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Financial Inclusion from the Perspective of Social Innovation: The Case of Colombia

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***Abstract*—**Financial inclusion has become a crucially important factor in debates on economic inequality posing challenges to the financial systems of countries around the world. Nowadays governments and banks are concerned about creating products that allow access to wide sectors of the population. The creation of banking products by the financial sector for people with low incomes tends to lead to improvements in the quality of life of vulnerable parts of the population. In countries with notable social and economic inequalities, financial inclusion is a key aspect for equitable economic growth.

This study is based on the case of Colombia, which is a country with a strong record of economic growth over the past decade. Nevertheless, corruption, unemployment, and poverty contribute to uncertainty regarding the country's future growth prospects.

This study wants to explain the situation of financial exclusion and financial inclusion with respect to the Colombian case. Financial inclusion is going to be studied from the perspective of social innovation.

***Keywords*—**Colombia, financial exclusion, financial inclusion, social innovation.

I. Introduction

FINANCIAL inclusion seeks the formal participation of the population by the spread of the products of the banking sector to all the excluded population. This increase is reflected in economic growth, which generates purchasing power of the society and investment. For the fight against poverty, the access to banking services allows families to raise the quality of life and generate economic security [1].

There is a variety of reasons to explain the causes of financial exclusion. One cause is the lack of adequate information about banking products. Another is the lack of access points to financial products, as some Colombian regions do not count with the presence of the banking sector; lack of the implementation of appropriate technologies to reduce the cost of the operations, which have very high costs in Colombia; and finally, rules and regulations created by the need to protect public savings. The imperfections of the financial market justify the intervention of the government [1].

Social innovation is going to be studied from the perspective of a financial inclusion product, the microcredit. The concept of microcredit was established by Muhammad Yunus, who won the Nobel Peace Prize in 2006 for his effort to create economic and social development [2]. The concept of microcredit refers to small loans targeted to people with low income, people without the possibility to pay expensive banking products.

Microfinance has been created as a key group of products that facilitating financial inclusion. The microcredit as an essential part of microfinance and is considered a social innovation. Financial inclusion has focused in this study from the perspective of social innovation, emphasizing in microcredit as a product that helps financial inclusion of countries; is considered as a social innovation that generates financial inclusion.

The paper is focused in the case of Colombia. This country is located in the Northwest corner of South America. Its capital is Bogotá. Its area is 2.129.748 km2, of which 1.141.748 km2 correspond to its continental territory and the remaining 988.000 km² are the maritime extension. It borders to the East with Venezuela and Brazil, to the South with Peru and Ecuador and to the Northwest with Panama. The country's financial system consists of 24 commercial banks, of which 14 of them hold 76.4 per cent of the market. Additionally, the sector has financing companies, savings and loans cooperatives, non-regulated microfinance institutions, and Non-Governmental Organizations (NGOs) [3].

II. Financial Inclusion and Financial Exclusion

Financial inclusion is a strategy that creates banking solutions for people without the opportunity to entry to the financial system. The banks are focus on those clients that have profitable incomes, people that give guarantees to the bank, for that reason individuals that live in poverty or individuals that have low incomes are not attractive customers for the sector [4]. Financial inclusion can be explained and understood as the creation of regulations requiring the banking sector to create products and programs that enable the financial sector to access any individual in society regardless of income level or purchasing power [5], [6]. In addition, the strategy of financial inclusion seeks to reduce social inequity and bring about poverty reduction through increased access to money for any individual in society [7]. The World Bank defined financial inclusion as 'the proportion of individuals and companies using financial services. It is a multi-dimensional concept that reflects the variety of possible financial services (ranging from payment and savings accounts to credit, insurance, pensions, and security markets)' [3, p. 24]. Global Financial Development defined financial inclusion as the amount of persons and companies that use the different financial services that a country has for the population [8].

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Financial exclusion does not exist if the financial system excludes low-income individuals from accessing its services. The government has to intervene and to create politics for the banking system to generate the inclusion of those people that do not have the option to access the financial sector. The concept of financial exclusion refers to those sectors of the population that do not make use or are not a part of a country's financial sector [9], [10]. The exclusion of the financial products is defined as the renunciation of entrance to financial services, mostly to poor people [11].

Financial inclusion is measured by four factors: The first one is the *access*, this is defined as the facility to use existing financial services and products from the different institutions that the banking sector of a country has. The second factor is the *quality*, this means the experience that the customer has with the financial institution and the services that it provides to clients; the third is the *usage*, is emphasizes on the stability and penetration of the financial services and the use of the portfolio of products that the banking sector offers. The last one is the *impact*, this factor measures the changes that the customers experience in their lives when deciding to use financial services [12].

