

TC ABSTRACT

I. Basic project data

▪ Country/Region:	Regional
▪ TC Name:	Support Program for the Development of Comprehensive Strategies for Financial Inclusion
▪ TC Number:	RG-T2305
▪ Team Leader/Members:	Luana Marques (IFD/CMF), Team Leader; members Roberto de Michele (CMF/CGU); Fermin Vivanco (MIF/MSM); Gloria Lugo (IFD/CMF).
▪ Indicate if: Operational Support, Client Support, or Research & Dissemination.	Research & Dissemination
▪ If Operational Support TC, give number and name of Operation Supported by the TC:	-
▪ Reference to Request ¹ : (IDB docs #)	TBD
▪ Date of TC Abstract:	19 June 2013
▪ Beneficiary (countries or entities which are the recipient of the technical assistance):	Public financial institutions in Latin America
▪ Executing Agency and contact name (Organization or entity responsible for executing the TC Program) {If Bank: Contracting entity} {If the same as Beneficiary, please indicate}	IFD/CMF
▪ IDB Funding Requested:	US\$ 400,000
▪ Local counterpart funding, if any:	-
▪ Disbursement period (which includes execution period):	36 months
▪ Required start date:	25 de July 2013
▪ Types of consultants (firm or individual consultants):	Individuals and Firms
▪ Prepared by Unit:	IFD/CMF
▪ Unit of Disbursement Responsibility:	IFD/CMF
▪ Included in Country Strategy (y/n);	Yes
▪ TC included in CPD (y/n):	Yes
▪ GCI-9 Sector Priority:	"Small and vulnerable countries financing ". "Institutions for growth and social development", contributing to the development of credit and financial markets. "Reducing poverty and promoting equity", once interventions are focused in lower income areas / population groups / Countries.

¹ A copy of the Letter of Request, Programming/Portfolio Review Mission Aide Memoire or Report requesting the TC should be submitted with the Abstract.

II. Objective and Justification (estimated length: ¼ page)

- 2.1 Promoting adequate financial inclusion of the population does not necessarily require the effective use of financial services, but the real possibility of using such services appropriate to their needs. The decision to use or not a financial service is individual. Financial inclusion is not an end in itself, but is a means for economic agents, through the exercise of effective and inclusive financial intermediation, to meet their needs, thus contributing to the economic development of a country. It is not enough just to create and stimulate specific financial instruments for certain social strata of the population who are marginalized or excluded (small producers, culturally and geographically isolated communities, indigenous peoples, Afro-descendant communities), but also to create an economic environment which is conducive to the expansion of credit and other financial services tailored to the needs of these populations.
- 2.2 Several Latin American governments recognize the importance of financial inclusion of the segment of the population with the lowest income once most have developed or supported some form of financial education program, a micro-finance industry and / or access through mobile technology, with focus on the most vulnerable groups. However, the strategies of governments, often, are not integrated and integral and lack ex-ante identification and appraisal of real barriers and needs of access and use by the financially excluded. Furthermore, the design of public policies sometimes do not take into account the evidence of best practices to leverage lessons on how they could most cost-effectively address the issue in their countries.
- 2.3 In this sense, this Technical Cooperation (TC) has the overall objective of supporting countries in developing plans and / or strategies to promote public access to financial services, especially for the population in geographic areas of lesser financial deepening, with lower levels of income or involuntarily excluded². This will be achieved through (i) the increase of knowledge about who are the financially excluded, what is the need for financial services to low-income individuals and MSMEs, what are the barriers (financial or non-financial) to access to services and possible tools and strategies to reach these groups, (ii) the development of action plans and / or comprehensive strategies that identify priority areas of intervention in financial inclusion policies, and (iii) promoting dialogues between different public and private actors at national level to generate proposals for policy reform.
- 2.4 Social factors have a significant importance among the obstacles faced by countries in the region to increase access to financial services³. The low level of income is the first important obstacle impeding the access to banks reflected in the small number of families with an account with any

² According to Corr (2006) the concept of voluntary exclusion means that some barriers of self-exclusion exist because of a personal choice, religious inclinations. Osili and Paulson (2006:22) also found that due to the fact that culturally you can have confidence in the banks based on past experiences, so that potential customers could auto exclude themselves.

