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Working Paper

Towards Financial Inclusion: An Assessment for Suriname

Centrale Bank van Suriname Working Paper Series, No. 19/01

Suggested Citation: Fraser, Nancy; MacDonald, Cherique; Ooft, Gavin (2019) : Towards Financial Inclusion: An Assessment for Suriname, Centrale Bank van Suriname Working Paper Series, No. 19/01, Centrale Bank van Suriname, Paramaribo,
<https://www.cbvs.sr/images/content/pdf/2019/RES/CBvS-WorkingPapers/CBvS-WP-19-01.pdf>

This Version is available at:

<https://hdl.handle.net/10419/215535>

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CENTRALE BANK VAN SURINAME

Towards Financial Inclusion: An Assessment for Suriname

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May 2019

The authors are staff members of the Central Bank of Suriname. The views expressed in this paper are those of the authors and do not necessarily reflect those of the Bank. Research papers are work in progress and are published to elicit comments for further debate.

Abstract

This paper presents an assessment of financial inclusion in Suriname, mainly from the Central Bank's perspective. It examines existing data on financial inclusion and policy initiatives and measures the Central Bank of Suriname has taken to stimulate financial inclusion. This research is mainly conducted through desk studies and is supported by interviews with various stakeholders involved with financial inclusion and education as well as with the relevant Central Bank departments in charge of national financial inclusion initiatives. Consequently, the study presents policy recommendations aimed at improving financial inclusion in Suriname, since it is an important contributor to monetary policy and a prerequisite for financial stability.

Keywords: financial inclusion, financial services, financial literacy, monetary policy

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1. Introduction

This paper presents an assessment of financial inclusion in Suriname, mainly from the perspective of the Central Bank of Suriname (CBvS). According to the World Bank Group (2018), financial inclusion means that individuals and businesses have access to useful and affordable financial products and services that meet their needs – transactions, payments, savings, credit, and insurance – delivered responsibly and sustainably. The World Bank Group (WBG) indicates that financial inclusion facilitates seven of the seventeen Sustainable Development Goals. It enables poverty reduction and boosting shared prosperity. Key financial inclusion focus areas identified by the World Bank are payment and settlement systems, credit infrastructure and small & medium enterprise finance (World Bank Group, 2018).

This paper particularly summarizes recent developments of financial inclusion and related Central Bank policies in Suriname. This study is also particularly relevant for both policymakers and the society, as a whole, as so far, little has been formally documented on financial inclusion initiatives and policies in Suriname. The paper contributes to the empirical literature on financial inclusion in Suriname.

The structure of the remainder of the paper is as follows. Section 2 briefly reviews literature on financial inclusion and the role of central banks in this regard. The following section, Section 3, presents stylized facts on financial inclusion in Suriname. Section 4 presents the role and initiatives of the Central Bank of Suriname as a financial service provider. Before the paper concludes, Section 5 presents policy recommendations.

2. Literature Review

Financial inclusion refers to the availability and access of individuals and businesses to sustainable and affordable financial products and services, though there are varying definitions of this concept. Financial inclusion implies that these individuals and businesses can readily open bank accounts, carry out financial transactions and have access to automated teller machines (ATM's), for instance. This enables them to plan and facilitate their

operational finances. Financial inclusion also encompasses access to and usage of financial products such as savings and investment options, loans and insurance for individuals and businesses. Furthermore, it provides societies with numerous benefits, such as inclusive growth and consumption smoothing. For families, financial inclusion may lead to access to saving products what may increase welfare. Access to credit and insurance may likewise be beneficial to households. Firms can also benefit from financial inclusion through access to credit, enabling them to expand their business and create job opportunities (Karlan et al, 2014).

Financial inclusion is often measured by access to and usage of formal financial products and services. A conventional measure is ownership of accounts by individuals, which is estimated worldwide around 69% (World Bank Group, 2018). Three key dimensions of financial inclusion are access, usage, and quality (World Bank Group, 2018). As financial inclusion is a relatively new policy priority, many countries experience data gaps in this field. However, the Global Findex database provides a dataset for access to and use of formal and informal financial services (Demirguc-Kunt et. al., 2017). A pillar next to financial inclusion is financial literacy. Zait and Berteau (2015) summarize the definitions of financial literacy as “the ability to read, analyze, manage and communicate about the personal financial conditions that affect material wellbeing”. Both financial literacy and financial inclusion are crucial in achieving financial stability.

The World Bank Group (2018) has a pivotal role in promoting worldwide financial inclusion. This is ought to be achieved by two institution-wide initiatives:

- Universal Financial Access by 2020

This program encompasses improving worldwide access to financial services such as storage of funds and facilitation of transactions. The program considers more than 100 countries, while it focuses primarily on 25 countries where nearly 70% of the inhabitants are financially excluded.

- Financial Sector Assessment Programs

These are periodic assessments by the World Bank and the IMF to help strengthen countries’ financial system and shed light on critical financial sector issues.

Key working areas of the World Bank are assisting countries in setting up national financial inclusion strategies, reforming and modernizing payment systems, implementing technology and diversified financial services, expanding access to finance, financial consumer protection as well as gathering and analyzing data on this issue.

Financial inclusion is crucial for effective monetary policy of Central Banks. In this regard, Central Banks usually act as liaisons of national financial inclusion policies and strategies. Central banks are also responsible for a well-functioning payment system, which facilitates financial transactions. This encompasses both traditional as modern payment methods. Eventually, it also contributes to the primary role of Central Banks to maintain monetary and financial stability and in encourage economic growth (Mehrotra & Yetman, 2015).

