



Delivery Channels for Reaching Rural SME Clients

Conference on
New Technologies for SME Finance
December 2-4, 2002

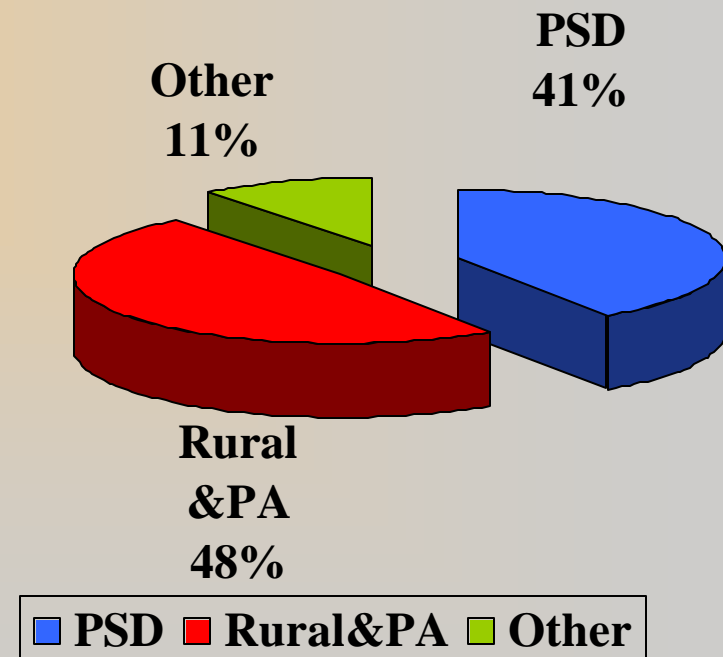
S. Brajovic Bratanovic, ECSPF, World Bank



World Bank FI Operations

USD 5.5 billion - By Key Objective

- ★ \$2,214 Private Sector Development (PSD)
- ★ \$2,675 Rural Development & Poverty Alleviation
- ★ \$576 Other





Agriculture Finance Based Approach - Failed?

Focus on:

- ❖ Lending for agriculture, ignoring profitable non-farm activities
- ❖ Provision of (unsustainable, subsidized) credit

Resulted in:

- Poor repayment record, lack of payment discipline
- Lack of access to financial services for entrepreneurs and profitable non-farm initiatives
- Private, for-profit institutions discouraged from engaging in rural financial intermediation



Symptomatic Issues in Rural Finance

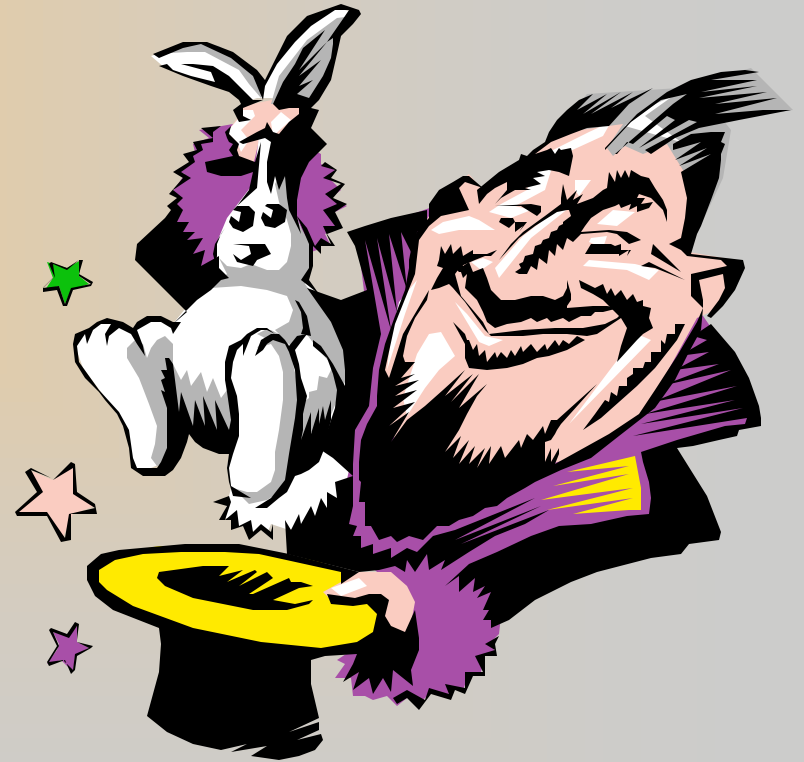
- ★ Network of branches non-existent or shrinking
- ★ Banking products do not meet customer needs
- ★ Weak retail lending capacity. Methods/technologies for retail lending (e.g., credit risk appraisal) imply high fixed cost. (i.e., expensive physical infrastructure and numerous employees). Cost can not be recuperated by small volume of small loans/services.
- ★ In small counties, low potential for risk diversification and higher risks



Can This Be Changed?

