The Nexus of Financial Inclusion, Poverty Reduction and Growth

Finance for All: Promoting Financial Inclusion in West Africa
Dakar, Senegal
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Why do we care about financial inclusion?

- Access to financial services plays a critical part in sustainable development and reduction of inequality and poverty
- Theoretical models: financial market frictions can be a key mechanism for generating poverty traps and slower growth
- Financial access enables poor people to save and borrow – allowing them to build assets, invest in education and entrepreneurial ventures, and thus improve their livelihoods
- But data on financial inclusion has been quite limited until recently

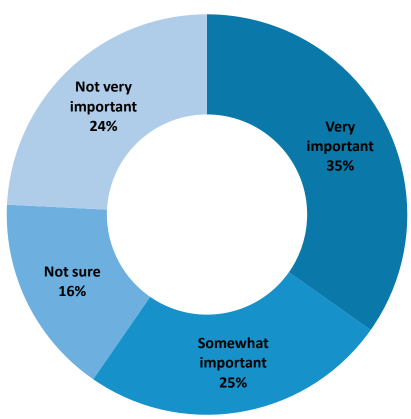
Global views: *Financial Development Barometer*

(% of all respondents)	Agree?
"Access to basic financial services is a significant problem for ***households*** in my country."	61 %
"Limited access to finance is a significant barrier to the growth of ***small enterprises*** in my country."	76 %
"In my country, access to finance has ***improved significantly*** over the last 5 years."	78 %
"***Social banking*** (that is, state banks and targeted lending programs to poorer segments of the population) ***is potentially a useful tool*** to increase financial access."	80 %
"***Social banking actually plays an important role*** in financial access in my home country."	43 %
"The ***lack of knowledge*** about basic financial services is a major barrier to financial access among the poor in my country."	78 %

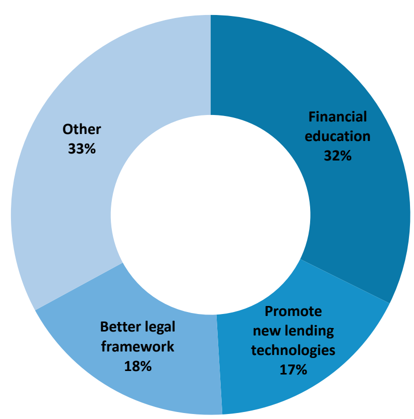
Source: Financial Development Barometer.
Note: The barometer is an informal global poll of country officials and financial sector experts from 21 developed and 54 developing economies. From 265 polled, 161 responded (61 %). Results are percentages of "fully agree" and "partially agree" responses out of total responses received.

Global views: *Financial Development Barometer*

What is the role of new technologies (such as mobile banking and biometric borrower identification) in expanding access to finance in your country?



What is the most effective policy to improve access to finance among low-income borrowers?



Source: Financial Development Barometer (informal global poll of officials and experts from 21 developed and 54 developing economies).