Empirical Review

Recent empirical studies shed light on financial inclusion and education in specific countries or regions. Li & Wong (2018) explain that the Caribbean region has well-developed financial systems, while financial development could be further improved, especially with respect to credit for small and medium enterprises. Furthermore, data gaps form a key constraint in assessing financial development in most Caribbean countries. The latter forms a constraint for specific quantitative analyses for this region.

Roa, Alonso, García and Rodríguez (2014) investigate financial education and inclusion in Latin America and the Caribbean (LAC). Central Banks in this region are the main promoters of financial education and inclusion, mainly through communication and economic areas. However, the focus around the time of their investigation was rather on financial education than financial inclusion. The results show that LAC Central Banks collaborate with other institutions to promote financial education and inclusion. The main target group of LAC central banks seems to be primary and secondary school students and the public, while the primary means of communication are the Central Bank's website, direct promotion and mass media.

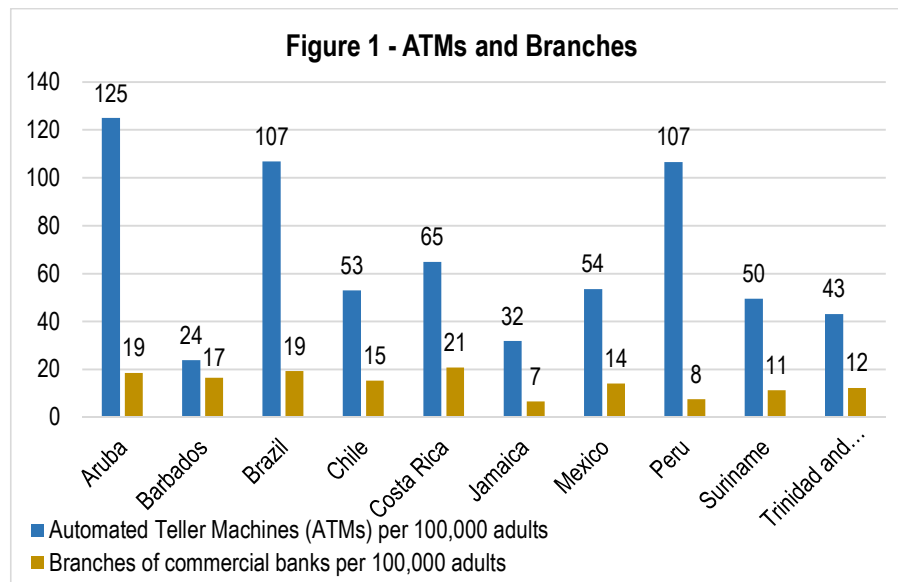
There is increasing global awareness of financial inclusion. The World Bank Group (2018) reports that more than 55 countries committed to financial inclusion while more than 60 have either launched or developed a national strategy since 2010. For instance, Portugal has accelerated the use of teleprocessing networks, enhanced by the increasing utilization of

technological innovations. Its banking-network service SIBS facilitated financial inclusion in the fields of home banking, mobile banking, the use of ATM machines and retail payment systems (De Matos & D'Aguiar, 2018). Malaysia is amongst the best achievers in the area of financial inclusion as the majority of its population gained access to formal financial services in recent years. This is the result of a joint effort between authorities and the financial sector, based on a Financial Sector Masterplan and a Financial Sector Blueprint. The Central Bank of Malaysia played a crucial role in this process (De Luna Martínez, 2017).

3. Stylized Facts

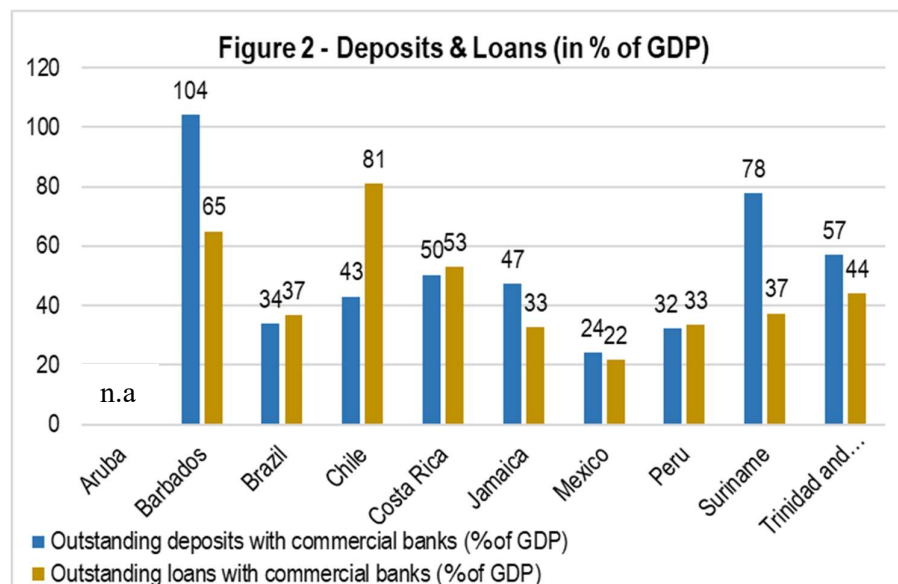
The financial sector in Suriname comprises of 10 commercial banks, 12 institutions of insurance corporations, 23 credit unions. Together, these institutions operate 211 ATMs and over 4,000 point-of-sale (POS) machines. Branches of commercial banks increased from 29 in 2004 to 38 in 2017, while the number of ATMs increased on average by 20% per year from 2004 to 2017. The CBvS supervised the entire sector. Regarding financial inclusion, the country made decent progress, as evidenced by the available financial access indicators. However, recent data shows that Suriname lags behind its peers in the region and exhibits data-availability issues. Park and Mercado (2015) constructed a financial inclusion indicator that includes five measures namely, ATMs per 100,000 adults, commercial bank branches per 100,000 adults, borrowers from commercial banks per 1,000 adults, depositors with commercial banks per 1,000 adults, and the domestic credit to GDP ratio. According to their index, Suriname ranks #79 out of 176 countries.

