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The U.S. Government's Global Hunger & Food Security Initiative



A Closer Look at EBA Finance Indicator

Session 2

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SESSION 2 LEARNING OBJECTIVES



Photo: Fintrac Inc.

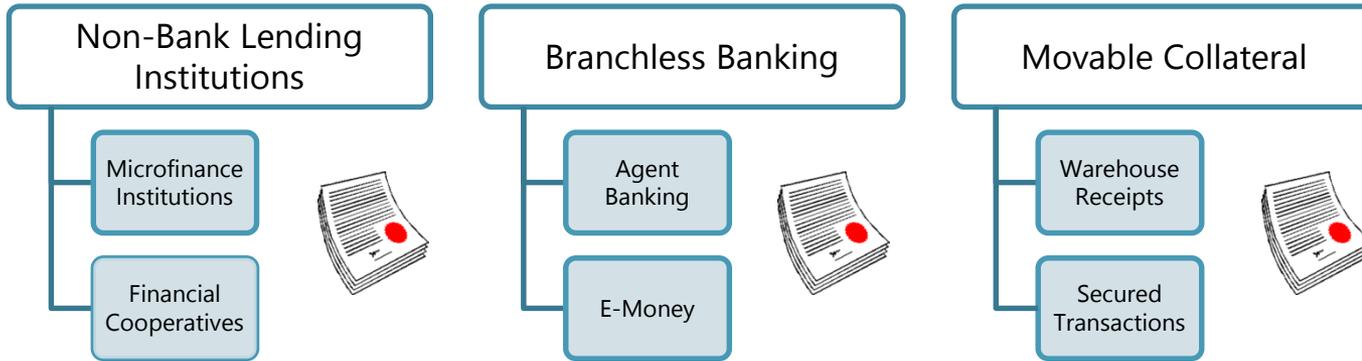
- Basic elements covered in the EBA Finance Indicator:
 - a) Non-banking institutions
 - b) Branchless banking
 - c) Moveable collateral

- Good regulatory practices for EBA Finance sub-indicators





FINANCE INDICATOR COMPONENTS



Requirements for establishing and operating deposit-taking microfinance institutions and financial cooperatives

Requirements for third-party agents to provide financial services and provision of e-money by nonfinancial institutions

Use of agriculture relevant assets as movable collateral and availability of credit information on small loans and from non-bank institutions





METHODOLOGY BASICS

Standard business cases:

Assumptions made to make data comparable across countries.

Data collection:

Data collected by the World Bank through surveys, desk review, phone interviews, and country visits.

Scoring:

Demonstration of best practices are evaluated and scored by country; Given a yes (1) or no (0) assessment; Sums converted to a "distance to frontier" score.

EBA data is:

- Quantitative
- Comparable
- Actionable





NON-BANK LENDING INSTITUTIONS

Microfinance Institutions

- **Prudential rules** (capital adequacy ratio, minimum capital, loan loss provisioning)
- **Loan size limits**
- **Consumer protections** (effective interest rate disclosure, deposit insurance)

Financial Cooperatives

- **Prudential rules** (minimum capital, prudential standards)
- **Consumer protections** (effective interest rate disclosure, deposit insurance)
- **Ability to merge**





STANDARD BUSINESS CASES FOR NON-BANK LENDING INSTITUTIONS

Microfinance Institutions (MFIs):

- - Can take deposits, lend and provide other financial services to the public.
- Are licensed to operate and supervised by a public authority.

Financial Cooperatives:

- - Are member-owned, not-for-profit cooperatives that provide savings, credit and other financial services to their members.

