CHAPTER 1.3

Financial Inclusion: A Role for Each of Us

HER ROYAL HIGHNESS PRINCESS MÁXIMA OF THE NETHERLANDS,
United Nations Secretary-General's Special Advocate for Inclusive Finance for Development

A well-developed, inclusive financial sector is like a good transport system. It is basic infrastructure that everyone in a country—from individuals to governments to businesses of all sizes—depends upon. Attention to the need for inclusive financial sectors has increased in the past several years, as the benefits have become better understood, and because innovative solutions are overcoming long-standing barriers. New technologies such as mobile phones, smart cards, ATMs and bank agents, coupled with strong banking institutions hold promise of dramatically expanding access by reducing costs for providers and clients alike. Financial inclusion is a win-win proposition.

However, more than 2.7 billion people around the world still lack access to financial services. Financial exclusion disproportionately affects poor people and small- and medium-sized enterprises (SMEs) in Africa, Asia, Latin America and the Middle East. After clients and markets, the biggest need faced by SMEs is finance, according to the International Finance Corporation's *Enterprise Survey*. Fewer than 20 percent of small firms in low-income countries, however, have credit from a bank. Several years after the success of M-PESA in Kenya, mobile-phone banking has not taken off elsewhere at real scale, or in a way that provides much-needed services in addition to payments. What needs to be done to maximize the potential offered by financial inclusion in a sustainable, scalable and responsible manner?

Financial inclusion matters

Financial inclusion is universal access at a reasonable cost to a wide range of financial services for everyone needing them, provided by a diversity of sound and sustainable institutions. Savings accounts, loans, insurance, payments and more help people generate income, manage cash flow, take advantage of opportunities and strengthen resilience to setbacks. The link to social economic welfare, especially poverty reduction, education, health and women's empowerment, is self-evident and supported by recent academic studies. Financial tools help entrepreneurs start and expand small businesses, which are a source of local job creation, growth and poverty reduction. In Europe, about two-thirds of all private employment comes from SMEs. In the Netherlands, 92 percent of the SMEs have eight or fewer employees. The trends in developing countries are similar. This shows the importance of paying attention to the "S" of SMEs, and providing them with financial tools.

Financial inclusion leads to greater efficiencies. Shifting payment of salaries, welfare support and bills from cash to electronic means reduces costs and leakage.

WORLD ECONOMIC FORUM Reprinted from the World Economic Forum's *Mobile Financial Services Development Report 2011*

The real cost savings in time and transport expense is even greater when, in addition to bank branches, people can make payments through their mobile phones or withdraw cash at local retail agents or mobile phone agents.

Financial inclusion has gained prominence on the global policy agenda. Leaders of the G-20 recognized the importance of financial inclusion to strong, stable and vibrant economies in their summit in Pittsburgh in September 2009. They reaffirmed this view in Seoul in November 2010, mandating a Global Partnership for Financial Inclusion (GPFI). The Financial Action Task Force (FATF) has put financial inclusion on its agenda in 2010, as part of its mandate to develop sound global financial markets. Similar conversations are ongoing within the Bank for International Settlements and other standard setting bodies, and among national policymakers in dozens of countries.

The private sector's attention and investments have been drawn to innovations and new business solutions—from Safaricom's M-PESA to street-corner kiosks in Brazil to micro-insurance health schemes. Recognizing the importance of financial inclusion, Secretary of State Hillary Rodham Clinton explained, "When people cannot participate in the formal economy, they often are taken advantage of, they are often left without recourse, and the effects of that undermine their own ambitions and hopes for families, communities, and even countries."[1]

How do we get there?

Increasing access

The needs and opportunities are clear. What must be done?

First, financial service providers should increase access to all types of financial services. People need savings, insurance, health insurance, payments and credit. This means breaking down silos between micro- and enterprise finance and creating a continuum of access. In reality, the borders between micro-, small- and medium-sized enterprises are blurry. Most entrepreneurs begin as micro-businesses and grow from there. The success of any enterprise depends on those larger and smaller around it.

We need to think about what is available to individuals and SMEs to help them better along the whole value chain. Some may be served by banks reaching down; others by micro-finance institutions beginning to grow with their best clients; and still others by diverse private sector providers.