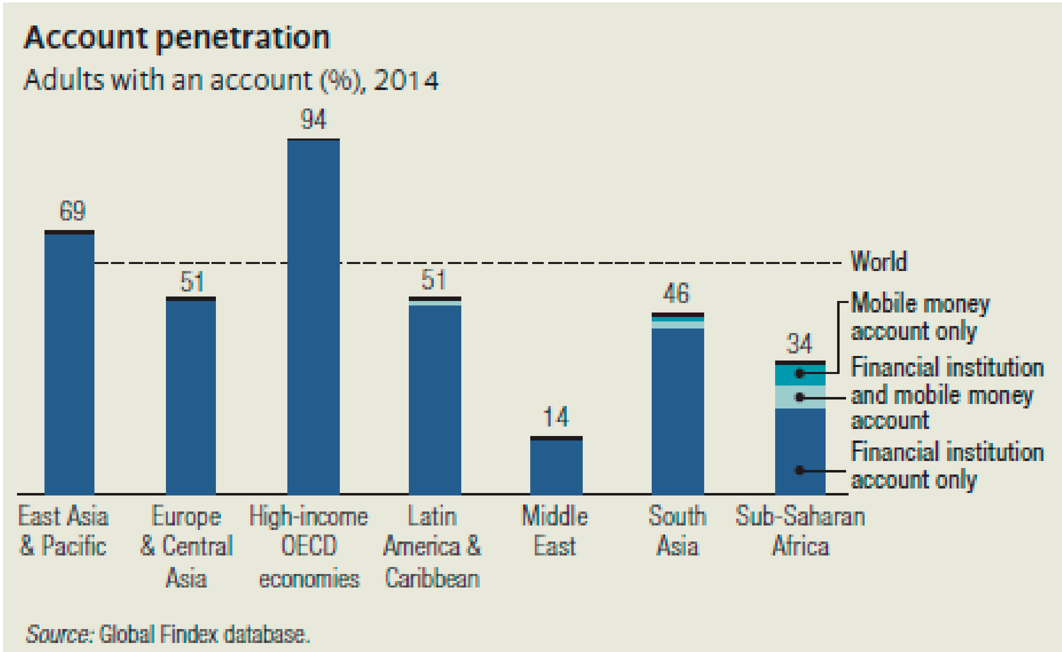
Defining financial inclusion

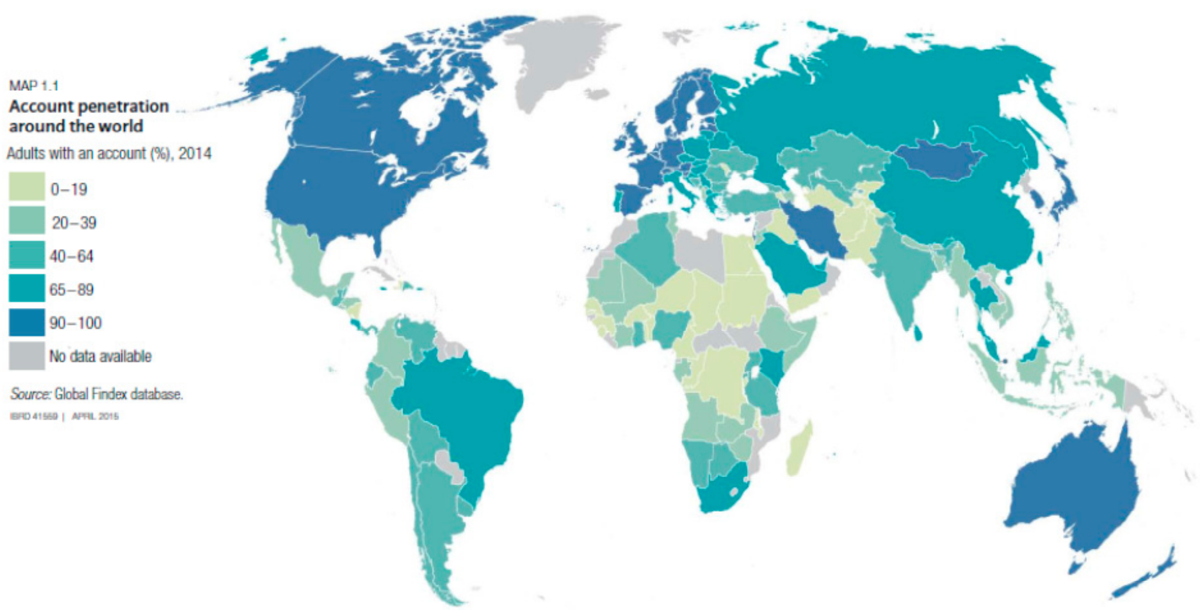
- Financial inclusion = proportion of population of individuals and firms that use financial services
- … does not mean finance for all at all costs
- Some have no effective demand or business need for financial services
- But for many, the use of financial services is constrained by market failures, such as asymmetric information, as well as consumers' and providers' departures from rationality
- That is why it is important to measure not only actual use of financial services, but also the barriers to access