Yes, thanks to:

- ★ **New approach**
- ★ **New technology in:**
 - **Banking**
 - **Service Delivery**





Rural Finance – A Change of Approach

Focus	Agriculture Based	Financial Sector Based
Ultimate Objective	Stimulate Employment. Help Rural Poor.	Stimulate Employment. Help Rural Poor.
Project Objective	Increase Agro-Production.	Improve Access to Fin. Services
Role of Fin. Markets	Stimulate Production	Intermediate Efficiently
Main Products	Credit	Financial Services (incl. credit)
View of Rural Users	Beneficiaries	Clients
Source of Funding	Vertical: Govt.& Donors	Horizontal: Deposits, Borrowings
Subsidies	Subsidy Dependent	No Subsidies
Outreach	Largely Ignored	Key Concern
Sustainability	Largely Ignored	Key Concern
Evaluation	Impact on Beneficiaries	Performance of Fin. Institutions. Outreach. Sustainability.



*Can New Financial Sector Based Approach
Be More Successful? **Yes***

Focus on Business Environment and Systems:

- Create favorable policy and business environment, incl. reduction of bias against rural poor
- Improve the related sector framework
- Strengthen legal/regulatory framework and judiciary enforcement
- Provide system **infrastructure** to reduce cost and facilitate management of financial risk
- Encourage use of **new technologies**



*Create Transparent and Favorable Policy and **Business Environment***

- **Macroeconomic stability**
(no/low fiscal deficit and stable FX rate are key)
- **Stable/favorable tax environment** (e.g., tax brakes for outreach related investments or financial products needed by rural poor)
- **Efficient and transparent public/private sector interface** (registration, licensing)
- **Liberal and open market environment**
- **Trade and custom policies/regulations**
- **Low/no corruption**



*Improve **Sector Framework** for Rural Finance*

- ★ Provide consistent regulatory environment for licensing and supervision of intermediaries involved in rural finance
- ★ Build adequate capacity for off- and on-site supervision
- ★ Keep the cost of compliance low
- ★ Create open and liberal financial markets (open access and exit, no price regulations)



*Strengthen **Legal/Regulatory** Framework and Judiciary Enforcement*

- ★ Ensure consistency, transparency and clarity of respective legal and regulatory framework
- ★ Enact laws related to protection of private property, including land
- ★ Enact laws and regulations related to protection of creditor's rights and financial contracts
- ★ Facilitate use of fixed and movable collateral
- ★ Improve judiciary, contract enforcement



*Provide System **Infrastructure***

-Reduce Cost and Facilitate Management of Financial Risk

- ★ Payment systems (including RTGS, bulk/low value payment system)
- ★ Settlement Systems (e.g., for credit cards and other forms of electronic transactions)
- ★ Transaction reporting/reconciliation services
- ★ Credit Risk Bureau
- ★ Registers for Fixed and Movable Collateral
- ★ **Telecommunications infrastructure**
- ★ Training centers (for banks and rural intermediaries)



*Productive Use of **New Technologies***

- ★ **Operating Channels** – become more efficient, cheaper, allow point-of-sale in customer's locality.
- ★ **Access** – broader with Internet terminals, ATM, 3G cellular phones
- ★ **Old Products** – more standardized
- ★ **New Products** - more diverse
- ★ **Speed of Action and Reaction** -- faster