A. Financial Inclusion in Colombia

Colombia has made significant efforts to understand and address the lack of access to financial services in general; since its inclusion in strategies for the eradication of extreme poverty to the design of a long-term public policy aimed at gaining admission to financial services by the general population without access. As a result, according to the calculation of the entity Asobancaria [13], the percentage of the adult population with some type of financial product increased from 51.1 per cent in 2006 to 56.6 per cent in March 2009. And in 2014 this percentage growth to 72 per cent; savings accounts have been and continue to be the main product through with which the population is linked to the financial sector [14].

Fig. 1 is intended to explain the level of banking regarding the amount of population that is in the capacity to acquire banking products and those that have at least one product:

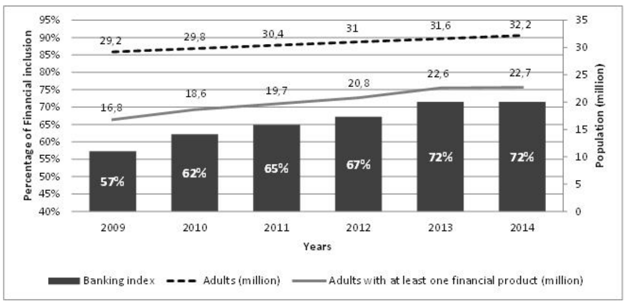

Fig. 1 Colombia's banking index, 2009-2014. Source: Asobancaria-CIFIN-DANE [13]

Fig. 1 shows the level of people who are part of the banking sector in 2014 does not exceed 72 per cent; therefore, 28 per cent of people do not have any banking product.

The report on financial inclusion developed by the Colombian central bank [15], presents the uses of the different banking products by each of the departments of Colombia. The higher levels correspond to Bogotá and the departments of Atlántico and Antioquia. The lowest results correspond to Guanía, Vaupés, La Guajira, and Casanare. Amazonas, Cauca and Norte de Santander, doubled the indicator between 2008 and 2013. On the other hand, Meta and Vaupés showed a decrease in levels of financial deepening, which went from 14.5% and 1.9% to 12.5% and 1.8% respectively [15].

Fig. 2 shows the number of people who use the main financial products in Colombia. The table explains the progress that the country has in the financial inclusion since 2011 to 2014 in the following banking products: savings account, current account, housing loan, microcredit, credit cards, and electronic deposits. The percentage corresponds to a participation that the banking product has.

Year / Product	2011	2012	2013	2014
# of persons with at least one financial product	18.717.561	20.034.361	21.547.795	22.704.299
Savings account	67.4%	65.7%	63.2%	62.1%
Current account	5.4%	5.1%	4.6%	4.5%
Housing loan	2.6%	2.6%	2.5%	2.5%
Microcredit	4.6%	5.5%	5.5%	5.2%
Credit cards	20%	19.7%	19.1%	19.7%
Electronic deposits	-	1.4%	5%	5.9%

Fig. 2 Colombia's bank products and their usage, 2011-2014, Source: Asobancaria-CIFIN [16]

Fig. 2 shows, Colombia's banking product most used refers to savings accounts, followed by credit cards; it is important to note that electronic deposits have been increasing from 2012 to 2014; microcredit, current accounts and housing loans have had little significant change. It is important to emphasize that financial inclusion in Colombia has been given mainly due to the savings accounts.

Fig. 3 shows a comparison of formal financial inclusion indices in 2011 between Colombia, Latin America & Caribbean, and some upper middle-income countries (Brazil, Malaysia and Egypt). The figure shows that the index of loans from a financial institution is higher than the percentage of the population that has it product for Colombia than the average for Latin America and for upper middle-income countries (Brazil, Malaysia and Egypt). In the debit card, use is evident that Colombia has the lowest percentage, and the upper middle-income countries have the best index for this banking product. In the credit card use, the average for Latin America & Caribbean is close to 18 percent, and Colombia has 10 percent in this product, the results for the upper middle income countries are close to the result obtained by Colombia. In the index of account used to receive government payments the result for Colombia is 5 percent, but the Latin America & Caribbean and the upper middle income countries have twice the percentage of the population that uses this modality. And for the last index saved at a financial institution, the results obtained by Colombia and Latin America & Caribbean are the same percentage, while the percent for upper middle income countries are much higher [17].

