Proposals: October 5, 2009. (iii) Initial Round of Selection: November 13, 2009.

VIII. ENVIRONMENTAL AND SOCIAL STRATEGY

- 8.1 The Program will not generate any significant negative environmental impact, and should result in significant positive social impacts given its objective to improve access to financial services for low-income households and microenterprises. Based on the Safeguard Toolkit criteria, this operation has a “C” classification, indicating that no environmental assessment studies or consultations are required.

IX. APPROVAL

Original Firmado

Kurt S. Focke, Division Chief ICF/CMF

09/01/2009

Date

SAFEGUARD POLICY FILTER REPORT

This Report provides guidance for project teams on safeguard policy triggers and should be attached as an annex to the PP or PCD (or equivalent) together with the Safeguard Screening Form, and sent to ESR.

1. Save as a Word document. 2. Enter additional information in the spaces provided, where applicable. 3. Save new changes.

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|------------------------|-------------------------------------|--|
| PROJECT DETAILS | IDB Sector | Capital Markets – Financial Market Development |
| | Type of Operation | Technical Cooperation |
| | Additional Operation Details | |
| | Investment Checklist | Generic Checklist |
| | Team Leader | Nieder, Franklin T. (FRANKN@iadb.org) |
| | Project Title | Increasing Access to Financial Services to the Poor and the Unbanked |
| | Project Number | RG-T1737 |
| | Safeguard Specialist(s) | |
| | Assessment Date | 2009-07-29 |
| | Additional Comments | |

| | | | |
|--|--|---|--------|
| SAFEGUARD POLICY FILTER RESULTS | Type of Operation | Technical Cooperation / CT/Fondo Trust Funds | |
| | Safeguard Policy Items Identified (Yes) | The Bank will make available to the public the relevant Project documents. | OP-102 |
| | Potential Safeguard Policy Items(?) | No potential issues identified. | |
| | Recommended Action: | Operation has triggered 1 or more Policy Directives; please refer to appropriate Directive(s). Complete Project Classification Tool. Submit Safeguard Policy Filter Report, PCD (or equivalent) and Safeguard Screening Form to ESR. <small>Policy Directives can be accessed from the Resources tab on the Toolkit home page.</small> | |
| | Additional Comments: | | |

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| ASSESSOR DETAILS | Name of person who completed screening: | Annabella Gaggero |
| | Title: | Project Assistant |
| | Date: | 2009-07-29 |

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| ASSESSOR DETAILS | Name of person who completed screening: | Annabella Gaggero |
| | Title: | Project Assistant |
| | Date: | 2009-07-29 |