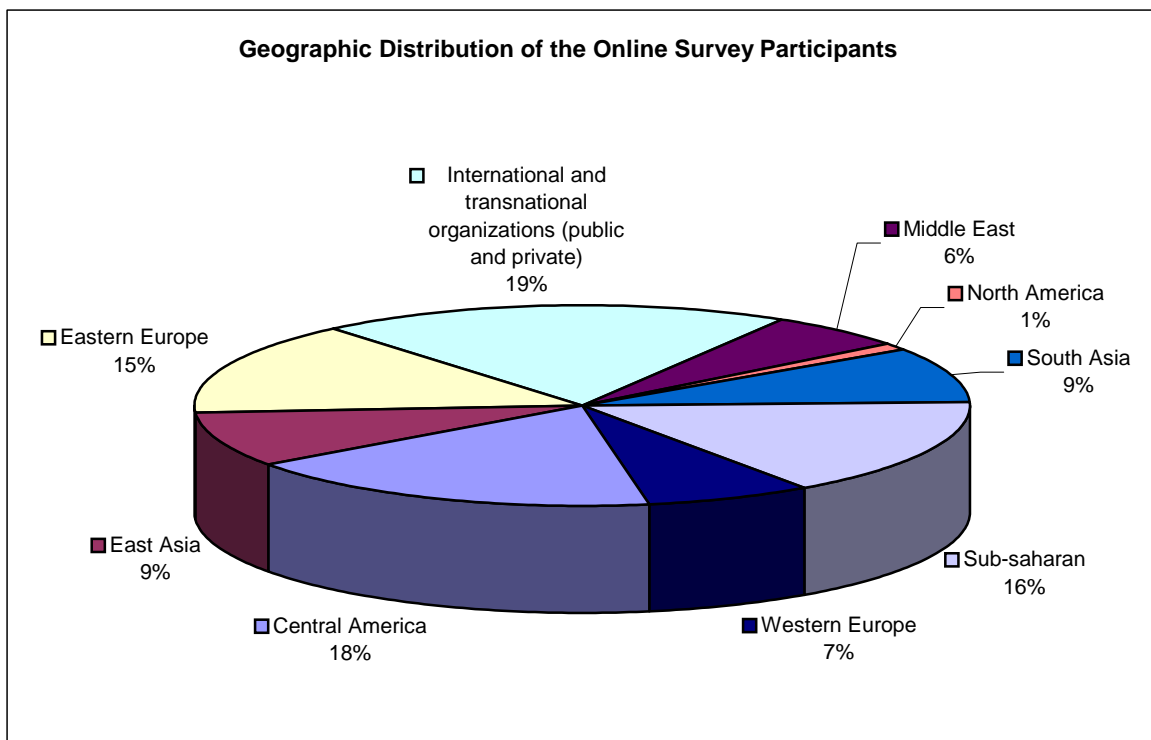


**THE BLUE BOOK ONLINE QUESTIONNAIRE  
ON BUILDING INCLUSIVE FINANCIAL SECTORS FOR DEVELOPMENT**

**SUMMARY REPORT OF THE CONSULTATION**

An online questionnaire was made available as one pillar of the Blue Book consultation process to reach out to as many as possible financial sector stakeholders. Available in English, French and Spanish, it could either be submitted either online or by mail. Its participation needed no invitation but a registration process allowed the Blue Book team to place respondents’ answers within the context of their location and professional environment; as central bankers, donors, state institutions officials, commercial service providers, academia, MFI and NGO practitioners do not always have the same perspective on matters relating to building inclusive financial sectors, this survey offered a rare opportunity to capture the diversity of their viewpoints and their main constraints and opportunities impacting both the demand and supply side of financial sectors. The voluntary nature of the survey precludes the answers to the questionnaire to be statistically significant, but rather they are considered as a tool capturing the participants’ unique perspectives. The comments contributed online are being used for the preparation of the Blue Book.