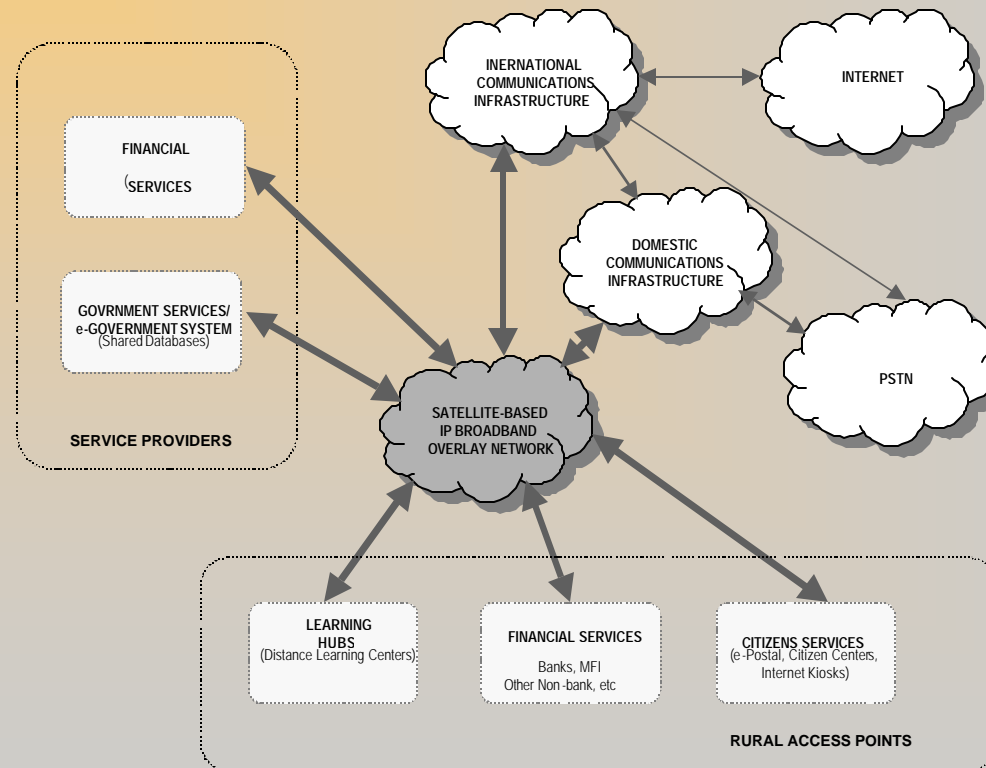


Other Likely Changes Influenced by Technological Advances

- ★ New technology provides means to “**commoditize**” standard bank products. (A trend similar to “commoditization” of PCs).
- ★ Commodity-like approach will increase **competition** and cut profit margins for respective products
- ★ Broader choice of providers:
 - Traditional: banks, credit cooperatives, micro-finance companies
 - New: Internet lenders, On-line financial aggregators, On-line payment consolidators, Brokerages
- ★ New technology provides means to **diversify** physical delivery channels