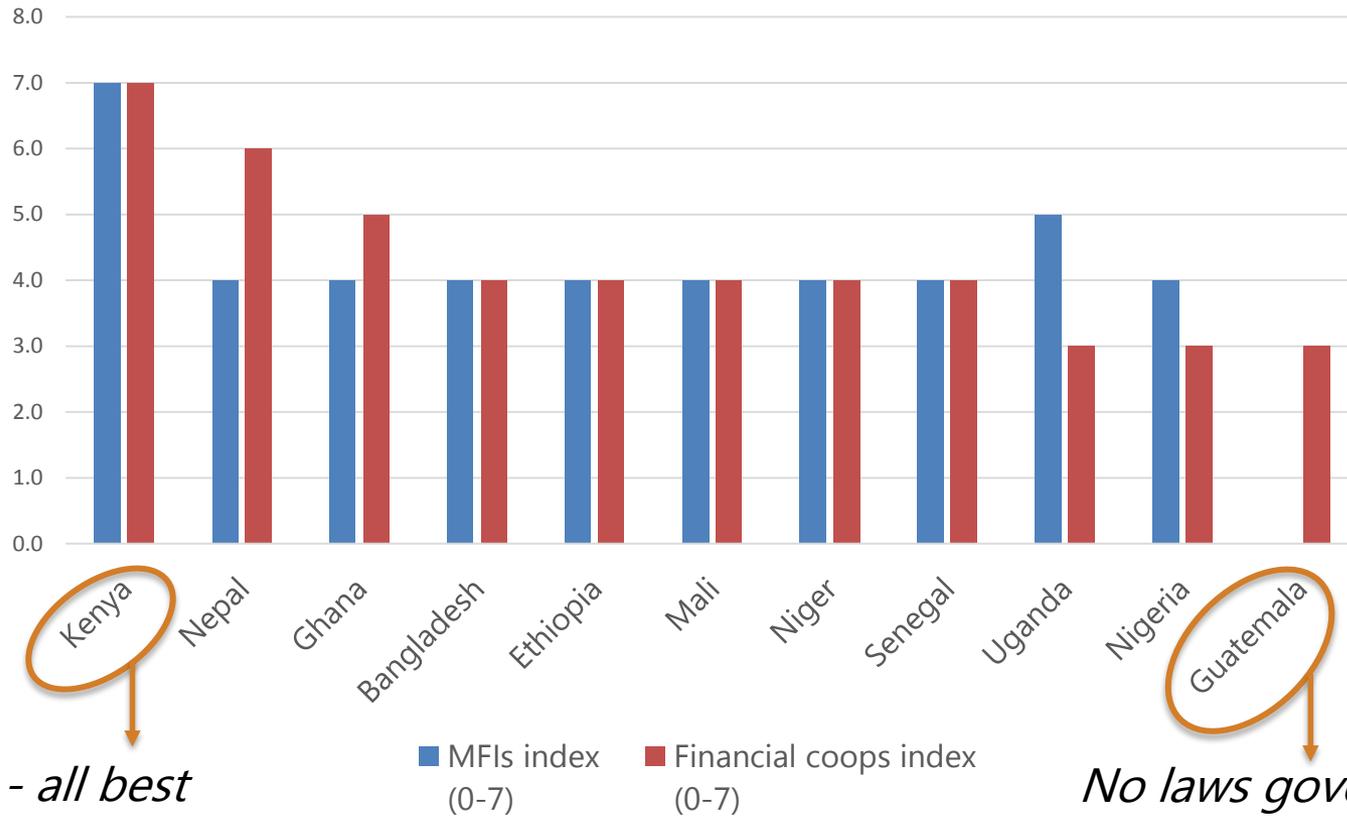




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Perfect score - all best

No laws governing MFIs



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MICROFINANCE INSTITUTIONS: GOOD REGULATORY PRACTICE

Best Performer Law:

Kenya - The Kenya Deposit Insurance Act No. 10, 2012; Laws of Kenya, The Microfinance Act, 2006; The Microfinance (Deposit-Taking Microfinance Institutions) Regulations, 2008; The Consumer Protection Act, No. 46 , 2012