Corr, C. (2006). Financial Exclusion in Ireland: An Exploratory Study and Policy Review. Combat Poverty Agency Research Series, No. 39. Osili, U.O., and Paulson, A. 2006. What Can We Learn about Financial Access from U.S. Immigrants? Retrieved on May 2, 2008 from http://www.chicagofed.org/digital_assets/publications/working_papers/2006/wp2006_25.pdf

³ Survey FELABAN (Federación Latinoamericana de Bancos) responded by Banking Associations of 17 countries of the Region. Source: http://www.felaban.com/archivos_publicaciones/servicios_financieros.pdf

financial institution⁴. Moreover, despite the significant progress made by microfinance in recent decades, little use of formal credit sources by small businesses is still a reality in the region. The evidence shows that only 14% of microentrepreneur families have a credit agreement with a formal entity⁵ and 30% of microentrepreneurs borrowers have a credit agreement with an unregulated entity⁶. Finally, it is notable the dispersion across countries in terms of access to credit and financial services, with countries such as Bolivia and Peru at the forefront, while countries like Brazil, Guatemala and Venezuela have a clear lag in terms of penetration of microcredit and / or access for low-income populations⁷.

2.5 The TC proposed addresses two different institutional priorities of the IDB under the GCI-9. First, it supports the priority associated with the support of institutions for growth and social welfare to the extent that it strengthens local public financial institutions so that they, in turn, may be able to promote the growth and development of entrepreneurs in their respective local financial markets. Second, the TC is directed to "Poverty Reduction and Equity" as a priority intervention in low-income areas and, "Institutions for Growth and Social Development", contributing to the development of the credit and financial markets.

III. Description of activities and outputs (estimated length: ½ page)

The CT involves implementation of two components:

3.1 **Component 1: Development of action plans and / or strategies.** This component aims to provide greater clarity to governments in the priority areas of intervention to improve national strategies for financial inclusion of the most vulnerable groups. To this end, three national plans will be developed in three countries of the Region. Each strategic plan that will be implemented will include interventions and specific proposals and technical notes and will be based on technical notes funded by this technical cooperation aiming at generating knowledge on the following topics:

1. **Diagnostic on financial and non-financial barriers to access and use.** This diagnostic refers to one or more detailed studies to identify a) who are excluded from basic financial services (MSMEs and families), what are the financial and non-financial barriers (both the demand side and of the supply of services) and what weight these factors have in determining access and use of services by the most financially excluded. This is necessary to develop coherent and comprehensive strategies to address the problem by focusing on the causal factors of greater weight in order to promote the design of public policies that are more cost-effective for governments.
2. **Diagnostic of services and appropriate financial institutions.** Study on the various financial services such as micro insurance, microcredit, micro pensions, among others, which could be

⁴ The CAF 2010 survey found that only 51% of the families of a sample of 17 cities has an account with any type of financial institution (including microfinance institutions). Document: "Servicios financieros para el desarrollo: promoviendo el acceso en América Latina" (2011), CAF. Serie: Reporte de Economía y Desarrollo

⁵ Informe Reporte de Economía y Desarrollo, RED 2011 Servicios financieros para el desarrollo. CAF.

⁶ Pedroza, Paola A. (Diciembre 2012). Microfinanzas en América Latina y el Caribe: El sector en cifras 2012

⁷ Sources: Microfinanzas en América Latina y el Caribe: El sector en cifras 2012 (BID-FOMIN); Servicios financieros para el desarrollo: Promoviendo el acceso en América Latina 2011 (Corporación Andina de Fomento-CAF); Promoviendo el Acceso a los Servicios Financieros: ¿Qué nos Dicen los Datos sobre Bancarización en América Latina? 2008 (Federación Latinoamericana de Bancos -FELABAN).

offered to low-income customers as customers improve their savings and compliance habits, elements that guarantee a lower risk for the institution financial. Analysis of the non-banking institutions such as credit unions segments, trusts and credit societies, NGOs, among others.