Beyond Traditional Bank Office – Using Satellite Technology to Improve Access



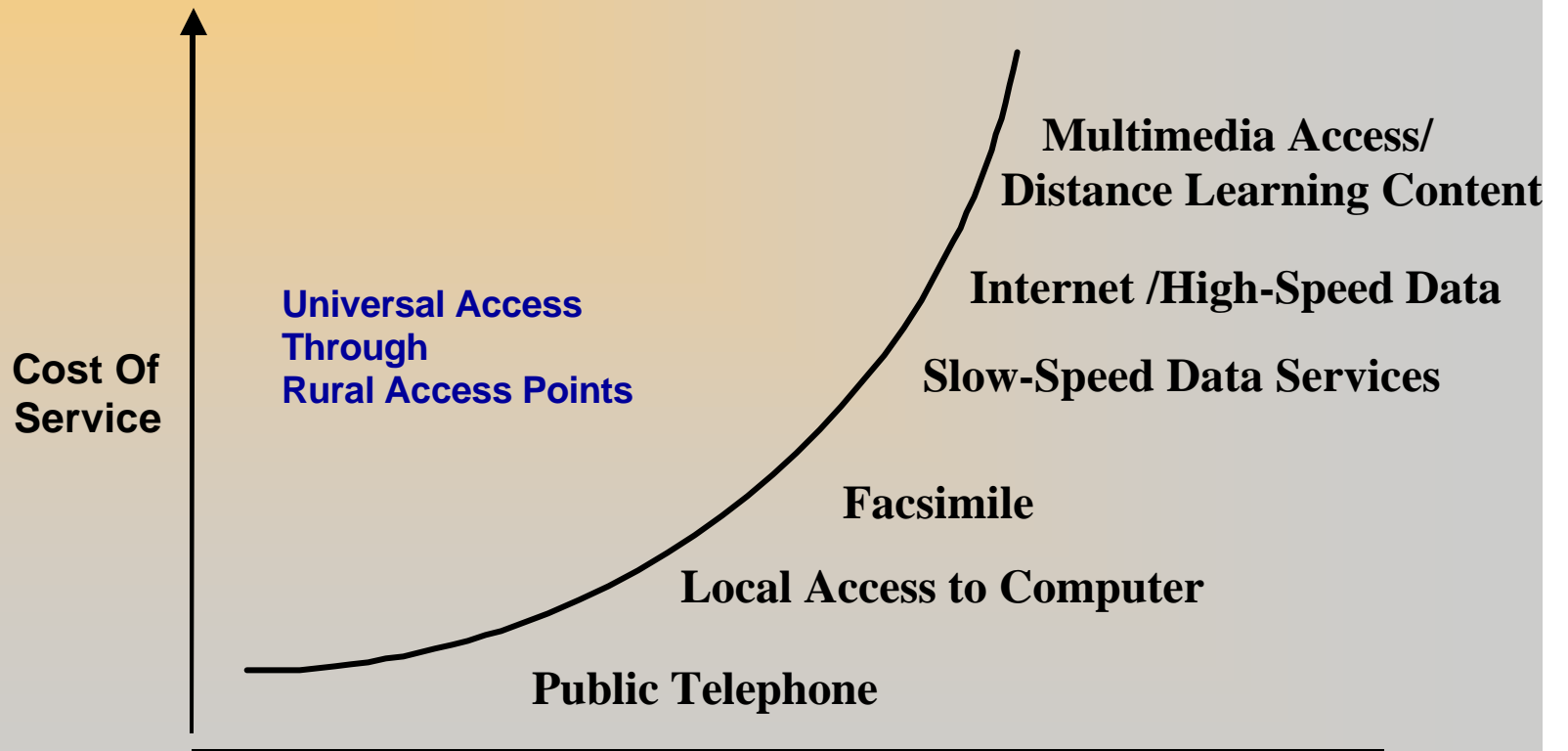


Evolution of Delivery Channels – New Possibilities Due to Telecom Revolution

- ★ Increasing diversification of telecommunications operators:
 - Backbones: wires, digital microwave, fiber optic, satellites
 - Switching systems and exchanges
 - End-devices: traditional phones, mobile phones, PCs, faxes, servers
- ★ Increasing competition and transformation of the telecommunications market structure
- ★ Changes in regulatory regime towards open access and more liberalized, technology-neutral model
- ★ Critical issue – “last mile” connectivity and rural access points and its cost