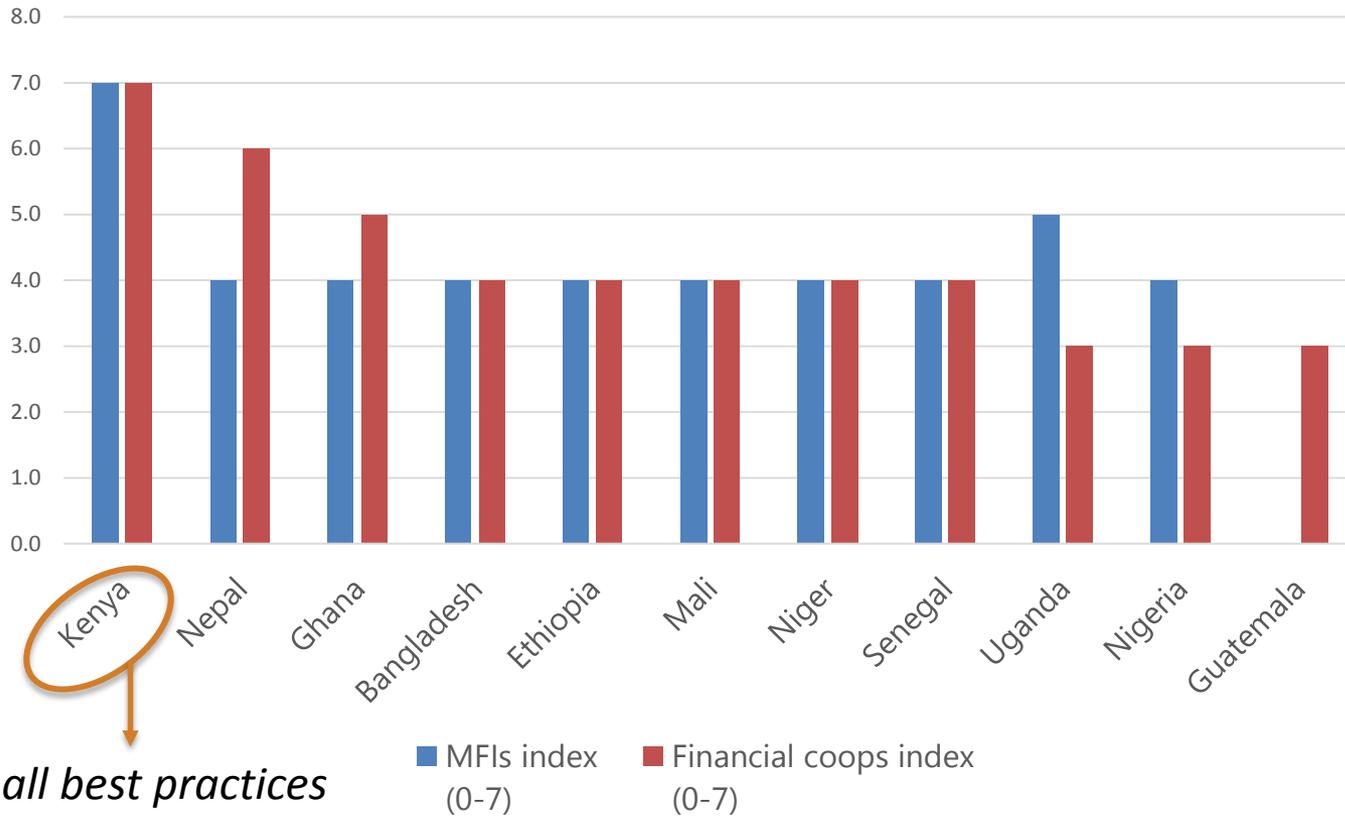
Good Regulatory Practice:

- MFIs:
 - Can take deposits and maintain a capital adequacy ratio (CAR) that is equal to or slightly higher than the CAR for banks
 - Disclose the full cost of credit to loan applicants
 - Participate in a deposit insurance system.





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FINANCIAL COOPERATIVES: GOOD REGULATORY PRACTICE

Good Regulatory Practice:

- Financial cooperatives:
 - Disclose the full cost of credit to loan applicants
 - Participate in a deposit insurance system
 - Can merge to create a new financial cooperative



Best Performer Law:

Kenya - SACCO Societies Act, No. 14, 2008; The SACCO Societies (Deposit-Taking SACCO Business) Regulations, 2010; The Co-Operative Societies Act, Chapter 490, 2012





BRANCHLESS BANKING

Agent Banking

- **Minimum standards** to operate as an agent
- **Services** offered by agents
- **Exclusivity** of agent contracts
- **Financial institution liability** for agent actions

E-Money

- **License requirements** (interoperability, internal controls, consumer protection mechanisms) for non-financial institution e-money issuers
- **Safeguards** for customer funds





STANDARD BUSINESS CASES FOR BRANCHLESS BANKING

Agent Banking:

- Is defined as the delivery of financial services through a partnership with a retail agent (or correspondent) to extend financial services to locations where bank branches would be uneconomical.