3. **Proposals for market structuring in specific productive sectors.** Mechanisms and tools for identifying a) productive sectors with the greatest potential to promote financial services to low-income customers, b) market analysis methodologies and c) the identification of the main risks and barriers both the supply and the demand sides face for these services.
4. **Proposals for the development of financial instruments to meet the demand.** Best practices in identifying, structuring and implementation of instruments and innovative financing strategies to fund micro/small businesses and vulnerable people. These supports include the promotion, awareness and training of both public financial institutions and other financial intermediaries and final customers on the benefits of these instruments and financing strategies.
5. **Proposal for financial education methodologies.** Research methodologies and best practices used in financial education for low income and educational level, and recommendations of a training methodology that could have an impact on the savings behavior of the most vulnerable. To map potential strategic partners to conduct financial education programs to ensure sustainability and minimize failures of coordination between the different actors.

3.2 **Component 2: Organization of technical dialogs.** This component aims to promote greater dialog between the main public and private actors in three countries in the region, to discuss and develop concrete proposals for the reform of public policies and to promote the financial inclusion of vulnerable populations. For this aim at least 1 regional dialog will be carried out to foster the exchange of ideas between the different actors based on their strategic plans. The regional dialog will seek to involve the major public and private actors to discuss proposals for interventions that will be financed in the future, especially to empower the small producers in geographical areas of lower financial deepening and lower levels of income, increase the ability of financial institutions in the service of the populations and vulnerable producers and improve coordination between the public and private sector to promote equal opportunities for access to microcredit.

IV. Budget (estimated length: ¼ page)

Indicative Budget

Activity/Component	Description	IDB/Fund Funding	Counterpart Funding	Total Funding
Component 1.	Development of action plans and / or strategies.	U\$320,000		U\$320,000
Component 2.	Organization of technical dialogs.	U\$70,000		U\$70,000
Monitoring and Evaluation		U\$10,000		U\$10,000
Total		U\$400,000		U\$400,000

V. Executing agency and execution structure (estimated length: about ½ page)

5.1 The executing agency will be the Division of Capital Markets and Financial Institutions of the Inter-American Development Bank, with the support of MIF and the Opportunity for the Majority (OMJ), in close collaboration with national governments, local public and private financial institutions, as well as other public and private relevant local actors. The CMF division has extensive experience in the area of financial inclusion obtained through several operations developed in the Region (EC-L1073, EC-number L1110, EC-T1254, RG-T1670, RG-T1670 among others).

VI. Project Risks and issues (estimated length: about ½ page)

6.1 The potential risk is the difficulty of access to information and the lack of cooperation of the various actors involved. However, this risk is low, as there are interests of different actors to collaborate with technical cooperation. In addition, given that the work envisaged under this TC is a high technical level, there is the risk of not obtaining results of good quality if the work done by the consultants to be contracted is not monitored properly. This is one of the reasons for which it is proposed that the execution of the operation performed by the Bank through CMF. In general, is not expected another risk associated with the project. Rather, this cooperation is expected to benefit the vulnerable groups (the small producers, communities culturally and geographically isolated the indigenous peoples, Afro-descendant communities and other local ethnic groups/culturally and historically excluded) and to increase their access to financial services and credit appropriate to their needs.

VII. Environmental and Social Classification (estimated length: ¼ page)

7.1 It is not anticipated that this project will have negative social or environmental impacts. Therefore, proposes to designate the C classification for this project. It is not necessary to carry out environmental studies. The full report on the environmental and social safeguards can be found in the [Safeguard Policy Filter Report \(SPF\)](#) and [Safeguard Screening Form \(SSF\)](#).