With respect to geographical coverage, the country scores relatively low due to the low population density related to the large size of the country (see appendix). Suriname had around 50 ATMs and 11 branches of commercial banks per 100,000 adults per 2017 (figure 1).



Source: IMF (2019)

Outstanding deposits at commercial banks amounted to 78% of the Gross Domestic Product (GDP) while loans-to-GDP amounted to 37% of GDP (figure 2).



Source: IMF (2019)

4. The Role of the Central Bank of Suriname and Initiatives to Promote Financial Inclusion

The Central Bank of Suriname has a central role in the financial and economic system, to ensure price stability and creating a healthy macroeconomic climate conducive to economic growth. In this role, the Bank focuses on performing its core tasks enshrined in the Bank Act of 1956. One of these core tasks is to promote the stability of the value of the Surinamese dollar, a prerequisite for economic well-being and economic growth. In addition, the Bank is responsible for and regulates the flow of banknotes in Suriname as well as facilitating the electronic transfer of money and securities. The latter is realized through the Suriname National Electronic Payment System (SNEPS), which is essential for the healthy functioning of the economy as well as a safe, smooth and efficient processing of payments. The Bank also provides stakeholders, including society, with relevant information such as statistics, sectoral studies, and other economic reports.

The Bank also supervises money exchange and financial transfers from and to foreign countries, thereby ensuring financial stability, healthy and efficient functioning of the financial system, as well as the protection of consumers of financial services. To support the sectors institutional framework the Bank establishes laws and regulations. Moreover, the Bank collects, analyzes and disseminates monetary, balance of payments, exchange rates, and other financial statistics, which are used in its decision-making process, and which influence the financial sphere of the economy.

The Bank has a pivotal role in promoting financial inclusion based on its mandate, expertise, resources and the convening power to mobilize stakeholders. To this end, the Bank engaged in initiatives to promote financial inclusion, financial education as well as consumer protection. Concerning financial inclusion, the Bank took preliminary actions towards formulating a National Financial Inclusion Strategy for Suriname. Furthermore, the Bank is collaborating with international organizations and financial institutions. Additionally, the Bank organizes financial education programs, training sessions and activities for different target groups, to promote financial knowledge, awareness, and behavior, thereby increasing access to and use of formal financial products and services. Recently, the Bank upgraded the SNEPS, resulting in an improvement of the financial infrastructure. Moreover, recent efforts

towards the establishment of a credit registration agency, which will improve the transparency and efficiency in the lending process for customers and credit providers. Furthermore, the Bank works towards adapting policies, i.e. laws and regulations, to facilitate innovations in financial technology (FinTech) that will positively affect the financial sector while implementing stricter policies to contain potential risks to the financial system.

Towards Formulating a National Financial Inclusion Strategy

Suriname does not yet have an explicitly formulated NFIS. Nevertheless, the Central Bank feels the need to formulate a national financial inclusion strategic plan. Financial inclusion has been integrated into the Bank's activities, aimed at promoting access to and the use of formal financial products and services consequently contributing to achieving the objectives of the Bank. According to the Alliance for Financial Inclusion (AFI; 2015) there is growing evidence that national financial inclusion strategies¹ (NFIS) have the potential to accelerate financial inclusion, which is important for a stable financial system. Therefore, many Central Banks are moving towards developing and implementing an NFIS, often with the assistance of international organizations.

The Bank intends to conduct a baseline measurement of the financial inclusion landscape in Suriname. To this end, the Bank has requested technical assistance from an international financial institution. According to the World Bank 2015, a few main building blocks² are required for effective design and implementation of an NFIS. The first building block requires data and diagnostics covering both the demand and the supply-side. Consequently, the objectives and priorities of the NFIS can be determined. The baseline study will gather supply side- as well as demand-side data of the financial sector in Suriname. To gain a full understanding of the constraints to financial inclusion, it is necessary to explore both sides of the financial system. Based on the research results of the supply-side as well as the demand-side, financial access gaps and possible causes can be identified. This will allow the Bank to formulate policy objectives and set policy priorities for financial inclusion.

¹ A national financial inclusion strategy (NFIS) is a comprehensive public document that presents a strategy developed at the national level to systematically accelerate the level of financial inclusion.

² Data and diagnostics, targets and objectives, leadership and coordination, strategy formulation, strategy implementation, monitoring and evaluation are important building blocks

The Bank conducted an internal survey in 2016, to get a general overview of the financial inclusion initiatives and to determine the role and the involvement of the Bank in this regard. This was the first action related to the baseline measurement of the financial inclusion landscape. The survey comprised of interviews with various relevant departments and aimed at exploring this relatively new concept. It also aimed at gaining a better understanding of the parameters of financial inclusion for further research. The results of the survey pointed to a lack of awareness about the concept of financial inclusion and the lack of systematic data collection on financial inclusion. The interviewees also stressed that the Bank should have a pioneering and leading role in promoting financial inclusion in its role as supervisor of the financial sector. Some departments within the Bank³ have already been contributing to promoting financial inclusion, however not by design, while other departments will contribute to financial inclusion in the near future. Furthermore, this investigation indicated that although a legal framework for Financial Inclusion is lacking, financial inclusion policies can be pursued under Article 9⁴ (c) and (f) of the Banking Act. Also, insight is gained into relevant stakeholders and target groups, factors that play a role in the implementation of financial inclusion, and factors that are a barrier to promoting financial inclusion in Suriname.

