A Closer Look at EBA Finance Indicator

Session 2

Photo: Fintrac Inc.
SESSION 2 LEARNING OBJECTIVES

- 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

Photo: Fintrac Inc.
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

<table>
<thead>
<tr>
<th>Microfinance Institutions</th>
<th>Financial Cooperatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>• <strong>Prudential rules</strong>  (capital adequacy ratio, minimum capital, loan loss provisioning)</td>
<td>• <strong>Prudential rules</strong>  (minimum capital, prudential standards)</td>
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<tr>
<td>• Loan size limits</td>
<td>• <strong>Consumer protections</strong>  (effective interest rate disclosure, deposit insurance)</td>
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<td>• <strong>Consumer protections</strong>  (effective interest rate disclosure, deposit insurance)</td>
<td>• <strong>Ability to merge</strong></td>
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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.
FEED THE FUTURE COUNTRIES: NON-BANK LENDING INSTITUTIONS INDEX SCORES

Perfect score - all best

No laws governing MFIs
MICROFINANCE INSTITUTIONS: GOOD REGULATORY PRACTICE

Best Performer Law:


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.
FEED THE FUTURE COUNTRIES: NON-BANK LENDING INSTITUTIONS INDEX SCORES

Perfect score - all best practices

- MFIs index (0-7)
- Financial coops index (0-7)

Countries: Kenya, Nepal, Ghana, Bangladesh, Ethiopia, Mali, Niger, Senegal, Uganda, Nigeria, Guatemala
FINANCIAL COOPERATIVES: GOOD REGULATORY PRACTICE

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

Best Performer Law:
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.
Feed the Future Country Branchless Banking Index Scores

- Kenya: 4.5
- Nigeria: 4.0
- Ghana: 4.5
- Bangladesh: 3.5
- Guatemala: 3.0
- Nepal: 2.5
- Mali: 2.0
- Senegal: 1.5
- Niger: 1.0
- Ethiopia: 0.5
- Uganda: 0.0

8.2 of 9 best practices

Sound agent banking regulation

No legal framework for agent banking
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
FEED THE FUTURE COUNTRY BRANCHLESS BANKING INDEX SCORES

- Best performer for e-money
- E-money legal framework exists
ELECTRONIC MONEY: GOOD REGULATORY PRACTICE

Good Regulatory Practices:

• Non-financial institutions can issue e-money
• Regulations:
  o Specify minimum licensing standards for non-financial institution e-money issuers (such as existence of internal control mechanisms and consumer protection and recourse mechanisms)
  o 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).
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:
  o 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
  o Define the elements of a valid warehouse receipt
  o 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

- **Warehouse receipts index** (0-5)
- **Doing Business - Getting Gredit index** (0-8)

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
LET’S CHECK WHAT WE’VE LEARNED
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
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
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
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
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

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e. All of the above
YOUR FEEDBACK IS WELCOME!

✓ Was this learning resource helpful?

✓ Do you have questions or suggestions for improvements on the EBA methodology?

✓ Other feedback?

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