Three hundred and eighty participants logged on to the Blue Book website to contribute their professional experience to problems impeding a greater integration of the middle to low-income individual in the financial sector. Ninety of them submitted completed questionnaires. On the aggregate the comments echoed the widely accepted constraints known to prevent an estimated four (4) billion<sup>1</sup> people from accessing financial services (e.g.: the high transaction cost of financial transactions for customers and financial service providers). Some opinions faulted weak financial infrastructures and their stakeholders, while others offered innovative suggestions based on their country experience. For the purpose of capturing these comments accurately we quoted below a few of the points mentioned by the participants.



<sup>1</sup> Based on the estimation that the unbanked comprise 10% of the population in developed nations (± 5 billion) and 90% of the population in developing ones (± 1 billion)

## Customer Access

When asked to list five fundamental constraints preventing unbanked clients from accessing financial services, inadequate bank offerings of product and services, high transaction cost, cultural constraints and financial literacy were repeatedly mentioned. Participants also mentioned the lack of immutable client rights, the absence of the rule of law and the lack of deposit insurance. Complicated fiscal systems and corrupt intermediaries are also linked to poor clients' tendencies to hide their assets or use usurious services as alternatives to seeking access to financial services. To address these constraints, a reduction and simplification of the regulatory and fiscal burden to SMEs proposed. Though participants reported that clients tended to distrust state controlled financial institutions, they see however the government's role as critical in fostering a favourable investment climate including in the informal sector.

*"People will take the [financial] products when properly designed, priced and offered"*  
*International Consultant, the Netherlands*

*"It is often cheaper for a client to obtain financial services from money lenders/informal sources than to access a formal bank (bureaucracy, bribes, and deductions from the principal amount upright..."* Donor, Switzerland

*"Serving the unbanked has been better fulfilled when credit administration is improved, savings and credit products are responsive to client demand, operating hours and service point locations are convenient to the poor."* Senior Manager, International Credit Union Association

## Why don't financial institutions serve the poor better?

On the supply side, the perception of risk and incompatibility between servicing the poor and profitability is a leitmotiv throughout the online questionnaires. Lack of financial institutions' CEO and shareholders' commitment to address the challenges of downscaling coupled with the commercial banks' limited tools and experience in serving the lowest tier of the population are factors that the private sector could easily address. Mainly, because all are preconceived notions rooted in the banking culture. More difficult is resolving issues relating to the lack of capacity at the institutional level, the stringent regulatory requirements and the information asymmetry skewing the risk and credit evaluation of the poorest clients. Once financial service providers serving poor households adapt their risk management methodology to this client group profile, regulators could adjust accordingly financial service providers' capital and reserve requirements thereby enhancing their efficiency, sustainability and profitability.

Many online comments indicated that much is expected from technological innovations to decrease cost. Another large group of comments expressed the necessity to pass appropriate legislation enabling formal and less formal financial institutions to constantly provide a broad range of product and services.

*"Many commercial players don't have the vision of serving this market and see this as too risky and expensive. The next big grouping of problems is around institutional capacity"* Microfinance specialist, Multilateral Organization

*"For commercial banks, there is no incentive whatsoever to engage into the microfinance business"*  
*Academia, Central America*

*"Agriculture is one of the worst served sector in terms of financial products and services...These services are often not available because there is a lack of understanding of the agricultural environment from the microfinance institutions who consider offering service to farmers is unprofitable due to their sector's systemic risk"* Academic, Colombia.

## Financial Infrastructure

Four constraints are on the top of the list of the stakeholders' concerns about the adequacy of the financial infrastructure. They are: dealing with the challenges relating to the underdeveloped institutional capacity, unapplied accounting standards and finally, inappropriate credit information and rating systems.

*“In countries where credit reference systems exist, institutions are able to provide speedy services and appropriate loan sizes. These institutions have indicated that at least 80% of their loans would not have been disbursed in the absence of a reliable credit reference system”*

*Program Manager working with African countries, Multi-lateral Organization*

*“In Mongolia, rural finance is greatly enhanced through innovative ownership structures, infrastructure and technology”* Consultant, Mongolia

## Constraints limiting the integration of institutions serving poor clients into the financial market

Building inclusive financial sectors implies greater linkages between informal and formal financial providers. This integration into financial markets is not divorced from the ability to build sound financial infrastructures. Additionally stakeholders told us that overcoming financing challenges were important, namely addressing the lack of refinancing options, managing asset/liability mismatch particularly as it relates to loans term structure, being unable to mobilize public and domestic savings, securing favourable terms of domestic borrowing and managing currency risk to name a few. Central Banks' reserve and liquidity requirements were also mentioned repeatedly, so was consumer protection.