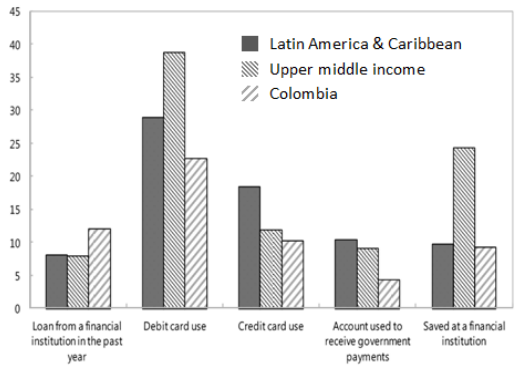

Fig. 3 Formal financial inclusion, 2011 (percent of population) Source: International Monetary Fund [17, p. 21]

In 2014 the Economist Intelligence Unit performed the Global Microscope that had made an analysis about financial inclusion [18]. The index is constructed based on 12 indicators, and the information is obtained from 55 countries. Five countries in the region of Latin America and the Caribbean are in the top 10. The results show that Colombia has the second place in the overall score. Peru exceeds the results obtained by Colombia, demonstrating a strong effort to improve financial inclusion. The results show that the country is making a strong effort to improve conditions for financial inclusion. The government has prioritized the coverage of financial services in Colombia; there are few municipalities do not have financial coverage nowadays. Colombia has the second place in the 55 countries studied [18].

Fig. 4 shows a comparison between Colombia and Mexico. The figure shows the different agents that Mexico and Colombia use to expand its coverage in financial services. The big banks have been supported by other entities, such as stores, to provide banking services in areas of difficult access.

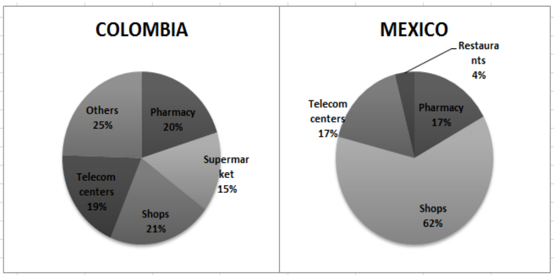

Fig. 4 Entities that acts as banking correspondents in Colombia and Mexico, 2010, Source: Comisión Nacional Bancaria y de Valores [19, p. 37]

For Mexico, the highest percentage of banking correspondents is in stores, while Colombia has distributed its correspondents from more variety of businesses that support banking operation throughout the national territory.

III. Social Innovation and Financial Inclusion

Social innovation refers to the development of new strategies or tools that obtain importance with the advance of society's prosperity and the creation of social value [20], [21]. The idea of social innovation is closely related to the concept of social economy [22], [23]. The concept of social innovation refers mainly to the implementation of innovative solutions for problems that the society has.

As Pastor Pérez [24] said, microfinances is consider a part of social innovation whose main objective is poverty reduction. Microcredit, as a part of microfinances, is going to be studied from the perspective of social innovation. Microcredit is an important banking product that allows the financial inclusion.

A. Microcredit the Colombian Case

The Colombian government created a program for microcredits called Bank of Opportunities. This program promotes access to formal financial services to families in poverty, unbanked households, micro and small enterprises. According to the Financial Inclusion Report 2013 [3], prepared by the financial superintendence of Colombia and the Bank of Opportunities program, microcredit in 2013 has an annual growth of 15 percent; the amount of money that was originated in banks corresponds to 71 percent, followed by NGOs (17.4 percent) and cooperatives (7.5 percent) [3].

In Colombia, the departments of Bogotá and Valle del Cauca have the highest percentage of microcredit in the country; Vaupés, Guanía and Amazonas have the lowest percentage of microcredits. It is important to highlight that Bogotá and Valle del Cauca had better percentage in 2013, they gave a higher number of microcredits that were approved in 2014. This shows that the government is seeking to create products at low costs for low-income persons, where each of the departments have coverage. However, it is clear that coverage has focused mainly in Bogotá, followed by Valle del Cauca [25].

A study about microfinances and microcredit in Latin America, specifically for Colombia, Ecuador, El Salvador, Mexico, and Paraguay, shows that Chile has the best growth of microcredit in the region in 2009. Colombia is ranked in the 12th place in the growth of the microcredit [26].

IV. Conclusions

Financial inclusion has become an issue of great importance as it helps to reduce poverty and generate economic development. Despite all the progress, Colombia has made toward increasing financial inclusion in the country, there are still 28% of the population does not own any financial product.

The main strategy of the government of Colombia has been in terms of coverage; most municipalities have a presence of the financial sector, however, financial inclusion in Colombia is dominated by savings accounts.

Over the past years, Colombia has made greater efforts with respect to the issue of financial inclusion; this is evidenced by the results obtained in 2014 in which the country is compared with other countries, surpassed only by Peru.

Financial inclusion in the country has focused primarily on Bogotá, this city excels in all aspects; the issue seems to have been forgotten in the departments of Guanía, Vaupés and Amazonas, departments with the lowest indicators of financial inclusion.

In Colombia, microcredit is beginning to take strength throughout the country; Latin American countries such as Chile and Brazil are more advanced, Colombia requires more work by the government and the banking sector to strengthen microcredit in Colombia in order to achieve improved international competitiveness.

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