Recently, the Bank has formulated a preliminary working definition for financial inclusion: a situation where the working population, including vulnerable groups, has effective access to financial products and services offered by formal financial institutions to improve their socio-economic life. The term effective means offering formal financial products and services that meet the following conditions: easily accessible, affordable, adapted to needs, timely, responsible and permanent. This working definition is used within the Bank, by the department responsible for financial inclusion, yet it is not formally approved.

Towards a Strategic Policy Plan for Financial Education

The international financial crisis in the recent past has proved that the level of financial literacy and informed financial decision-making of consumers need improvement. Within that

³ Legal Affairs (advisory role, formulating legislation), ICT Department (security issues), Statistics Department (data collection and processing), Financial Markets Department (policy for credit market), Research Department (consultant role, conducting research), Domestic Operation Department (policy management SNEPS) and Directorate Credit.

⁴ Article 9 of the Bank Act 1956 (current text S.B. 2010 No. 173) the Central Bank of Suriname is responsible to ensuring and to promote the development of a healthy banking and credit system in Suriname.

context, central banks and financial regulators around the world are increasingly focusing on initiatives to promote financial knowledge and are playing a greater role in defining and implementing strategic financial education policies. Customers, with more financial knowledge, are better informed, as such, they better understand the information provided by financial institutions. As a result, they can make informed decisions about financial products and services that suit them best to meet their needs, and thereby contribute to consumers' financial well-being. This, in turn, can have a positive impact on the stability of the financial system.

The Bank has a pioneering role in financial education in Suriname, whereby it has an intensive interaction with society as part of its financial education policy (Centrale Bank van Suriname, 2015). To give substance to this role in promoting financial literacy in Suriname, the Bank is planning to formulate a strategic financial education policy plan. The Bank needs to conduct a baseline study in this context, to measure the level of financial literacy of the population and to identify literacy gaps. The Bank set up a specific department, in 2015, responsible for the development of educational programs aimed at advancing financial literacy. A survey for the baseline study mentioned above, based on an OECD survey tool was constructed and was adapted to the Surinamese situation based on interviews with relevant stakeholders. In anticipation of this baseline study, a pre-test and pilot study was conducted in 2015 by the Institute for Social Science Research of the Anton de Kom University of Suriname mainly to test the technical content of the survey and not to draw representative conclusions of the population. Furthermore, the Bank published the book "Ons Geld" for youth in 2012. This book describes the history of Surinamese money and provides information about how to deal with money. The Bank has provided this book to all school libraries and during educational activities. As part of its education policy, the Bank also trained Surinamese journalists in 2011 and 2013. The training aimed at to better understand and communicate financial news. To this end, the Bank hired local and foreign financial experts and experienced journalists to provide the training. More recently, the Bank has been publishing periodical columns in the newspaper/magazine to promote consumers' knowledge and create awareness about several financial topics.

Pending the results of the baseline study, several target groups have been identified for which the Bank considered it desirable to raise their financial awareness. The first target group was

the financial sector. The Bank developed and implemented the Financial Services Module (MFD) in collaboration with Welten International B.V. in 2013. This basic course program targeted at customer contact personnel within the financial sector, while the sub-project “Suriname Financial Campus”, was developed in collaboration with Welten International B.V. and the financial sector. The objective was to enhance knowledge and skills regarding fundamental financial topics across different financial institutions while keeping the interest of the customer in mind, to improve financial services and encourage well-informed decision-making of customers. Furthermore, the Bank trained more than 1,200 employees from the financial sector in a period of two years, during this program.

The Bank identified children and youth as the second target group. Hence, the Bank signed a Memorandum of Understanding (MoU) with Stichting Projecten Christelijk Onderwijs to implement the Aflatoun program⁵ in 2011. This program intended to strengthen the youth’s social and financial development. The Bank also established a partnership with the Suriname Chess Federation and promoted financial education during the Federations’ activities. The reasoning behind this partnership was that mind sports (e.g. chess tournaments) also require competencies that are relevant to financial competence (Centrale Bank van Suriname, 2015) such as logical reasoning and calculation.

As part of its national financial education program, the Bank has also been organizing the Global Money Week (GMW) for children and youth, since 2014. This event is held annually in collaboration with Stichting Projecten Christelijk Onderwijs⁶ and other participants⁷. GMW, a Children and Youth Financial International (CYFI) initiative, is an annual financial awareness campaign built to inspire children and youth to learn about money matters, sustainable livelihoods, and entrepreneurship (Global Money Week, 2018). It aims to increase the economic and social participation of children and youth. With this project, the Bank tries to involve children in financial matters at a young age, thereby increasing their financial awareness and encouraging responsible financial behavior at a later age. At the same time,

⁵ Aflatoun International offers social and financial education to millions of children and young people worldwide, empowering them to make a positive change for a more equitable world

⁶ The collaboration with Stichting Projecten Christelijk Onderwijs has since been discontinued.

⁷ Ministry of Education, Ministry of Finance, Assurance Companies, other Financial Institutions, and NGOs active in the field of financial education.

parents and educators are stimulated in their financial awareness and can therefore, convey the right message to the youth.

During the GMW Fair, pupils from various education levels (i.e. primary, secondary and tertiary education) have been engaging in activities based on different themes such as money, savings, entrepreneurship, retirement, and insurance, in a playful manner. The Bank initiated the GMW with a fair that children from primary schools visited during school hours, while in the afternoon the fair was open to everyone. In subsequent years, the GMW had a smaller character and was organized at the Bank's Center for Financial Education and Development (CFEO), with three secondary schools. More recently, various schools in rural areas were visited during this event. The Bank also organized workshops on financial topics at the various schools for students, while the public is informed about the GMW and its purpose via the radio, TV and various newspapers. The GMW registered around 7,000 visitors in 2014. According to the GWM (2018), financial information at the GMW indirectly reached around 56,000 persons or approximately 10% of the Surinamese population, in 2018.

