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Consolidation Incentive

Access to Banking Services for 342,000 Residents of Consolidation Municipalities



Photo: Frontera Informativa

Vice President Angelino Garzón discusses sustainable livelihoods and public service provision with community leaders in Catatumbo Region, August 2013

The Consolidation Incentive's Transformative Effects

- One bank and six financial cooperatives will open new branches by the end of 2013 in 11 consolidation municipalities.
- The number of branches in these 11 municipalities will double from 11 to 22. In other words, 342,000 Colombians will now have twice as many financial options because of increased access to financial services.
- This consolidation incentive leverages a significant amount of private funds, thus promoting public-private partnerships: The average cost of opening a new branch is \$81,000; the Government allocated \$376,000 to cover close to half of the cost of each new branch, leveraging \$515,000 in additional private funding.

Located in the Catatumbo region, San Calixto is a prime example of one of the 58 municipalities prioritized by the GOC's National Territorial Consolidation Policy (PNCT). In San Calixto, for example, the 13,187 residents struggle to build their lives under very challenging circumstances. Nearly 90% of the population lives in extreme poverty, only 62% of the municipality has electricity and one out of three people cannot read. Access to financial services is also very limited. Residents of this municipality must make a 16-hour round-trip journey to reach the nearest bank. As a result, not only for residents of San Calixto, but also for citizens in other consolidation municipalities, it is a major challenge to think about opening savings accounts, withdrawing government subsidies, or applying for loans to expand their agricultural operations.

To provide conditions to reverse this reality, the USAID Public Policy Program recently helped the Consolidation Unit (TCU) and the Bank of Opportunities Program (*Banca de las Oportunidades*, BDO) design and implement an *Incentivo de Consolidación* (Consolidation Incentive). The Consolidation Incentive is an innovative policy instrument that encourages financial institutions to expand their services to the most remote consolidation municipalities. As part of this Program-supported policy initiative, the GOC is committed to co-financing \$34,000 for each branch opened by financial institutions (private banks and cooperatives) in the consolidation municipalities. It is expected that this incentive will provide San Calixto residents with the opportunity to visit their very own financial cooperative by the end of this year.

Contributions by the Public Policy Program in the design of the Consolidation Incentive consisted of an analysis that determined the most appropriate channel (banking agent vs. branch) to effectively expand access to financial services in the consolidation municipalities. The Program found that while most consolidation municipalities already had banking agents, some had none, or just one branch.

Similarly, banking agents do not offer a full portfolio of financial products, which limits outreach. As such, it was determined that opening additional branches was the most effective option, paired with an incentive-based methodology that would obtain buy-in from the financial institutions. The Program relied on qualitative (in-depth interviews and field visits to the municipalities) and quantitative (statistical analysis of data from BDO, Financial Superintendent's Office, and DANE databases) research methods to design this incentive.

The implementation of this policy instrument will have widespread positive effects. It will enable the GOC to gain credibility with residents in consolidation municipalities, as it will demonstrate that these communities represent economic value for the country, as well as signify potential customers for private financial institutions. At the same time, the financial institutions' expansion in consolidation zones will significantly advance the GOC's efforts to re-build public trust. In addition, their presence, new services and the products they will offer to these populations will increase the flow of funds in these municipalities, representing a powerful tool for catalyzing economic growth.

Furthermore, the enhanced financial presence that will result from the Consolidation Incentive will have a profound impact on the economic recovery of the municipalities, as it will promote legal economies. Access to financial services will encourage business development, expand families' capacities to consume and save, and reduce the need to obtain informal credit. It will also stimulate income generation for small farmers, create employment opportunities and promote the development of productive assets.

For instance, close to 7,000 victimizing events and over 900 illegal land grabs have occurred in San Calixto. Yet, after years of armed conflict, peace is beginning to return. However, long-term sustainability depends on whether the GOC can not only guarantee security conditions, but also spur economic growth and prosperity facilitated by expanded access to financial services. Peace is not simply the absence of war; it also means respect for the rule of law, government-backed investment in profitable agricultural activities, provision of economic opportunities and promotion of sustainable livelihoods.

USAID's support for financial inclusion is making this revitalization possible for San Calixto. What's more, throughout Colombia, citizens of ten more consolidation municipalities in 7 departments of the country (Antioquia, Caquetá, Córdoba, Meta, Northern Santander, Putumayo and Sucre) are one step closer to being able to better provide for their families and live dignified lives.