Financial Inclusion in Post-2015 Development

Financial inclusion is a critical enabler and accelerator of equitable economic growth, job creation, social and human development. It is a cross-cutting issue.

An inclusive financial system is part of essential infrastructure in a given country.

Universal access to financial services by 2030 is within reach. That means that all households and businesses have access to and can effectively use a wide-range of financial services at a reasonable cost, provided by responsible and sustainable institutions that operate in a well-regulated environment. A global target of 90% usage of formal accounts is achievable, based on targets some countries have set.

Financial Inclusion is needed– for households and enterprises

- **2.5 billion adults — more than a third of the world's population — are excluded** from the formal financial system.[1]

Financial exclusion is greatest among poor people and in emerging and developing countries, including the rural households that account for more than 70% of extreme poverty.[2] Without formal financial services, families juggle informal, risky and expensive tools in order to manage cash and meet basic daily needs. This can cost them more than 20% of their cash.[3] Lack of savings accounts and health insurance contributes to the fact that 100 million people fall into poverty due to medical costs each year.[4]

- **About 200 million enterprises in emerging markets lack adequate financing** and financial services.[5]

SMEs contribute significantly to economic growth and 66% of permanent, full-time employment.[6] Yet, without access to financial services, small business owners use inefficient informal tools or cut back on growth, innovation and efficiency potential. Consequently, entrepreneurship and employment suffer.

Financial Inclusion is transformative - for lives, livelihoods and communities

Financial inclusion connects people and businesses to the formal economy, to markets and to better social welfare mechanisms. It **fosters economic productivity and progress in numerous development sectors,** builds entrepreneurship, and helps people achieve what is most important to them.

Savings accounts, payments, credit, insurance, remittances and other financial services help people invest in income generating activity and work their way out of poverty. They do this by reducing transaction costs and vulnerability to shocks, and by providing a reliable service. For example, financial services improve food security by enabling farmers—including the approximately 500 million smallholder farmers, many of whom are women—and agro-businesses to devote more resources to their crops and businesses. Through formal savings domestic capital is mobilized for investment, which in turn enhances development. (See Annex.)

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[1] Global Findex, World Bank, 2012. Adults 15 years old and above who have an account at a formal financial institution.
[2] *Rural Poverty Report 2011,* IFAD. Extreme poverty measured as the 1.4 billion people who live on less than $1.25/day.
[3] Wright, G and Mutesasira, L. "*Relative Risks to the Savings of Poor People*" (2001).
[4] *World Health Report 2010*, World Health Organization.
[5] IFC and McKinsey MSME Database, 2011. This refers to formal and informal micro and SMEs.
[6] *Summary, IFC Jobs Study, Assessing Private Sector Contribution to Job Creation and Poverty Reduction*, IFC, January 2013.

Financial Inclusion is Now Possible…

A series of innovations are making it possible to provide low-cost and convenient financial services to all who need them. **Mobile phones and digital technology** are changing how people bank and pay for things, in part by leveraging existing communications, retail and staffing networks be they airtime distributors, post offices, gas stations, local food stores and also banks. **New business models and financial products** for agriculture, health insurance and others are inspiring **scalable solutions** through careful design that meets client needs and local contexts. Greater attention to **consumer protection and financial education** is building capability and contributing to well-functioning, stable financial systems.

> *Financial inclusion is universal access for individuals and SMEs, at a reasonable cost, to a wide range of financial services, provided by diverse responsible and sustainable institutions.*

At the same time, **new data efforts** are enabling countries and service providers to know more about unbanked markets and client needs, and to measure progress against nationally determined targets. The G20 Basic Set of Financial Inclusion Indicators[7] measures access and use for individuals and SMEs. It integrates existing robust global data sources: the IMF *Financial Access Survey* and the World Bank Group *Global Findex* and *Enterprise Surveys*. Additionally, a growing number of countries have developed in-depth national surveys that are galvanizing investment and expansion of services, informing policymakers even better, and complementing globally comparative data sources.

…and Growing Priority for Policymakers and others

Recognizing this, **national, regional and global leaders are making financial inclusion a priority**. Their actions and commitments are feeding further momentum. Witness:

- 17 G20 and non G20 countries meeting in Los Cabos, Mexico, on the occasion of 2012 G20 Leaders' Summit, committed to bring the benefits of financial services to more than 700 million people and millions of enterprises and create coordination platforms and national strategies.[8]
- G20 leaders recognized financial inclusion as a cross-cutting issue for development and complementary to stability and integrity in financial systems, and included it in work plans.[9]
- Financial policy makers in nearly 40 countries have committed to set specific targets and undertake immediate actions to advance financial inclusion.[10]
- 23 developed and developing countries have put in place national strategies for financial education, an important component of financial inclusion.[11]
- The Basel Committee on Banking Supervision and other important standard setting bodies have incorporated financial inclusion in their global standards for banking regulations.[12]
- ASEAN leaders tasked their Ministers to explore new initiatives that boost access to finance and help to promote equitable economic growth.

[7] See www.gpfi.org/featured/g20-basic-set-financial-inclusion-indicators.