The third target group was the small and medium enterprises (SMEs). The Central Bank of Suriname signed an MoU with the Central Bank of Trinidad & Tobago (CBTT) in a Knowledge Transfer Program for SMEs, in 2014. This knowledge exchange program with CBTT started in 2015 and aimed at stimulating entrepreneurship and promoting adequate financial management. During this program, Bank's staff and other stakeholders were trained. These, in turn, provided train-the-trainer courses to more than one hundred trainers in different economic sectors such as agriculture, trade, and tourism. These trainers trained entrepreneurs from different small and medium enterprises. Hence, the Bank attempted to make the course sustainable, as well as to increase the financial knowledge of SMEs' thereby enabling them to have more access to credit for starting or expanding their businesses.

Establishment of the Training Institute and Study Center

A Training Institute and Study Center (TNS) was included in the Bank Structure in 2011. The initial main objective of the TNS was, on the one hand, to strengthen capacity within the Bank and the financial sector and on the other hand, to promote financial education in Surinamese society (Centrale Bank van Suriname, 2015). This changed in 2015 when TNS became the Center for Financial Education and Development (CFEO) and only focused on increasing

financial awareness and providing financial education to the public. Simultaneously, the HRM department in the Bank was established and was given the task of providing internal training courses. Within the CFEO, the Research & Development section was responsible for the development and implementation of research aimed at identifying the needs and wishes of the target group within Surinamese society as well as evaluating projects. The Training & Development section focused on the development and implementation of training programs in collaboration with various partners inside and outside Suriname, while the Information & Development section was responsible for developing and providing educational projects and materials by working with national and international organizations. To achieve the institutional strengthening of the financial sector, legislation and regulations in this area were adjusted (Centrale Bank van Suriname, 2015). In August 2017, the internal organization of the Bank was restructured and CFEO was merged with the International Relations Department.

At the end of 2012, the Bank hosted the IV CEMLA Conference for Economic and Financial Education in Latin America and the Caribbean, before joining the OECD Network for Financial Education in early 2013 as a 107th member. After this conference, financial education gained a higher priority within the Bank. This was reflected in the transition from TNS to CFEO in 2015. Eventually, the Bank joined the AFI network in 2015 as the 125th member (AFI, 2015). Since AFI's membership, Financial Inclusion has gained ground within the Bank's activities.

National Electronic Payment System

Payments systems facilitate business transactions, government payments, remittances, and innovative retail (including mobile) payments, and bring safety and efficiency to a financial system (International Finance Corporation, 2013). Payments systems not only play an important role in the implementation of monetary policy and the financial system but also promote economic growth (Khou, V., Cheng, O., Leng, S., & Meng, C., 2015). Against this background, and to align the payment system with the international environment, the Bank introduced the Suriname National Electronic Payment System, an interbank payment system in August 2015 in cooperation with Monetics and Montran Corporation. This system is operated and owned by the Bank. The SNEPS enables cashless payment transactions among its participant groups, namely the commercial banks and the Central Bank (as the state's banker). The SNEPS is an important factor in encouraging and facilitating, and the efficient processing of payment settlements. The system consists of a Real-Time Gross Settlement

System (RTGS), an Automated Clearing House (ACH) and, a Central Securities Depository (CSD), which is implemented in four stages. Currently, the Bank is in the last phase of implementation, which will cover the CDS and the implementation of the ACH Direct Debits.

Further, the SNEPS promotes cashless payment transactions as well as sound liquidity and credit risk management, while it contributes to eliminating systemic settlement risks and facilitates the operations of all the commercial banks. Besides the fact that the SNEPS enables simultaneous handling and processing of local transactions, it reduces costs and risks associated with payment services. To further facilitate the payment infrastructure, the Bank is in the process of introducing transfers in US-dollars via the SNEPS system.

The upgrading of the national payment system Act and new facilities towards retail payments such as online and mobile banking will contribute to the improvement of the national financial infrastructure. The Government of Suriname, who intends to make the cash payments to old age pensions and financial support to lower income groups through these new electronic payment facilities, is eager to make use of this system. Consequently, the upgrade and new facilities will contribute to more efficient, safer and widely accessible banking services for the authorities and those segments of the population that are currently still unbanked e.g. in rural areas and the interior. Thus, increasing the level of financial inclusion in the economy of Suriname.

The National Electronic Payment System Act, which will allow the SNEPS to have a legal basis, has not yet been approved. Meanwhile, the Bank, however, oversees the system and operate the SNEPS through the legal underpinnings of the Central Bank Act of 1956, the resolution on Electronic Payment System 2015 No. 7159-15 and, system rules. The participating commercial banks have also signed an extensive contract before being allowed to use the system. The Bank is in the process of drafting the laws on the National Electronic Payment System as well as regulations regarding electronic payments.

Credit Bureau

Many central banks have issued licenses to allow the setup of credit bureaus in recent years. Credit information data allows regulators to understand the interconnected credit risk of borrowers and financial institutions, it reduces default risks and safeguards the financial access of creditworthy borrowers and is therefore supportive of the supervisory role. Thus,

credit information can support credit market efficiency and stability, as commercial banks can screen borrowers and protect the risk profile of their other credit portfolios.