All argued that regulation and supervision of the financial sector was critical for the integration of the financial service providers serving low-income clients. There are however different views on the scope and depth of an appropriate legal framework for microfinance. The challenge ahead, remains to regulate and supervise micro transactions at low costs without stifling innovation.

*“Microfinance organizations operate according to a Presidential Decree, without supervisory bodies. Our legal status could be revoked or altered at anytime, including our tax status. Our operating risks cannot be understated”*

*Development Program Director, Eastern Europe*

*Financial sector regulators know very little about microfinance”*

*Academia, Equator*

*“There is no law regulating microfinance institutions and NGO. It is difficult to become a regulated business entity, once registered as NGO. . The national bank reserve requirement is 23% and only banks are allowed to provide loans or borrow foreign capital”*

*MFI Finance Manager, Eastern Europe*

## Policy

All respondents fault the lack of coordination of the public/private/donor sector in efficiently supporting inclusive financial sectors. Respondents acknowledged that educating legislators, politicians, investors and private actors in the benefits of inclusive financial sectors would yield greater progress in that direction. The role of governments in the provision of financial services and subsidies was brought into question, particularly in the case of subsidized below market interest rates. Governments are not expected to micromanage financial services provided to the poor, rather they are expected to provide appropriate policies fostering inclusion, prudential and legal frameworks in as much as supervision of the financial sector (some respondents argued that less formal providers of financial services such as self-help groups should also be government supervised).

Participants suggest that strengthening weak judicial systems often lacking effective small claims court that in the worst case are unable to impose the rule of law is a first order of reform.

While acknowledging the positive role of donors' funding innovations, donors' practices were at the same time criticized for introducing distortions into the market and for not putting enough pressure on central banks and governments to establish an appropriate legal framework. Donor dependency remains a concern.

*“There is a lack of explicit policy on microfinance and financial sector inclusion”  
Director, microfinance institution, Latin America*

*“It is necessary to create favourable condition to mobilize internal resources and attract external ones.”  
Microfinance practitioner, Kyrgyzstan*

*“Donors ‘funding whims swing the pendulum from one program to another, creating supply-driven services...without due regard to the needs and conditions of the market” Program Manager working in Africa, multilateral organization*

### **Visions of inclusive financial sectors**

A minority of respondents hold the view that access to financial services is a “human right”. The majority talked about a non-discriminatory, regulated and supervised sector offering competitively priced products and services tailored to client's needs. To bank the unbanked, stakeholders emphasized the need for comprehensive country specific strategies that would include the government, private sector, donors and civil society to devise coherent policy changes and the innovations necessary to create the financial market place serving the poorest.

*“A financial system comprising a broad range of properly regulated and supervised financial institutions, including local financial institutions in private, communal and cooperative ownership, mobilizing their own resources domestically, covering their costs and making a profit”  
German Academic working in Indonesia, India, Uganda and Benin*

*“All stakeholders focus on a shared vision and agreed strategies for the development of a financial sector that serves the needs of all segments of the population. The sector will include a wide range of financial institutions that are providing access to different kinds of financial products and services suited to the needs and circumstances of different market segments, with opportunities for institutional linkages to maximize results and impact”  
Program Manager working in Africa, multilateral organization*

*“Innovation will come from the combination of the following drivers: 1. Political pressure 2. Innovative use of technology (smart cards, transaction aggregation, cheaper systems, utilization of GPRS communication) 3. Cooperation with established microlenders and service providers in the community”  
Executive, international leading payment processing company*

*“My vision of inclusive financial sectors is one in which there would be easy access to a competitive array of financial services for all...Access does not mean provision, but equal access opportunity should exist”  
US Investor, Operating in Central America*