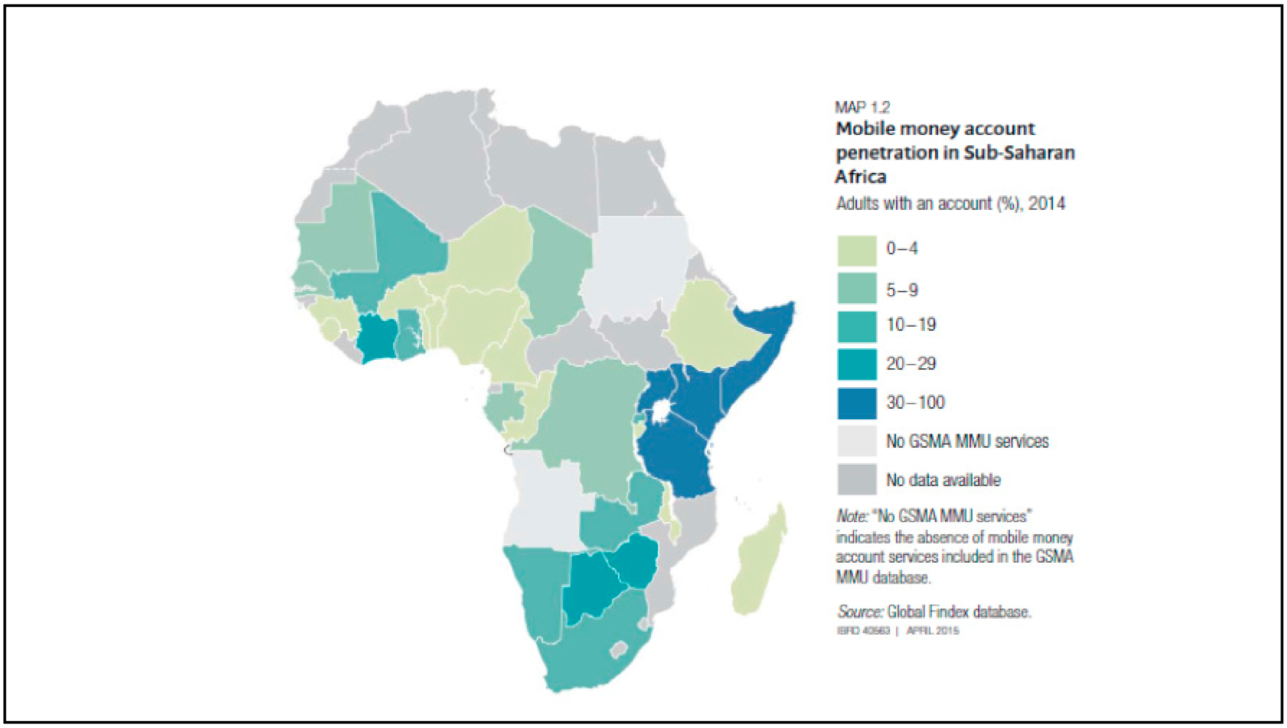
Importance of financial inclusion: empirical evidence