Against this background, the first steps were taken in 2016 to formulate a draft act for setting up a credit bureau in Suriname. The draft act is a collaboration between the Bank, the Bankers Association and Banking Network Suriname (BNETS). Recently the draft act, which has a private legal form, has been submitted for approval to The National Assembly (DNA) who prefers a public legal form of the act (i.e. the agency becomes a governmental body). Due to the ongoing discussions about the legal form of this institute, the draft act has not yet been approved. The Bank will be issuing the license for the credit bureau according to the concept law, consequently, exercise its supervisory role in the performance of the duties of this agency.

The establishment of a credit bureau in Suriname will contribute to the promoting of financial inclusion and a stable financial system. It is assumed that all formal lenders, formal credit cooperatives and, utility companies will be part of the credit registration system. At present, the lending process at commercial banks is inefficient and time consuming for clients due to a relatively large number of documents that must be submitted. With a central registration, collection and secure storage of information about loans of private individuals with official bodies, the credit behavior and the outstanding debts of clients and their creditworthiness relative to their income can be determined. Consequently, this will result in a more transparent and shorter lending process for both clients and commercial banks. Thus, the number of loans via informal channels and the number of non-performing loans at the commercial banks can be reduced. Hence, clients will be encouraged to behave responsibly knowing that their continued access to formal financial services can affect them.

Financial Technology

Against the background of increasing the general public access to financial services as well as to promote financial technology (FinTech) developments in Suriname, the Bank has recently given high priority to FinTech. According to the Bank, FinTech are technological innovations that take place within the financial sector and that can ensure more effective and efficient financial services for consumers. It encompasses technology and innovation, which uses technology to develop, replace and/or improve financial services, and can contribute to

better competitive positions. The Bank aims to systematically monitor developments, conduct research, and coordinate information flow related to financial technology. Furthermore, the Bank supervises financial innovative services in Suriname⁸ and facilitates the positive aspects of financial innovation. To this end, the Bank will introduce a regulatory sandbox, where innovative products will be tested in a controlled and safe area before they are launched publicly. This working method offers the Bank the opportunity to fully understand the product, to observe it, to determine whether there are potential benefits or risks involved. On the other hand, the Bank will take necessary actions on innovative financial services that pose a potential threat to the financial system.

At present, there is no law on the electronic payment system in Suriname and there are no regulations either on these electronic payment transactions. In the near future, this shortcoming will have to be addressed by modernizing the current Banking Act and by issuing directives for regulation.

5. Policy Recommendations

Based on the findings, several policy recommendations are identified for the Bank. However, more data and further research will provide insight into the country-specific constraints on financial inclusion. Understanding these constraints is critical to formulate tailored and evidence-based policy to support the financial inclusion policy framework.

Closing Data Gaps

The Bank should engage in systematic data collection in order to close the observed data gaps. Good quality data are crucial to identifying and understanding the needs of consumers, their socioeconomic and demographic characteristics and the barriers that constrain access to financial services. Using data to inform policy decision making will enable policy makers to determine policy priorities, formulate targets as well as effectively plan and fund policy measures. Significant data gaps (i.e. financial inclusion and financial literacy) hamper effective policy analysis and formulation, a common policy issue in the Caribbean region (Li, C., & Wong, J., 2018), particularly in Suriname. Therefore, it is recommended to carry out regular

⁸ HakrinkbankHOP 2.0 / HOPPA, Southern Commercial Bank – UnionPay, N.V. Uni5Pay+ Platform Suriname (UPPS), OuroX-Suriname stock Exchange, OuroPay, Telesur-SuriMarket, BNETS, SuriBet–SuriBetkaart, Bankiersvereniging–BITT sessies, ApuraNetworks, WeChat betaalverkeer, E-Smile N.V.,BetaalkaartenWebshops

data measurement, both demand- and supply-side data, in a coordinated and structured manner. Demand-side data can be collected by means of a Financial Inclusion and Financial Literacy baseline study, in order to identify segments of the population that have been excluded systematically from the financial sector and to identify the main barriers to access. A Financial Literacy baseline study can illustrate whether or not the underserved are more in need of financial education than other segments. In addition to the demand-side, it is necessary to map the supply-side landscape. The diagnosis of an initial data measurement can determine the baseline gap and identify possible causes of existing gaps in financial inclusion. Besides using data to formulate policy measures, conducting consistent time series analysis to evaluate their effectiveness (i.e. monitor progress and measure policy impact) is a crucial component of the data collection process.

Consumer Empowerment through Financial Education & Consumer Protection

The Bank should promote consumer empowerment through financial education and consumer protection. The empowerment of consumers is a critical factor that contributes to financial inclusion. Consumer empowerment enables consumers to make well-informed financial decisions through the provision of information, education and effective avenues for redress. A lack of awareness and knowledge about financial products, services and protection mechanisms, low levels of confidence, a lack of trust in formal service providers as well as poor financial behavior, are all issues that create barriers to financial access (Frankfurt School, 2018). Hence, the development of financial education programs should be a crucial component of the Central Bank's financial inclusion policy plan. Financial education programs, based on financial literacy needs (i.e. determined by studies), can be part of a national financial education strategy, which may be developed separate from a National Financial Inclusion Strategy (NFIS) or as an integral part of this strategy plan. In case a national financial education strategy is developed separately, it is essential that this plan is clearly aligned with the NFIS. The ultimate objective is to provide permanent education to the public, supported by various delivery channels and programs as well as content that is adapted to the diversity of the population (i.e. socio-economic background and financial literacy levels). Another key element of consumer empowerment is consumer protection (Frankfurt School, 2018), which should ensure the provision of quality products and services by means of avenues for redress and safeguard mechanisms against unfair treatment, malpractices and fraud. Ultimately,

financially literate consumers that receive effective consumer protection are more likely to be included into the formal financial system.