[8] G20 Financial Inclusion Peer Learning Program involving: Brazil, Chile, Colombia, Fiji, Indonesia, Kenya, Malawi, Mexico, Nigeria, Peru, Rwanda, South Africa, Tanzania, Turkey, Uganda, Uruguay, Zambia. See http://www.g20mexico.org/index.php/en/press-releases/459-evento-de-inclusion-financiera-en-los-cabos.

[9] G20 Leaders recognized the benefit of universal access and committed to improving access to financial services for the poor at the Pittsburgh Summit, September 2009. In Seoul 2010, they endorsed a Multi-Year Action Plan on Development as part of the Finance Stream. Actions on financial inclusion included the creation of the Global Partnership for Financial Inclusion. See gpfi.org.

[10] See http://www.afi-global.org/gpf/maya-declaration.

11 See http://www.oecd.org/finance/financial-education

[12] For example, the Basel Committee on Banking Supervision (BCBS) revised Core Principles (2012) directly and indirectly recognize the importance of financial inclusion. The Financial Action Task Force (FATF) Recommendations (2012) enable countries to adopt regulatory approaches tailored to the level of risk. This can make it easier for low-income clients to meet identity requirements in order to open a bank account.

How to Advance Inclusive Financial Systems for Development

Political leadership and cross-sector coordination are key to accelerate progress toward financial inclusion. The issue is less technical or financial, but more one of public and private partnerships that provide affordable, sustainable and scalable financial services that meet client needs in local contexts. Leadership and coordination are essential because innovative financial services such as mobile and agent banking, or agriculture insurance, cut across sectors and regulatory authorities. Coordination is also essential to deliver financial products in support of specific national priorities—from food security to vibrant SMEs to girls' education to equitable growth to improved delivery of basic services.

To this end, the adoption of **national strategies for financial inclusion** in diverse countries, backed by time-bound action plans and measurable targets are proving valuable to identifying and sequencing efforts. Coordination mechanisms are proving necessary and beneficial to the development and robust implementation of these strategies, and to **dialogue and partnership** with all involved parts of society, including civil society and the private sector. Moreover, these kinds of visible, public commitments, set by countries themselves, are galvanizing will and prioritizing policies, actions and investments.

Ambition and Measurement of Financial Inclusion in post-2015 agendas

Progress toward universal access to financial services by 2030 can be encouraged and measured by:

Global Target: **90% usage of a formal financial account**
This is based on national targets that some countries have set already, including countries presently at lower levels of inclusion.[13]

Key Indicator: **Usage of a formal financial account by adults** (15 years and older)

Additional indicators are important to encourage and reflect resilience and development outcomes:

Quality - *measured by cost of services or maturity of loans*
SME finance – *there are several possible measures*[14]
Use of savings accounts and insurance
Use of financial services by women, youth and in rural areas

> We recognize that financial inclusion is a key component in the development of healthy, vibrant and stable financial systems contributing to sustainable economic growth. Access and use of a safe, secure and reliable financial system is crucial for the welfare of the population […and improving…] their standard of living through greater liberty and prosperity. We are aware of the roles that countries, international agencies and organizations, the private sector, and other relevant stakeholders must play supporting and promoting this initiative. Cooperation across the spectrum is essential if we wish to move from principles to actions, and thus achieve more inclusive financial systems.
>
> Los Cabos Declaration on Financial Inclusion
> signed by 17 G20 and non-G20 countries, 17 June 2012

[13] For example, Nigeria has set a target of 70% for payments and 60% savings by 2020 from approximately 36%; Tanzania is aspiring to 50% by 2015 from 22% in 2009; Rwanda to 80% by 2017 from 21%; Malaysia to 95% by 2014.

[14] Measuring credit makes sense as it is the biggest financial service need for SME growth. Options to do so include number or percent of SMEs without access to credit (the total number SMEs in a given country can sometimes be difficult to calculate precisely, however) and the number or percent of SMEs with a loan. Another option that some are considering is volume of credit to SMEs or share of loans to SMEs as a percent of business loans.

Annex
Examples of Impact of Financial Inclusion

The right financial product can help individuals, households and enterprises achieve specific goals.

Savings makes a huge difference for households, improving welfare and alleviating poverty:
Nepalese women who gained access to savings accounts increased their monetary assets by more than 50%, non-monetary assets such as livestock by up to 15% and household investments in health and education over one year.[15] Similar impacts are seen among women business owners in Kenya.[16]

Affordable, longer-term finance helps enterprises grow and builds incomes:

A women's trash-picking cooperative invested three R$ 5,000 (USD 2500) medium-term, low-interest loans in equipment when a bank branch opened in their neighborhood of Rio de Janeiro. Improved productivity tripled each member's income to above the minimum wage. Members now set aside earnings for things like medical care—and plan to continue to grow the business.