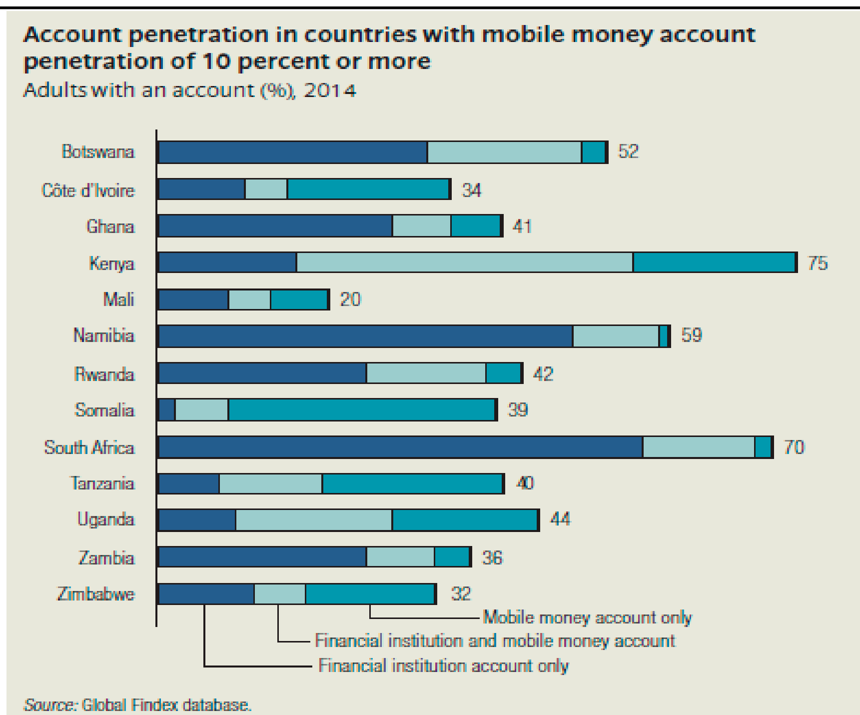
- Recent empirical evidence on impact of financial inclusion on economic development and poverty varies by types of financial services
- Basic payments and savings: evidence on benefits, especially for poor households, is quite supportive
- Insurance products: also some evidence of a positive impact
- Access to credit—mixed picture: evidence on benefits for smoothing consumption, but not always for entrepreneurial ventures
  - dozens of microcredit experiments, other cross-country research
  - for example Roodman (2011) and Bauchet and others (2011)
  - for firms, little effect for micro-credit but a positive effect on firm growth for small-and medium-size enterprise credit
- **Common message from the research**: financial inclusion does not mean pushing access for the sake of access, and it certainly does not mean making everybody borrow

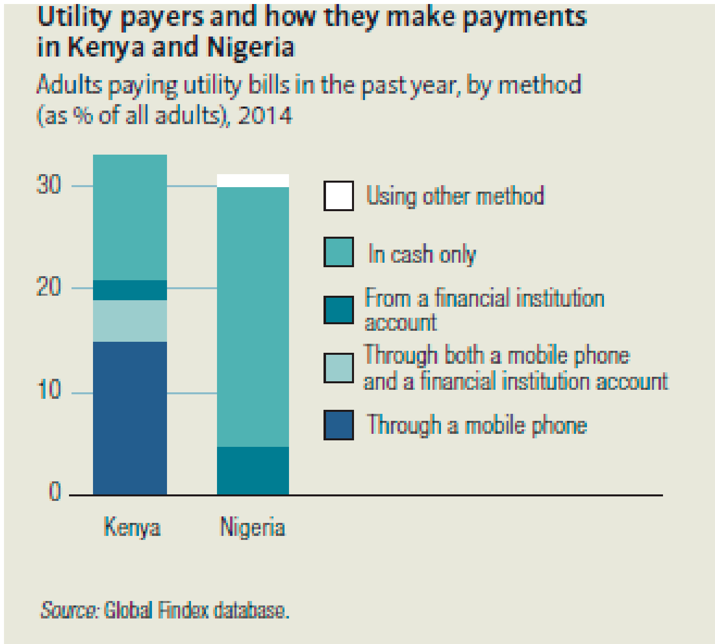
PAYMENTS **SAVINGS** **INSURANCE** **CREDIT**

