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Colombia Country Assessment for Youth Development Accounts

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CSD is part of a global consortium supported by the MasterCard Foundation that is exploring the potential for piloting a Youth Savings initiative in multiple developing countries. In addition to CSD, the consortium includes Save the Children, the Consultative Group to Assist the Poor (CGAP), and the New America Foundation. The consortium's goals for the 2009-2010 year include identifying six developing countries in which to implement these pilots, along with local financial and research institutions that could assist in implementing and evaluating the pilots.

This brief is one of a series that CSD has prepared on candidate countries in Asia, Africa, and Latin America. This brief, like the others, assesses the candidate country on four criteria: institutional capacity, national political interest, research capacity, and broader macroeconomic environment.

Summary

Colombia stands out as a candidate site to include in the worldwide demonstration of Youth Development Accounts (YDAs) in four ways: (1) a well-regulated and innovative banking infrastructure that already delivers youth savings products; (2) national interest in asset-based development policy and financial services expansion to unbanked populations; (3) excellent research capability; and (4) large potential impact of YDAs in the country and region.

Basic Population and Economic Indicators

» Population: 43.99 million (World Bank, 2007)

» Percent of population under age 15: 30 (Population Reference Bureau, 2008)

» Youth ages 10-24 (percent of total population, 2006): 28 (Population Reference Bureau, 2008)

» Percent of population below national poverty line (1999): 64 (total), 55 (urban), 79 (rural) (UN Statistics Division, n.d.)

» Median age: 27.1 (CIA, 2009)

» Income level: Upper-middle income (World Bank, n.d.)

» GDP per Capita (PPP US$ in 2005): 7,304 (UNDP, 2007)

» Percent of population living on $2 a day or less: 26.3 (1990-2005) (UNDP, 2007)

Institutional capacity

Colombia's financial sector is relatively developed, regulated, and reliable. Colombia has 64 financial institutions with nationwide banking infrastructure that can deliver YDAs, as demonstrated in existing youth savings efforts in the country. Two of the countries' largest commercial banks—BanColombia and Banco de Bogotá—offer savings accounts designed for its young customers. Other institutions that offer youth saving products in Colombia include Banco Santander Colombia and BBVA Colombia. BBVA Colombia has introduced its own blueBBVA product which offers several financial services, including savings accounts and debit cards, only to its customers age 29 and under (blueBBVA, n.d.). Other types of financial institutions, for example credit unions, also offer savings products similar to YDAs. However, many of these products, particularly those offered by commercial banks, have only reached high income clients, primarily because of costly fees. The average fees for checking and savings services, for instance, are between 5% to 10% of a monthly minimum wage (Solo & Manroth, 2006), too costly for low-income customers. Accordingly, a youth savings initiative for lower-income youth and their families has tremendous potential to offer low-cost and affordable financial products that can provide access to safe and secure financial services.[1] The savings initiative can also reach a "forgotten" market and expand the customer base, help restore confidence in financial institutions, reverse the trend in declining numbers of savings accounts in the country, and, eventually, spur economic development.

In Colombia, existing regulation has a mixed impact on the use of financial services. Strict account opening requirements and taxation on financial services might discourage the use of formal financial services. Anti-money-laundering regulations introduced in 2003, for example, created a number of complex account opening requirements, inadvertently making opening bank accounts harder for low-income customers.[2] On the other hand, sales tax refunds on credit and debit card transactions could encourage the use of formal banking services (Solo & Manroth, 2006).

Although existing regulations might discourage the use of formal financial services, a number of Colombian banks have focused on low-income and small-saver customers. One example is Banco Caja Social Colombia (BCSC), a large retail bank with social objectives.[3] BCSC has been a pioneer in providing savings and lending services to urban low-income populations in Colombia, and managed to attract more savers than borrowers (CGAP, 1998; Wisniwski, 1999). It serves more than 1.4 million clients with saving products, and 200,000 clients with active loans totaling more than $414 million. Key to BCSC's success have been its ongoing efforts in offering a portfolio of products and services that is specifically tailored for low-income customers (Solo & Manroth, 2006). Savings products offered by BCSC, for instance, do not require a minimum balance and have simpler requirements than most Colombian banks.[4] Other banks that have a similar business orientation include Banco Agrario, Colema, and Megabanco.[5]