Some examples include health insurance companies partnering with micro-finance institutions to increase availability of health insurance for poor individuals, and with local clinics to expand the availability of treatment facilities. In several countries in Africa, national beer producers provide essential finance to small and medium farmers for seeds, fertilizer and other crop inputs—sometimes because no other appropriate financial services are available. Mobile phone companies are partnering with banks and government agencies to provide convenient payments and increasingly other financial services. All of these elements must be part of the financial sector framework.

The right products must be delivered at the right prices in the right places. A credit facility for a rural farmer will be different from one for an urban merchant. Sometimes a savings product will be more suitable than a credit product. Sometimes a commitment savings scheme will have more impact than a regular saving product. There is great opportunity for the private sector to sharpen its focus on needed and affordable products.

Better regulation

Second, regulatory frameworks must allow the right partnerships to flourish and encourage innovation to expand financial inclusion, while protecting consumers. Brazil's regulatory structure, for example, enables financial institutions to partner with retail chains through branchless banking rules. This greatly reduces costs of delivering services and expands access throughout the country. In Peru and Malaysia, policies have promoted the sustainable growth of the financial system, while protecting consumers. There is no one-size-fits-all solution. However, one common element is a flexible approach that bases regulation on the experience from pilot projects. Another is a focus on critical infrastructure, such as a national e-payment systems and credit bureaus. Dialogue and coordination are other common elements of success. It is important to bring together disparate parts of the public sector and to create platforms for public-private sector collaboration.

Bolstering capacity

The third step is bolstering consumers' understanding of choices, products and rights—in other words, consumer capability. This includes, but goes beyond, financial literacy. Consumers need to grasp the principles of financial products such as interest rates, principal, terms and fees. They also need to develop healthy financial behavior, such as budgeting, saving, and comparing offers. Consumer capability and financial literacy are best achieved when service providers and governments facilitate them, and when clients and consumer advocacy groups actively pursue them.

Improving data

Finally, we need more and better data for policymaking, public and private investments, and business management. In 2009, Dutch Minister for Development Bert Koenders, Dominique Strauss-Kahn and I launched the International Monetary Fund's annual Financial Access

Survey with data from central banks around the world. The World Bank Group produces analysis on access for households (through the Consultative Group to Assist the Poor), and enterprises (through the International Finance Corporation). The Organisation for Economic Co-operation and Development, among others, publish relevant data as well. The G-20 created an SME Finance Data Sub-Working Group, of which I was Honorary Chair in 2010, to establish a scalable framework and mechanism to measure progress. The G-20 Global Partnership for Financial Inclusion has mandated a Data and Measurement Group to further this work, integrating both household and SME finance. Initiatives such as this report also contribute to a more data-rich environment.

Attention to data and measurement has also grown at the national level. For example, the Mexican banking and securities regulator (Comisiion Nacional Bancaria y de Valores) published two major reports in 2010 on financial supply, demand and gaps. These reports helped to clarify the strategies of state-owned banks, inform the distribution decisions of some private sector groups and identify what more is needed for accurate measurement.[2]

These developments are promising; but often data remains limited and uneven, especially the disaggregated, sub-national type that is useful to decision makers. For all that we have learned about micro-financial services for the poor, we still know little about how enterprises finance themselves and what is available to them. As importantly, we need to increase our understanding about enterprise demand for services and the impact of specific products on individuals and enterprises. While respecting consumer privacy and commercial confidentiality, we must take advantage of the large volume of diverse data, often electronic, gathered by private firms.

Nearly a third of the world does not have access to the basic kinds of banking and financial services that so many of us enjoy every day. It does not have to be this way. As with a good system of roads and public transport, financial inclusion enables people, businesses and communities to thrive. Financial inclusion helps people achieve what is most important to them, and builds dignity and empowerment. We already know many of the solutions to this challenge. Some of those solutions, including mobile phone banking, are new and not fully realized. Others, such as appropriate policies for providing small-scale savings products or ensuring consumer protection and adequate resource, are known, but need to be more widely adopted.

All these goals are within our grasp. The time is ripe. There is a role for each of us to play.

Notes

1 Speech by Hillary Rodham Clinton, US Secretary of State, at the "Inclusive Finance: A Path to the MDGs" seminar, New York City, September 22, 2010 http://www.state.gov/secretary/rm/2010/09/147595.htm.

2 AFI. 2010. "Measuring Financial Inclusion in Mexico: CNBV's Approach to Obtaining Better Data for Decision Makers." Bangkok, Thailand: The Alliance for Financial Inclusion (AFI).