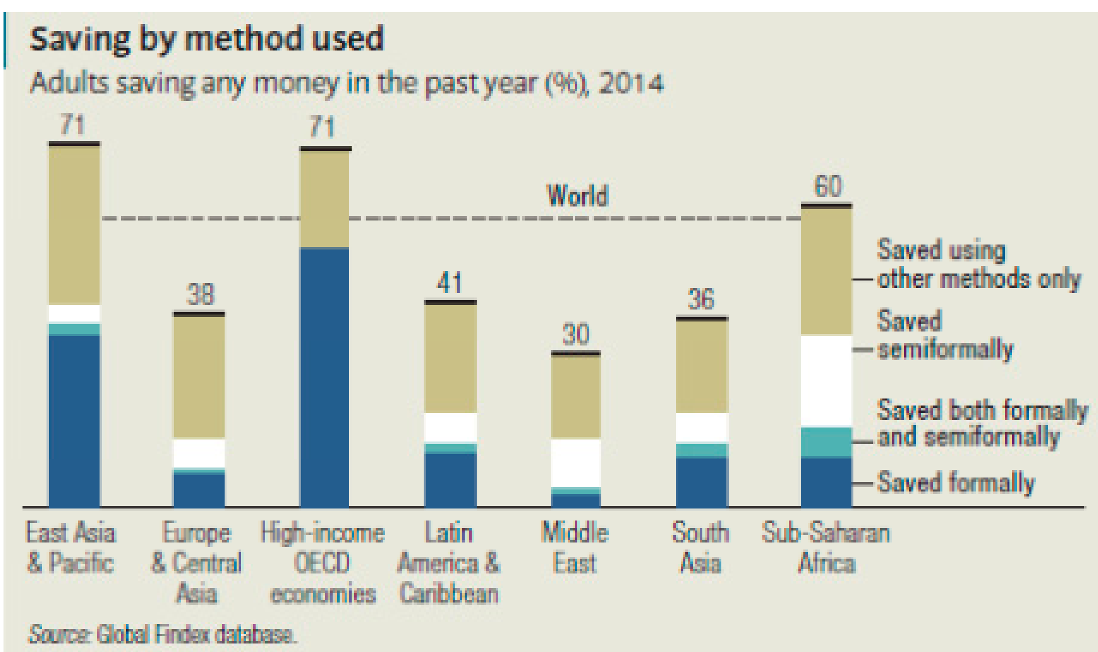

Account penetration
Adults with an account (%), 2014
69
51
94
51
14
46
34
World
Mobile money account only
Financial institution and mobile money account
Financial institution account only
East Asia & Pacific
Europe & Central Asia
High-income OECD economies
Latin America & Caribbean
Middle East
South Asia
Sub-Saharan Africa
Source: Global Findex database.


MAP 1.1
Account penetration around the world
Adults with an account (%), 2014
0–19
20–39
40–64
65–89
90–100
No data available
Source: Global Findex database.

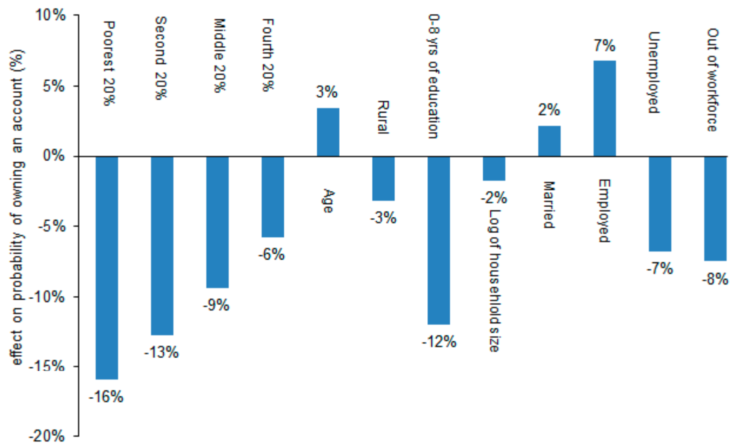

MAP 1.2
Mobile money account penetration in Sub-Saharan Africa
Adults with an account (%), 2014
0–4
5–9
10–19
20–29
30–100
No GSMA MMU services
No data available
Note: "No GSMA MMU services" indicates the absence of mobile money account services included in the GSMA MMU database.
Source: Global Findex database.


Account penetration in countries with mobile money account penetration of 10 percent or more
Adults with an account (%), 2014
Botswana 52
Côte d'Ivoire 34
Ghana 41
Kenya 75
Mali 20
Namibia 59
Rwanda 42
Somalia 39
South Africa 70
Tanzania 40
Uganda 44
Zambia 36
Zimbabwe 32
Mobile money account only
Financial institution and mobile money account
Financial institution account only
Source: Global Findex database.