Leadership, National Coordination and Strategic Alliances

Strong leadership and commitment at the highest level of the government and the monetary authority is an essential condition for the development of a national financial inclusion vision, strategic plan and effective implementation. This also encourages broad-based commitment across a diverse range of stakeholders (AFI, 2017). In addition, an effective coordination structure (both within and outside the Central Bank) is critical for a successful formulation and implementation of a strategic plan by creating broad ownership, maximizing efforts and guiding actions towards collective goals. This translates to the establishment of a governance structure with a clear mandate and dedicated resources to carry out financial inclusion initiatives, the involvement of relevant stakeholders as well as clear lines of roles and accountability (Frankfurt School, 2018) (ATISG, 2010).

To enhance the internal coordination of financial inclusion efforts, organizational challenges should be addressed by implementing a more centralized structure. In addition, given financial inclusion's multifaceted nature, policymaking requires a multidimensional approach and involves stakeholders from various corners of society. By establishing strategic alliances with various key stakeholders (i.e. public, private, national, international, civil society), through partnerships, in-depth consultations or other forms of collaboration, access can be gained to valuable insights, expertise, networks and other resources. An example of an effective alliance is a public-private partnership with mobile network operators or Fintech companies that allow for leverage through technology and innovative business models. These strategic alliances enable a greater outreach of policy initiatives and as a result a greater impact on society. In order to maximize policy impact, it is recommended to initially enhance public support for financial inclusion amongst political authorities, businesses and civil society. Awareness campaigns, research & data-sharing and sustainable collaborations are efforts that can contribute to increasing public support.

Creating Synergies through a Holistic and Multi-pronged Approach

Financial exclusion is a multi-faceted issue affecting various segments of the population. According to the OECD (Atkinson, A., & Messy, F. A., 2013) financial exclusion is the result of

market failure, consisting of both supply- and demand-side factors. Pinpointing the causes of this market failure can be complex. Given the multidimensional and complex nature, it is recommended to take a holistic and multipronged approach towards financial exclusion. Joint efforts towards increasing financial access are likely to have a larger impact than the sum of several individual initiatives consecutively (Li, C., & Wong, J., 2018). In addition, understanding the financial inclusion landscape and taking into account its various aspects and elements in decision-making will allow for a more integrated, tailored and sustainable policy plan. The development of a National Financial Inclusion Strategy provides an opportunity to take this evidence-based and comprehensive approach. Furthermore, this approach calls for a policy and regulatory framework in which the risks and benefits involved in the promotion of financial inclusion are balanced against the cost of regulation and supervision (e.g. implementation of risk-based, flexible, tiered AML/CFT requirements). A solid framework needs to be in place for financial regulation and consumer protection to secure the benefits of increased financial inclusion without jeopardizing financial stability.

Supportive Financial Infrastructure

The Bank should expedite to strengthen the financial infrastructure as well as developing necessary legislation and regulation on financial inclusion. A supportive financial infrastructure, the underlying foundation for a country's financial system, is a major driver in financial inclusion. Strengthening the infrastructure can result in lower risks and costs of the provision of financial products and services to the underserved population such as low-income individuals and MSMEs (International Finance Corporation, 2013). The country's current financial infrastructure does not provide adequate support for promoting financial inclusion. Information asymmetries and lack of collateral are common constraints to the underserved market (Frankfurt School, 2018), as is the case in Suriname. This is particularly true for MSMEs, resulting in lack of access to credit due to high loan requirements set by financial service providers. Supportive infrastructure measures include credit bureau systems and collateral registries (i.e. including movable security). Credit bureaus provide more transparency of clients' credit history, resulting in lower lending risks, costs and loan processing time while collateral registries allow for a broader range of assets accepted as collateral for formal loans (Frankfurt School, 2018), making credit more accessible to the financially excluded. Another infrastructure component that warrants further strengthening

includes the country's payment system. The Central Bank can act as a facilitator of the application of innovative solutions in payment services such as the use of mobile devices to perform various transactions (e.g. remittances, cash-in and cash-out transactions in remote areas). This service allows the underserved market to access services in a more cost-efficient and effective manner. In this regard, a legal framework for Financial Inclusion should be developed.

6. Conclusions and Recommendations

The Central Bank of Suriname has a pivotal role in promoting financial inclusion based on its mandate, expertise, resources and the convening power to mobilize stakeholders. The Bank has already undertaken preliminary actions towards a strategic policy plan in this regard. The Bank also promotes responsible usage of formal financial products/services through educational and awareness programs and undertakes actions to strengthen Suriname's financial system. Based on this assessment, a key recommendation is the formulation of a National Financial Inclusion strategy in cooperation with strategic alliances. Furthermore, the Central Bank should continue its actions to strengthen the financial infrastructure. We also recommend further engagement by the Central Bank in data collection and research on financial inclusion.