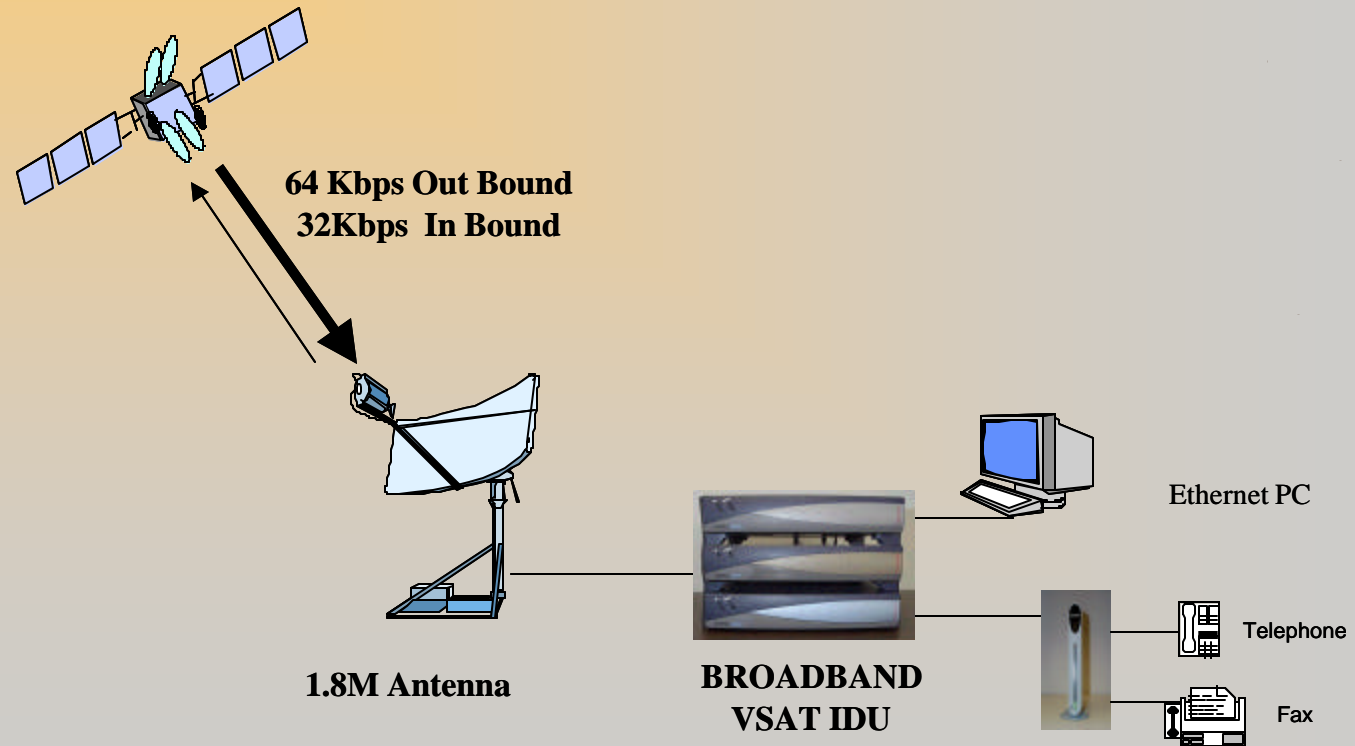
Cost versus Service Content





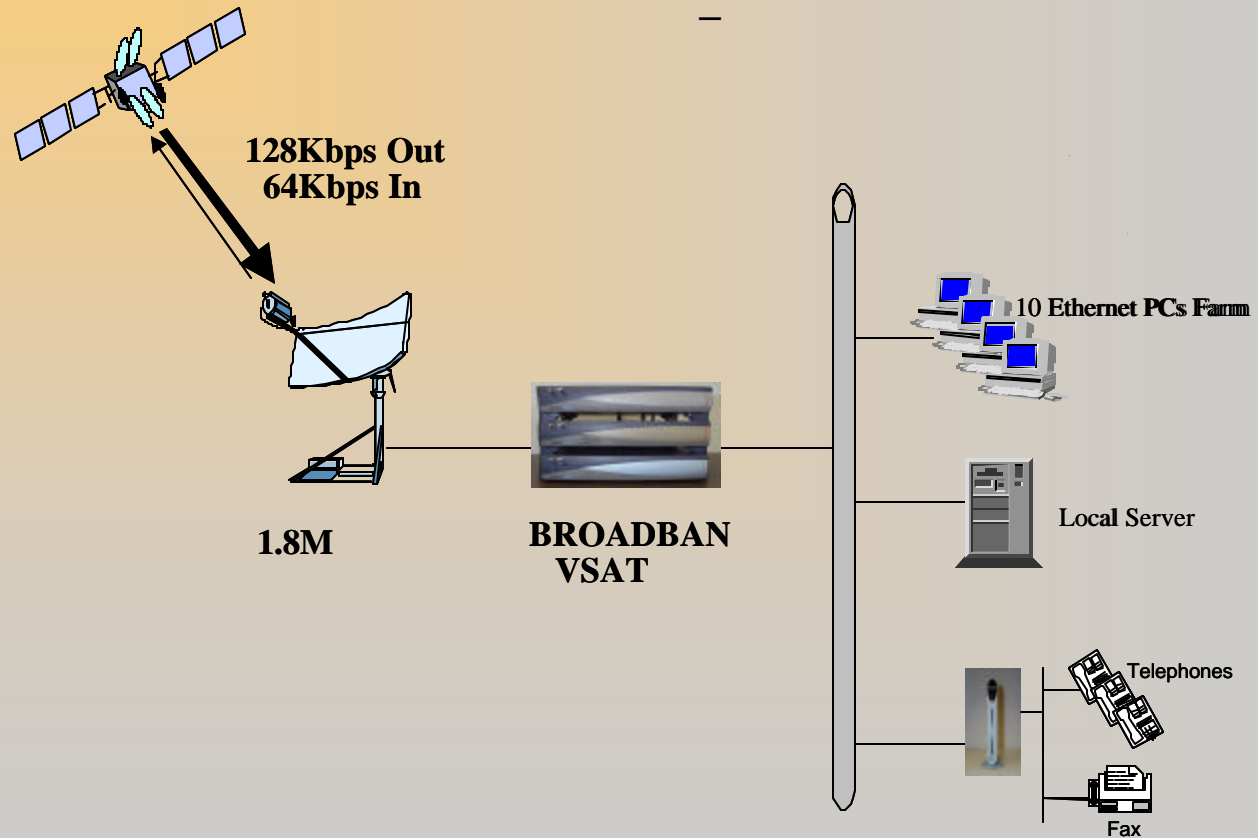
Readily Available Solutions for Rural Access to Basic Financial Services

Sub-Post Offices





Already Available for Rural Access to Broader Set of Financial Services





What to Expect in the Next 5-15 Years

- ★ Further consolidation of international banking systems – transnational mega-banks (e.g., e-City)
- ★ Broad e-based access to financial services in both urban and rural areas
- ★ Highly competitive markets for rural financial services
- ★ An on-line “supermarket”, as the most effective way to distribute retail financial products - combination of convenience and cost benefits.
- ★ Rural consumers able to compare banking products and interest rates and shop at home or in village e-centers