Utility payers and how they make payments in Kenya and Nigeria
Adults paying utility bills in the past year, by method (as % of all adults), 2014
30
20
10
0
Using other method
In cash only
From a financial institution account
Through both a mobile phone and a financial institution account
Through a mobile phone
Kenya
Nigeria
Source: Global Findex database.


Saving by method used
Adults saving any money in the past year (%), 2014
71
38
71
41
30
36
60
World
Saved using other methods only
Saved semiformally
Saved both formally and semiformally
Saved formally
East Asia & Pacific
Europe & Central Asia
High-income OECD economies
Latin America & Caribbean
Middle East
South Asia
Sub-Saharan Africa
Source: Global Findex database.

Correlates of financial inclusion/exclusion



Source: Based on Allen and others (2013)
Note: Results from a probit regression of a financial inclusion indicator on country fixed effects and individual characteristics, for 124,334 adults (15 years and older) covered by the Global Findex in 2011. The financial inclusion indicator is a 0/1 variable indicating whether person had an account at a formal financial institution in 2011.

Public policy on financial inclusion

- Public policy should focus on addressing market failures
  - Not on promoting financial inclusion for inclusion's sake
- Role for government in creating legal and regulatory framework
  - Examples: protecting creditor rights, regulating business conduct, overseeing recourse mechanisms to protect consumers
- Competition policy is an important part of consumer protection
  - Healthy competition among providers rewards better performers and increases the power that consumers can exert in the marketplace
  - New evidence: low competition among banks diminishes firms' access to finance; this negative effect gets stronger with lower financial development, higher share of government banks, and worse credit information (Love and Martinez Peria 2012)
- Role in supporting the information environment
  - Setting standards for disclosure and transparency
  - Promoting credit bureaus and collateral registries

Public policy on financial inclusion

- Policies to increase account penetration and payments can be effective, especially among poor, women, youth, and rural residents
- New evidence: 142,000 people from 123 countries (Allen and others, 2013)
  - Likelihood that excluded individuals report “lack of funds” as a barrier is reduced by: presence of basic or low-fee accounts, know-your-customer exemptions, correspondent banking, consumer protection, and accounts to receive government-to-person payments
  - This suggests that government policies to promote inclusion can increase the likelihood that individuals perceive that financial services are within their reach

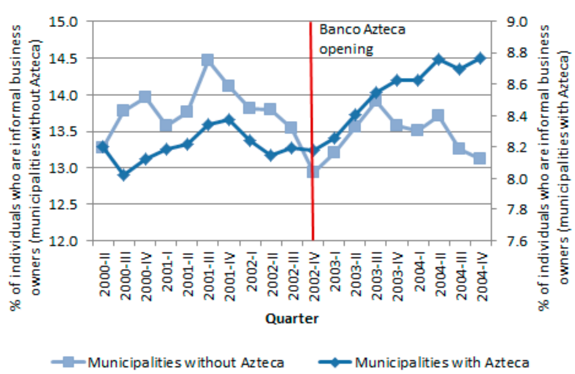
The promise of technology

- To harness the promise of new technologies…
- …. regulators need to allow competing financial service providers and consumers to take advantage of technological innovations
  - Telcos
  - Marketplace Finance
  - E-commerce
  - Social Media
- Guidelines are converging on key aspects of digital financial services
  - Payment Aspects of Financial Inclusion (PAFI)
  - G20 High-Level Principles for Digital Financial Inclusion
  - Gates Foundation Level 1 Project Guide