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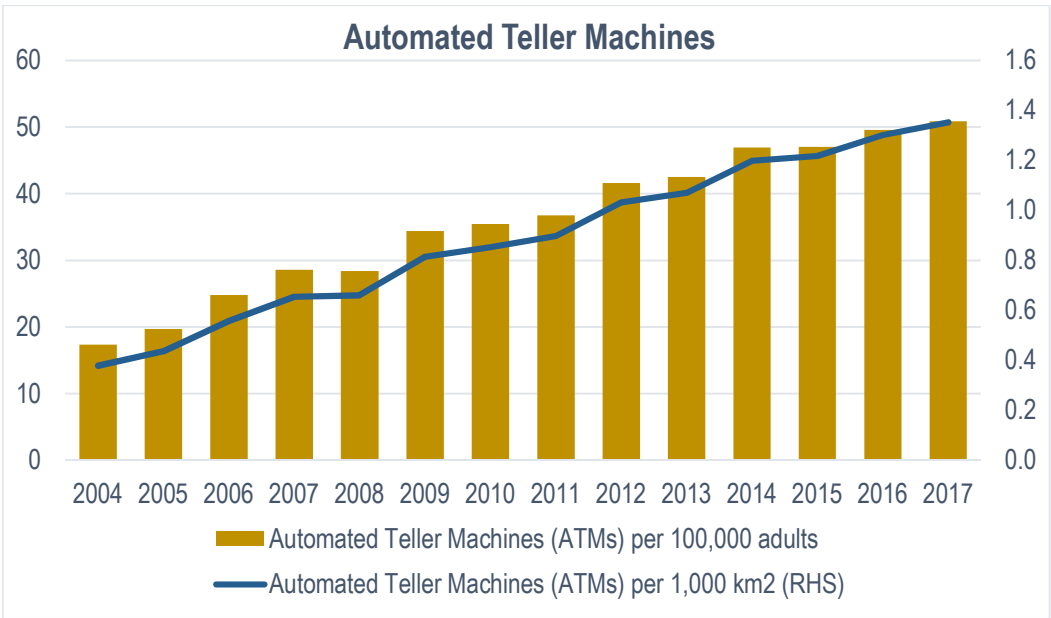
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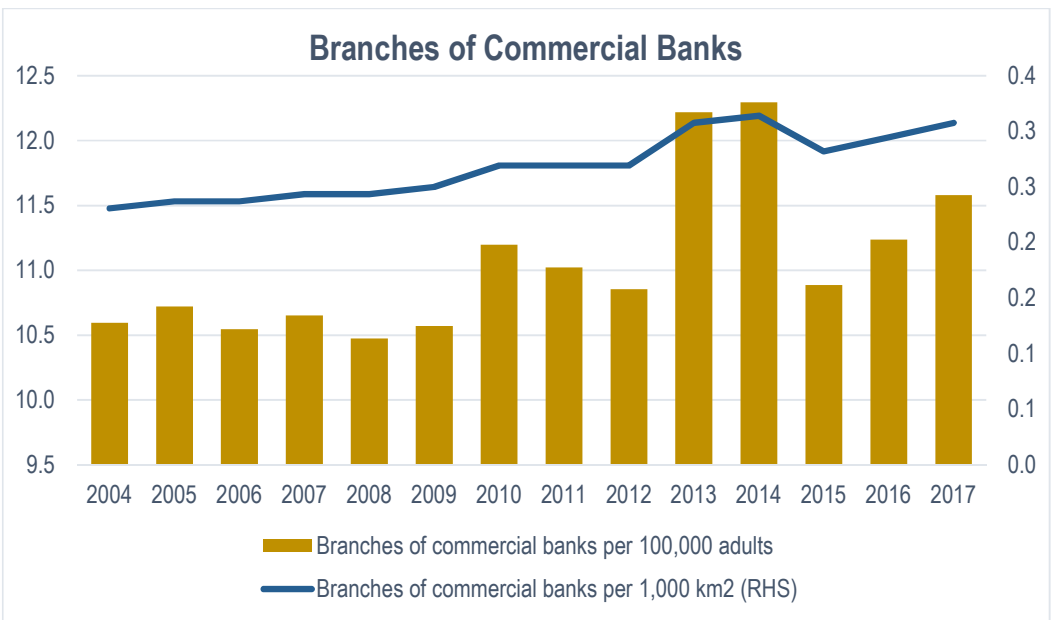
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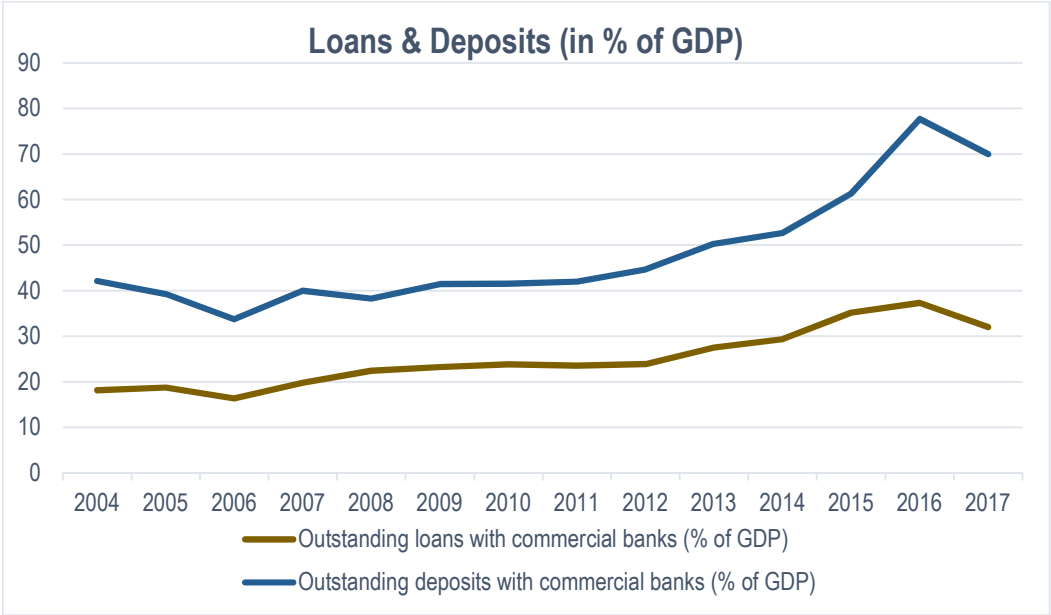
Appendix



Source: IMF (2019)



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