Electronic Money:

- Is stored and exchanged through an electronic device and not associated with a deposit account at any financial institution.

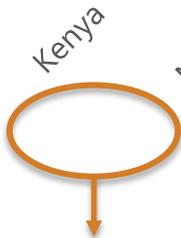
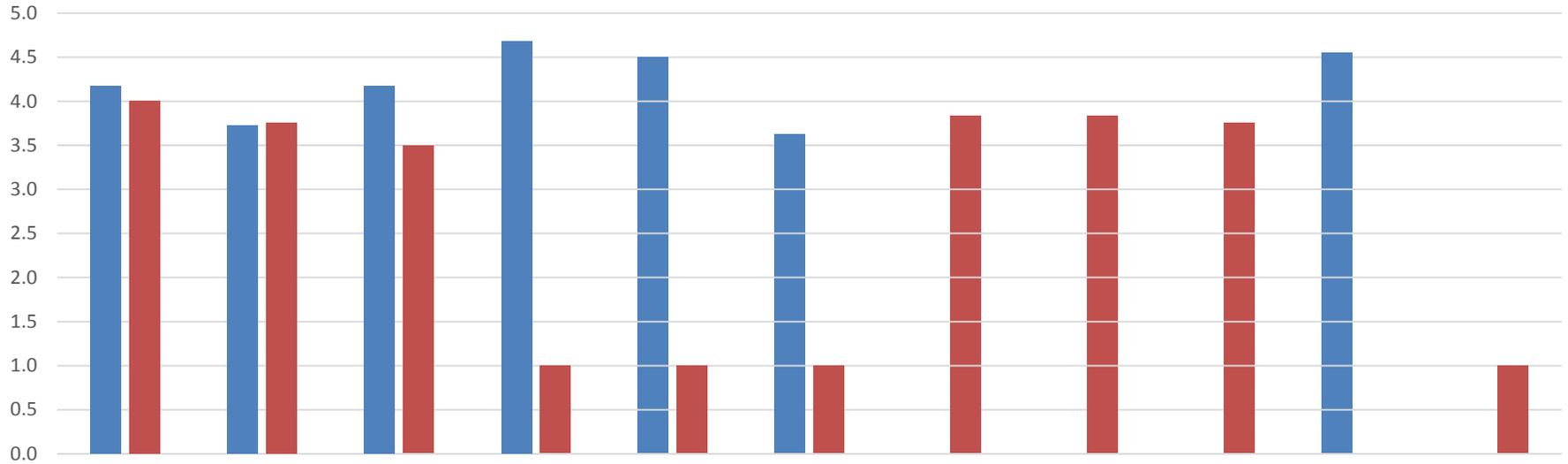




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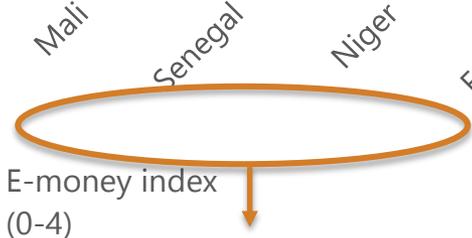
Feed the Future Country Branchless Banking Index Scores



8.2 of 9 best practices



Sound agent banking regulation



No legal framework for agent banking



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AGENT BANKING: GOOD REGULATORY PRACTICE

Best Performer Law:

Bangladesh – Guidelines on Agent Banking for the Banks established by PSD Circular No. 05 dated 09 December, 2013



Good Regulatory Practice:

- Financial institutions can hire agents to provide services on their behalf.
- Regulations:
 - Identify minimum standards to qualify and operate as an agent
 - Allow agents to offer a wide range of services such as cash-in, cash-out, bill payment, transfers, account opening and “Know Your Customer” due diligence
 - Hold financial institutions liable for agent actions

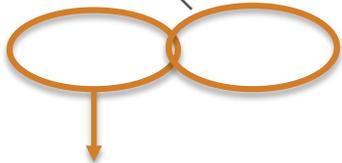
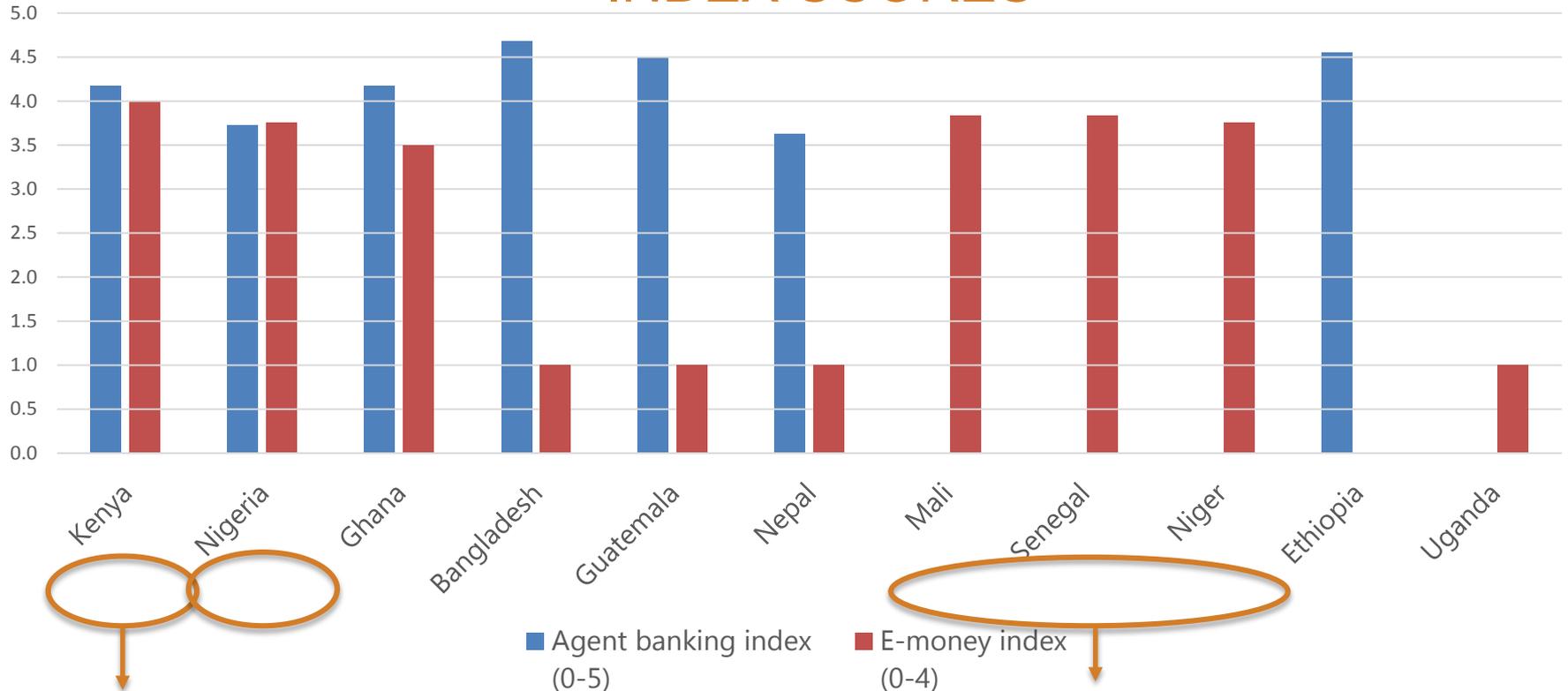