SMEs that received funding from the Commercial Bank of Ceylon in Sri Lanka had an annual job growth rate of 12% from 2009-2012, twice the country average. Sales per worker also grew.[17]

Financial products can improve agricultural outcomes and food security:

Malawian farmers who were offered savings accounts and special commitment savings products saved more and invested more in agricultural inputs the following season. As a result, their crop outputs the next harvest (one year later) were 22% higher than farmers not offered the accounts, post-harvest household expenditures 17% higher, and food consumption 10-25% more.[18]

Microinsurance helps protect against long-term debt and builds resilience:
Poor people in Pakistan have few alternatives when faced with expensive crises; events like funerals can result in crippling long-term debt.[19] A new financial product provides some security. Customers with an average monthly balance of USD 21 in their mobile wallet receive accidental death insurance of USD 1,039—and up.

Employing the right approach, banks can successfully serve small enterprises and households

Tailored SME products bundled with business trainings and new access channels helped Türk Ekonomi Bankası (TEB) in Turkey increase its SME clients to more than 700,000 in 2011 from less than 20,000 in 2005. SME loans as a share of total loans grew to 44% by 2011 (from 25% in 2006), while loan delinquency rates in the SME portfolio decreased.[20]

Opportunity International Bank of Malawi met a huge demand for financial services by bringing the bank to low-income rural communities on converted trucks. Savings accounts, protected by thumb-print encoded smart cards, are especially popular among village women, many of whom have low literacy levels. This safe places to save enabled women to keep their homes and land when husbands died, among other positive outcomes.

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[15] Prina, Sylvia. *Do simple savings accounts help the poor to save? Evidence from a field experiment in Nepal.* Mimeo, Case Western Reserve University, 2011. Preliminary findings].
[16] Dupas, Pascaline and Jonathan Robinson. *Savings constraints and microenterprise development: Evidence from a field experiment in Kenya.* No. w14693. National Bureau of Economic Research, 2009. Impact was seen within six months.
[17] IFC, "Assessing Private Sector Contributions To Job Creation: IFC Open Source Study,".
[18] Brune, Lasse, et al. "Commitments to save: a field experiment in rural Malawi," *World Bank Policy Research Working Paper Series.* (2011) and Kendall, Jake. *Giving Farmers in Malawi a Better Way to Save Their Harvest Proceeds.* Bill and Melinda Gates Foundation. November 2010.
[19] McGuinees, Karen and Volodymyr Tounytsky. *The Demand for Microinsurance in Pakistan.* Microfinance Opportunities. 2006.
[20] IFC, "Why Banks in Emerging Markets are Increasingly Providing Non-Financial Services to SMEs." May 2012.

Programs that rethink systems can have transformative impacts at a national level.

Large-scale insurance programs improve health, and reduce costs and poverty:

In Mexico nearly 7% of families were dragged below the poverty line each year by medical emergencies until the late 1990s. By 2010, this had fallen to less than 3% after the introduction in 2004 of a government insurance program that created near universal access to healthcare.[21]

Agent banking can make financial services widely available—and saves costs:

Brazil's vast network of 120,000 "banking correspondents" outlets provides financial services in all 5600 municipalities, one-quarter of which did not previously have bank branches. This public-private partnership greatly improved access for poor people in remote areas. Nearly all government social payments to 13.8 million poor families are now cashed out via correspondents, reducing administrative costs from 14.7% to 2.4% of total payment value.[22] South Africa, Mexico and other countries have seen similar outcomes.

Mobile technology creates possibilities to reach new markets:

M-PESA mobile money in Kenya gained 17 million subscribers in just 4 years. An estimated three quarters of the unbanked population outside Nairobi uses M-PESA to send and receive money, store value and pay bills. Households with access to M-PESA were better able to maintain levels of consumption and deal with adverse shocks through their personal financial networks.[23]

Innovative approaches to the enabling environment expand financial services and entrepreneurship.

In China, creation of registries and new laws now allow firms that do not own property to use their moveable assets as collateral for loans. Commercial loans using movable assets grew by 21% per year from 2008-2010, and four of the five largest banks reported that compound annual growth rate of loans rose dramatically, from an average of 2% in 2006 to 25% in 2008.[24]

The Rwandan Development Board, a one-stop shop for entrepreneurs with just two procedures reduced the amount of time needed to start a business from 20 days to only three. As a result, new business registration has boomed. Between May 2008 and August 2011, more than 17,000 companies registered, compared to 5,505 from 2003 until May 2008.[25] Twenty-six business regulation reforms since 2005 have helped to rank Rwanda third-highest in Doing Business indicators in sub-Saharan Africa.

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21 *Seguro Popular.* See "Stretching the safety net", *The Economist*, 24 November 2012, p. 12.

22 Ortiz-Juarez, Eduardo. "Declining Inequality in Latin America in the 2000s: The Cases of Argentina, Brazil, and Mexico." (2012).

23 Suri, Tavneet and Billy Jack, "Reaching the Poor: Mobile Banking and Financial Inclusion," *Slate.com*, Web. Feb. 27, 2012.

24 "Financial Markets." *IFC Secured Transactions Advisory Project in China.* IFC, n.d. Web. 1 February 2013. IFC expands financing for small Ghanaian businesses", Ghana Business News, 11 January 2013.

25 Registering a business: its as easy as 1-2, *The Rwanda Focus*, no date given.