Payment Aspects of Financial Inclusion (PAFI) (7)	High-level principles (8)	Level One Project (8)
Commitment to financial inclusion	Promote a digital approach	Open international standards
Proportionate legal and regulatory framework balancing risk, consumer protection, and innovation	Provide an enabling and proportionate legal and regulatory framework	Tiered Know Your Customer
	Balance innovation and risk	
	Establish responsible digital financial practices to protect consumers	Shared fraud service
Financial and ICT infrastructure	Expand the digital financial services infrastructure ecosystem	Open loop
Transaction account and payment product design		Immediate funds transfer
		Same-day settlement
		Push payments
		Irrevocability
Financial literacy	Strengthen digital and financial literacy and awareness	
Other issues		
Large volume recurrent payment streams	Facilitate customer identification	
Readily available access points	Track digital financial inclusion progress	

Business models, product design

- Improvements in lending to micro and small firms can be achieved by leveraging existing relationships
- Example: Banco Azteca, Mexico
  - in 2002, opened >800 branches in stores of its parent company, a consumer goods retailer
  - caters to low and middle-income groups mostly excluded from commercial banking



Source: Bruhn and Love (forthcoming)

Business models, product design

- Product design that addresses market failures, meets consumers' needs and overcomes behavioral problems can foster wider use of financial services
  - Commitment accounts, reminders, labeled accounts, group lending, investment games, timing of repayments, index-based insurance
- Example 1: commitment accounts
  - Deposit a certain amount, relinquish access for a period of time or until a goal has been reached
  - Randomized evaluations on Philippines (Ashraf, Karlan, Yin 2006) and Malawi (Brune et al 2011)
  - Commitment "treatment" led to increases in bank deposits and caused increases in agricultural input use, crop sales, and household expenditures over the next agricultural year
  - It seemed primarily to have helped farmers by shielding funds from their social network
- Example 2: index-based insurance
  - Clear benefits for lenders (lower risk of weather-related credit defaults), potential to increase financial inclusion and agricultural production
  - But take-up often low: 20% for loans with rainfall insurance vs. 33% for loans without insurance (randomized experiment with farmers in Malawi by Gine and Yang, 2009)
  - New evidence: lack of trust and liquidity constraints are significant non-price frictions that constrain demand (field experiment in India by Cole and others, 2012)
  - What has been shown to help: designing products to pay often and fast, an endorsement by a well-regarded institution, simplification and consumer education

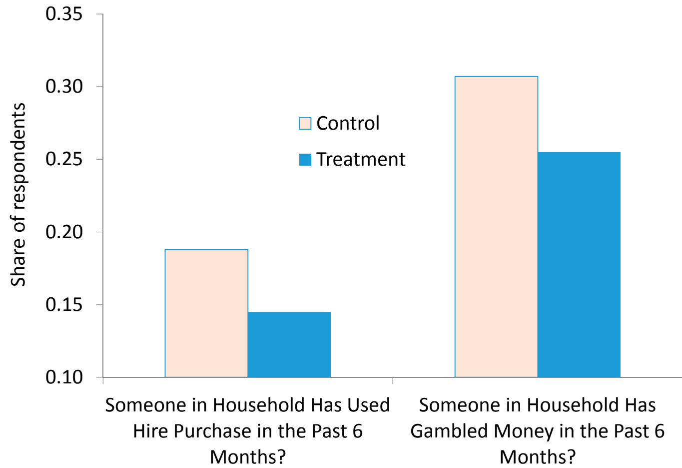
Financial literacy / capability

Recent evidence suggests

- It is possible to increase financial literacy through well-designed and targeted interventions
- Financial education has a measurable impact when reaching people during "teachable moments" (e.g. starting a job, purchasing a financial product)
- … and is especially beneficial for groups with limited financial skills
- Leveraging social networks enhances the impact of financial education
  - Examples: involve both parents and children, both sender and recipient of remittances
- Delivery mode matters too
  - "Rule of thumb" training helps (avoids information overload)
  - Engaging delivery channels show promise

Financial literacy / capability

- Example of a promising delivery mechanism: entertainment education
- But effects of literacy programs tend to be short-lived … need to be repeated



Source: Berg and Zia (2013)
Note: "Hire purchase" refers to contracts where people pay for goods in installments