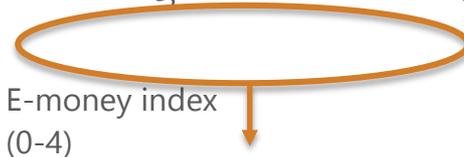
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FEED THE FUTURE COUNTRY BRANCHLESS BANKING INDEX SCORES



Best performer for e-money



E-money legal framework exists



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ELECTRONIC MONEY: GOOD REGULATORY PRACTICE

Good Regulatory Practices:

- Non-financial institutions can issue e-money
- Regulations:
 - Specify minimum licensing standards for non-financial institution e-money issuers (such as existence of internal control mechanisms and consumer protection and recourse mechanisms)
 - Require e-money issuers to safeguard customer funds in a prudentially regulated financial institution

Best Performer Law:

Kenya - The National Payment System Act, No. 39 , 2011;
The National Payment Systems Regulations, 2014





MOVEABLE COLLATERAL

Warehouse Receipts

- **Elements** of a valid warehouse receipt
- **Performance guarantees**
- Receipt **negotiability**

Secured Transactions

From *Doing Business* – Getting Credit

- **Security interest** granted to movable assets and future assets
- **Collateral registry**
- **Credit information** from non-bank institutions





STANDARD BUSINESS CASES FOR MOVEABLE COLLATERAL

Warehouse Receipts:

- Warehouse receipts facilitate the use of agricultural commodities as collateral.

Secured Transactions:

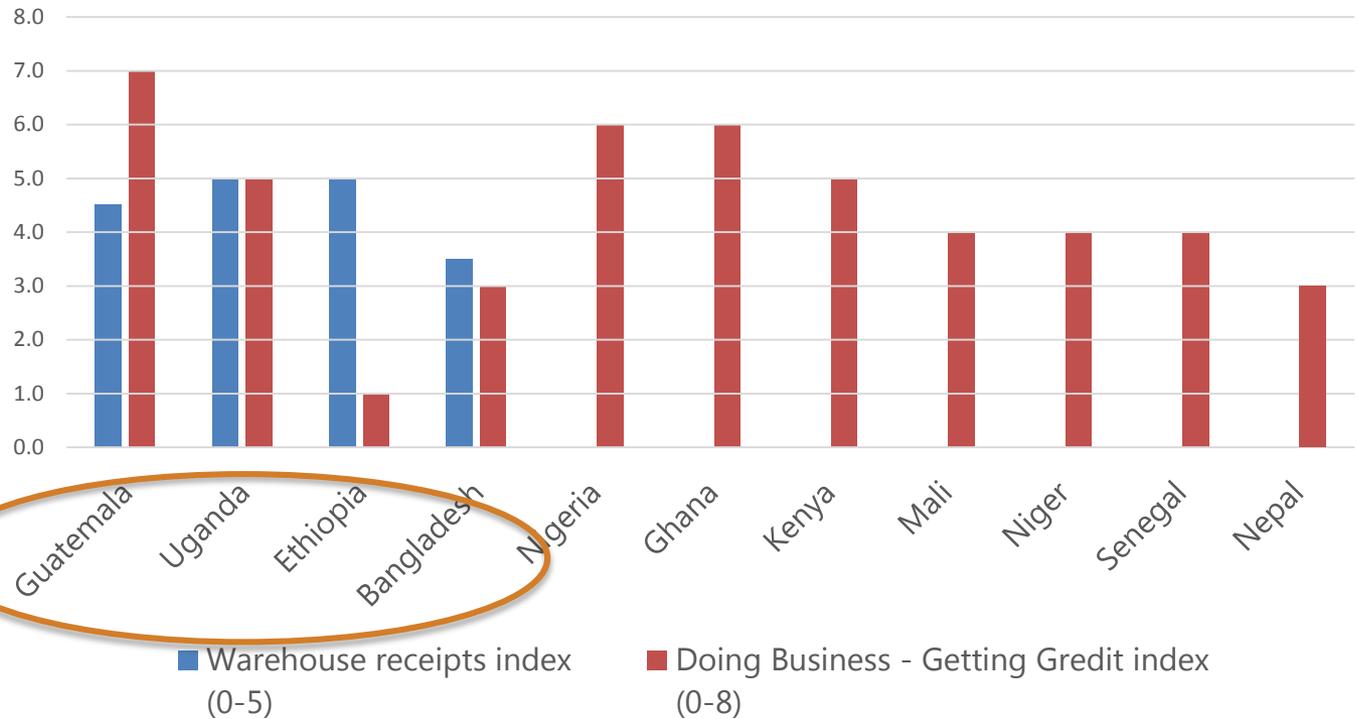
- 8 questions pulled from Doing Business – Getting Credit Index – *Strength of legal rights index*.
- The case scenarios involve a secured borrower, company ABC, and a secured lender, BizBank. Several assumptions about the secured borrower (ABC) and lender (BizBank) are used (refer to [Methodology](#) for details).