Although microfinance has a strong presence in the country, Colombia remains the only important microfinance country in Latin America without any regulatory or legal framework for microfinance institutions (MFIs).[6] Despite the lack of legal framework, Colombia's microfinance sector has developed highly efficiently (von Stauffenberg, et. al., 2009). Among Latin American countries, Colombia has been a pioneer in policies and programs for the informal and microenterprise sectors. A variety of institutions can offer microfinance in Colombia: NGOs, commercial banks, credit unions, commercial finance companies (CFCs), and savings and credit companies. These institution have provided financial services, particularly savings, to low-income groups, including wage workers, self-employed workers, microentrepreneurs, female domestic servants, and the underemployed, for the past three decades.[7] Cupocrédito, for instance, once the largest credit union in the country, has a strong record of savings mobilization among lower-income groups in urban and rural Colombia (Almeyda, 1998). Although microfinance in Colombia has been proven to be commercially viable and there is a great deal of unmet potential demand in the country, experts believe that the microfinance sector will not continue to prosper without a stable legal and regulatory framework that safeguards MFIs and customers alike.

The presence of microfinance has also led to financial access innovations that strengthened the institutional capacity of financial providers. One significant innovation is the use of correspondent (or banking) agents to shift low-value transactions away from the more costly branch channels and to extend the reach of their existing branches.[8] Some of the types of transactions supported by correspondent agents include deposits, payments, and transfers. In Colombia, there are currently 185 correspondent agents run by commercial banks, including BBVA Colombia, BanColombia, Banco de Bogotá, and Banco Popular (CGAP, n.d.).[9] Since June 2006, 79 agent outlets were launched in 19 municipalities that do not have bank infrastructure. Although correspondent agents in Colombia have been successful, several challenges exist, including the training of agents on how to operate the system, complex transactional sequences, and unfavorable locations that do not attract high client traffic (Barton, del Busto, Rodriguez, & Liu, 2007). Another barrier is the high cost of establishing a banking agent, particularly if the devices necessary to conduct banking activities are not bought in bulk. Some banks reported paying around US$7,000 to purchase all the technology devices needed to operate a banking agent (Siedek, 2007). Additionally, the infrastructure requirements, such as electrical power, a phone line for data transmission, or GSM coverage for wireless communications, can represent a challenge, especially in rural areas (Barton, del Busto, Rodriguez, & Liu, 2007).

In summary, the combination of established pro-poor financial institutions (such as BCSC Colombia and credit unions) that offer products tailored for low-income customers and technological innovations (such as branchless banking through correspondent agents) to deliver financial products and services makes Colombia a favorable candidate to include in the demonstration of YDAs in the developing world. Another positive factor in Colombia is the national government interest in financial inclusion.

National government interest

The political interest for expanding financial services to all Colombians, particularly the poor, is excellent. The Colombian government has launched a new financial sector policy, known as "La Banca de las Oportunidades" (Bank of Opportunities). This new policy recognizes the importance of banking services to help the poor move out of poverty, promote social equity, and stimulate economic development.[10] Through "La Banca de las Oportunidades," the government is funding the World Council of Credit Union's program to strengthen credit unions in Colombia's nine less-developed regions to increase their efficiency and profitability and bring financial services to the poor and displaced (WOCCU, 2008). As part of the new policy, banks have also been given permission to deliver financial services in remote parts of the country through independent agents known as "corresponsales no bancarios"(correspondent agents) that include supermarkets, convenience stores, pharmacies, and gas stations (Siedek, 2007). Although there are still some regulatory barriers for the complete use of correspondent agents as an alternative to bank branches, the government has shown flexibility, recognizing the potential of correspondent agents as viable alternatives for increasing the outreach of FIs (Barton, del Busto, Rodriguez, & Liu, 2007). Accordingly, Colombia has identified financial access as a priority, and, as a result, encourages practices that make bank accounts indispensable for every Colombian regardless of socioeconomic status. For example, Colombia's two major conditional cash transfer programs for the poorest, Familias en Acción and Subsidio Condicionado a la Asistencia Escolar-Bogotá, pay beneficiaries their cash benefits through their bank accounts (Fiszbein & Schady, 2009).

Colombia's political environment is also conducive to asset-based socioeconomic development policy. In Colombia, just as in other Latin American countries, building assets for the poor has been increasingly viewed as a promising poverty reduction strategy, with relatively low costs and high returns over time. One significant asset-building program is the Activos project in rural southern Colombia. The goals of Activos are to build assets and increase access to financial services among the rural poor.