FEED THE FUTURE COUNTRY PERFORMANCE: MOVEABLE COLLATERAL INDEX SCORES

Very few Feed the Future countries have laws governing warehouse receipts





WAREHOUSE RECEIPTS: GOOD REGULATORY PRACTICES

Good Regulatory Practice:

- A legal framework exists for a warehouse receipts system.
- Regulations require:
 - Warehouse operators to obtain either insurance, pay into an indemnity fund or file a bond with the regulator to secure performance of obligations as an operator
 - Define the elements of a valid warehouse receipt
 - Allow both paper and electronic receipts



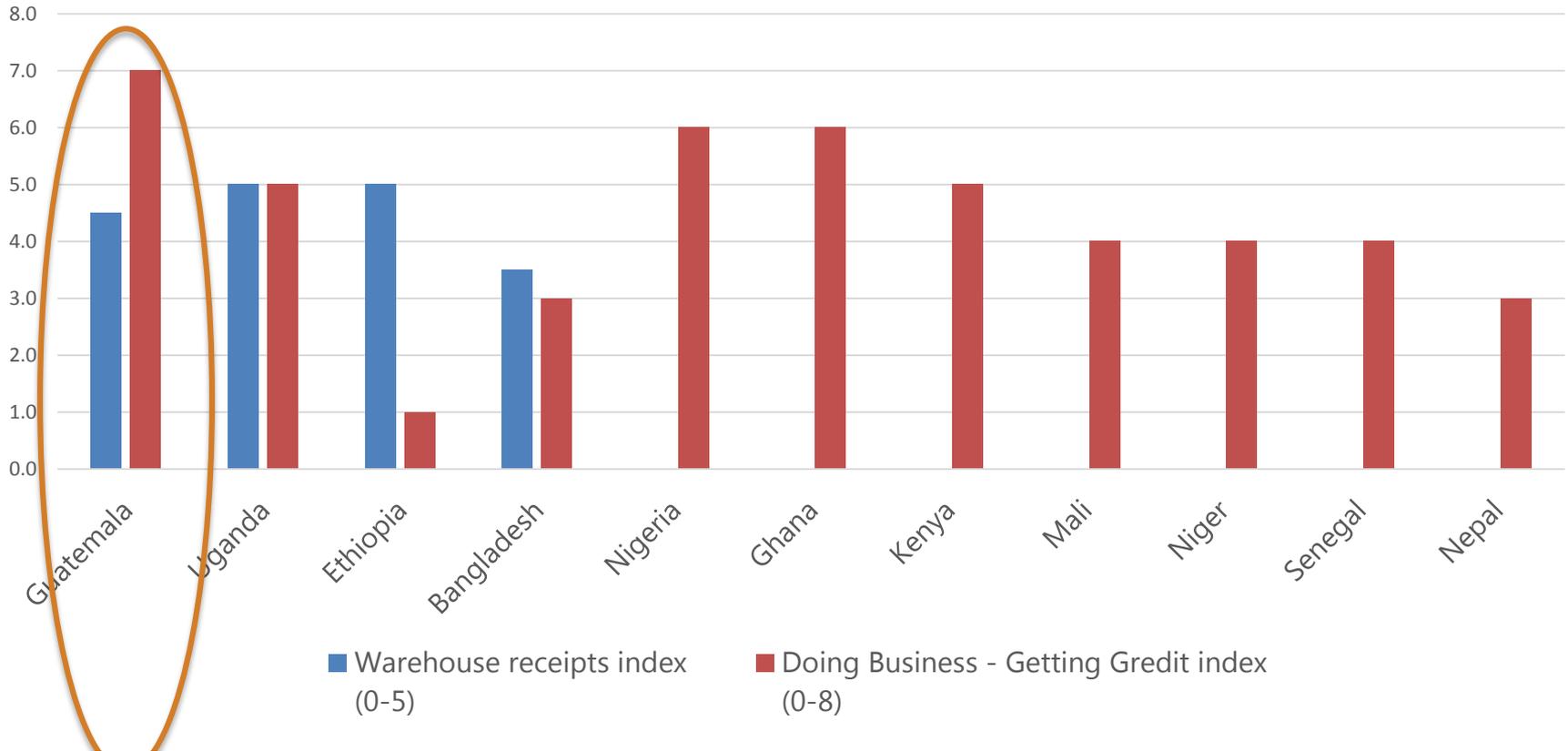
Best Performer Law:

Uganda - Warehouse Receipt System Act, 2006; Warehouse Receipt System Regulations No. 33





FEED THE FUTURE COUNTRY PERFORMANCE: MOVEABLE COLLATERAL INDEX SCORES





SECURED TRANSACTIONS: GOOD REGULATORY PRACTICES

Best Performer Law:

Guatemala - [Ley Del Mercado de Valores y Mercancías](#), Decreto Numero 34-96



Good Regulatory Practice:

- A legal framework exists for secured transactions that grant security interest in movable and future assets.
- Credit information can be distributed by non-banking institutions such as retailers.
- Borrowers can access their data through the credit bureau or credit





RECAP OF WHAT WE'VE LEARNED

Basic elements of indicators covered in the EBA Finance topic area:

Non-banking institutions

Branchless banking

Moveable collateral

Good regulatory practices for EBA Finance sub-indicators





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LET'S CHECK WHAT WE'VE LEARNED



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QUESTION 1

1. True or false: Branchless banking refers to third-party agents that provide financial services and provision of e-money by non-financial institutions.

- a. True
- b. False





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Let's check what we've learned - Question 1

1. True or False: Branchless banking refers to third-party agents that provide financial services and provision of e-money by non-financial institutions?

- a. True
- b. False



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QUESTION 2

2. Good regulatory practice for Microfinance institutions and financial cooperatives include which of the following:
- a. Can take deposits and maintain a capital adequacy ratio (CAR) that is equal to or slightly higher than the CAR for banks
 - b. Disclose the full cost of credit to loan applicants
 - c. Participate in a deposit insurance system
 - d. All of the above





QUESTION 2 - ANSWER

2. Good regulatory practice for Microfinance institutions and financial cooperatives include which of the following:
 - a. Can take deposits and maintain a capital adequacy ratio (CAR) that is equal to or slightly higher than the CAR for banks
 - b. Disclose the full cost of credit to loan applicants
 - c. Participate in a deposit insurance system
 - d. All of the above





QUESTION 3

3. Moveable collateral: What consumer protection measures can be included in warehouse receipts legal framework?
- a. Elements of a valid warehouse receipt are undefined
 - b. Warehouse operators must secure performance of obligations as an operator through insurance or bond payment
 - c. Paper and electronic receipts are allowed
 - d. Both b and c
 - e. All of the above





QUESTION 3 - ANSWER

3. Moveable collateral: What consumer protection measures can be included in warehouse receipts legal framework?

a. Elements of a valid warehouse receipt are undefined

b. Warehouse operators must secure performance of obligations as an operator through insurance or bond payment

c. Paper and electronic receipts are allowed

d. Both b and c

e. All of the above





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YOUR FEEDBACK IS WELCOME!

- ✓ Was this learning resource helpful?
- ✓ Do you have questions or suggestions for improvements on the EBA methodology?
- ✓ Other feedback?

Please contact Lourdes Martinez Romero (COR) at lmartinezromero@usaid.gov or Nate Kline (COP) at nkline@fintrac.com.



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