Research capability and partnerships

There are several local and reputable research institutions that CSD can select as its local partner. Potential partners include research universities such as the Pontifical Xavierian University, University of the Andes, and National University of Colombia. These universities have the capacity to conduct research through their research centers and institutes. These research centers and institutes include the Institute of Rural Development (IER) at Pontifical Xavierian University, and the School of Government, Interdisciplinary Center for Regional Studies (CIDER) and Center for Economic Development Studies (CEDE) at University of the Andes.

IER focuses on the study of social and political processes related to rural and regional development. IER seeks to generate knowledge, methodologies, and strategies that will create solutions and innovations to improve social and economic conditions. Similarly, CIDER seeks to promote development through research, construction of knowledge, and application and dissemination of outcomes. Its areas of interest include environment and development, economics and globalization, social development, and government and public policy. CEDE has conducted studies in the areas of education, employment, poverty and income distribution, economics, fiscal policy, and industrial organization.

Researchers at CEDE, CIDER, and the School of Government at the University of the Andes have already expressed interest in the project. CSD is planning further discussions with these centers.

Larger potential impact in the country and region

With a broad-reaching and innovative financial infrastructure and well-developed political support, the potential impact of YDAs in Colombia is huge. A great number of the country's poor children and youth can be reached through our efforts. A successful demonstration of YDAs can inform a larger and more inclusive savings and asset-based policy in Colombia and other developing countries in Latin America.

Endnotes

1. The high costs of most existing financial services, limited incentives to reach out to low-income clients, high costs of dealing with small transactions, and lack of adequate financial products for low-income customers contribute to the poor's lack of access to financial services. In addition, the lack of access to financial services is exacerbated by the lack of familiarity with formal banking services (Solo & Manroth, 2006).
2. In order to open an account with a Colombian bank, individuals have to provide multiple documents, including proof of identity, employer information, personal references, and monthly income and expense statements, such as proof of salary and rental payments. These documentation requirements apply to all clients regardless of their socio-economic characteristics (Solo & Manroth, 2006).
3. BCSC established a specialized division within the bank to focus on microfinance. Another example is BanColombia. BCSC and BanColombia, which turned their attention to microfinance beginning in 2004, recognized that a special model is necessary to attract and serve the microfinance market, while keeping costs under control (Marulanda & Otero, 2005).
4. An example of a BCSC product for the low-income is its savings account, *Alcance su Casa* ("Reach your Home"). The savings product is targeted in particular to individuals and families with income four times below the minimum salary, and who are saving in order to reach the minimum level that gives access to governmental housing subsidies (Solo & Manroth, 2006).
5. These banks' specific business focus has contributed to private banks' lion share of savings deposits in the country. Private banks collect almost 90% of savings below COP 5 million (approximately USD 2,600) and have the smallest estimated average savings amount (Solo & Manroth, 2006).
6. The development of regulated MFIs and regulations specific to microfinance has been slow in Colombia due to a perception by the regulatory authorities and the traditional banking community that microfinance poses excessive risk (Loubière, Devaney, & Rhyne, 2004)
7. Although credit unions are presently very weak following the 1998-1999 crisis, and savings and credit companies are primarily mortgage lenders, these institutions are key players in savings mobilization in the country (Loubière, Devaney, & Rhyne, 2004).
8. Correspondent agents are retail outlets (pharmacies, supermarkets, convenience stores, gas stations, etc) or postal outlets that are authorized by financial institutions to provide banking services. This model takes advantage of the increasing acceptance of card-based transactions in Colombia and allows financial institutions to reach remote areas by using a combination of POS terminals and magnetic strip cards (Barton, del Busto, Rodriguez, & Liu, 2007).
9. Throughout 2007, Credibanco Visa worked with three banks in Colombia to expand full-service banking for people in rural areas by helping the Visa acquiring network create and manage agent networks, and sign up clients in rural areas on behalf of commercial banks. While there was significant interest on the part of the banks and the government to expand access to financial services in rural areas, the participating banks were not certain of the commercial viability of the program. In November 2007, the three banks decided not to sign with Visa and withdrew their commitment to participate in the project (CGAP, n.d.).
10. More information on the government's Bank of Opportunities policy and the country's banking agents is available at http://www.bancadelasoportunidades.gov.co/

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