Financial Inclusion: A tool to fight poverty

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Financial Inclusion – Status and Trends
There are 2 billion people that still do not have access to basic financial services

Adults with an Account (%)

62% of the world’s adult* population has an account

2 billion unbanked

Of those unbanked, 55% live in Asia

Adults Without an Account (%)

55% of the world’s adult* population lives in Asia

1.1 billion unbanked

900 million unbanked

Unbanked Population (millions)

417  India
234  China
114  Indonesia

Despite progress, there are a large number of unbanked in EAP

For the EAP’s poor, Financial Inclusion is improving but more needs to be done.
In ASEAN, a large number of adults still save their money at home or at informal groups.
In ASEAN, family and friends continue to be the main source of funds for adults borrowing

Sources of borrowing used by adults in ASEAN (% of total borrowers)

Source: WBG Global Findex database and UNCDF. Note: Respondents could report borrowing from more than one source.
Account penetration among poorest 40% varies widely across EAP countries

Adults in poorest 40% of households with an account (%)

Source: WBG Global Findex database. Lao PDR data is 2011.
Cash use: In EAP, 97.8% of adults who received agriculture payments did so in cash.

In high-income OECD economies no adult reported receiving cash payments for agricultural activities.

Source: Global Findex database.
Thus in EAP there is clearly an opportunity → shifting payments from cash into accounts could significantly increase financial inclusion.

**Source:** WBG Global Findex 2014 database. * 15 years old and older.
Financial Inclusion and Poverty Reduction
Several studies have established strong link between financial inclusion and poverty reduction.

**Burgess and Pande (2005)** show that state-bank expansion in India’s rural unbanked locations contributed significantly to poverty reduction.

**Karlan and Zinman (2010)** show that credit recipients in South Africa were less likely to fall below the poverty line.

**Jack and Suri (2014)** show that M-Pesa users in Kenya were more likely to receive remittances and larger sums of money in total (compared to non-users), when faced with a financial shock.

**Aker et al. (2014)** show that households with mobile money and/or basic savings accounts in Niger have higher diet diversity and daily food expenditures.

**Muralidharan et al. (2014)** provide evidence from India that making Social Security Pension payments digitally via smart cards (instead of cash payouts) results in lower incidence of bribe demands and lower incidence of “ghost” recipients.

**Bruhn and Love (2009)** study the case of Bank Azteca in Mexico, which opened up branches in 800 of their store locations, targeting low-income clients. They show that the number of informal business owners increased by 7.6 percent, employment increased by 1.4 percent, and average income increased by about 7 percent in the areas with Bank Azteca branches.

Financial Inclusion can create opportunities at several levels.

**Micro**
- **Individual-level**
  - Smooth consumption
  - Manage income shocks/mitigate risks
  - Investments in: education, health, services
  - More convenient, higher personal savings
  - Lower transaction costs
  - Safe & secure payments

- **Firm-level**
  - Manage income shocks and/or mitigate risks
  - Investments in business and assets
  - Lower transaction costs
  - Safe & secure payments

**Macro**
- **Economy-level**
  - Better allocation of resources
  - Broader economic participation
  - Job creation / more entrepreneurship and innovation
  - Higher national savings
  - Higher competitiveness

**Greater physical, social, and economic well-being**

**Profitability Competitiveness Firm Growth**

**Higher growth Poverty reduction Reduced inequalities (income, gender)**

Thus, Financial inclusion is seen as an enabler for sustainable growth, and features in many of the SDGs

Financial services and role of inclusion is specifically mentioned in SDG 1-3, 5, 8-10 and 16

- Increasing account ownership could promote gender equality (SDG No. 5). Consider that poor women account for 1.1 billion of unbanked adults, or most of the financially excluded. When savings accounts were offered to female market vendors in Kenya, their daily expenditure increased by 37%, relative to a comparable group of women who did not receive an account. Emerging research in Jordan suggests insurance can help women defray treatment costs and manage health-related shocks that would otherwise disrupt their economic activities and result in lost income.

- Financial inclusion of farmers can unleash bigger investments in the planting season. The result: higher yields—and progress toward greater food security (SDG No. 2). When Malawian farmers had their earnings deposited into a new bank account, they spent 13% more on equipment and increased the value of their crop output by 21%.

- Financial inclusion also can encourage good health (SDG 3). A savings account allows parents to pay for a clinic appointment for kids. Out-of-pocket health care costs are an important reason why people are stuck in poverty. A study in Kenya found that giving people a safe place to store money increased health spending by 66%.
World Bank Group has set targets for Universal Financial Access 2020

Goal: By 2020, adults globally have access to a transaction account or electronic instrument to store money, send and receive payments as the basic building block to manage their financial lives

As of 2015: still 2 billion adults to reach.

WBG Target: to contribute to 1 billion new accountholders by 2020


• April 2015: WBG announces commitment to 1bn new accountholders by 2020 (600m: IFC / 400m: WB).

• Mobilizing the institution to scale up its investment, financial, advisory, knowledge, and convening support; and to leverage partnerships.

• 25 focus countries have been identified, together representing over 70 percent of the world’s unbanked adult population.
World Bank Group has set targets for Universal Financial Access 2020
Focus on 25 countries but the scale makes it a daunting challenge!
A survey suggests that the significant expansion in accounts* observed recently is in part driven by technology and innovation.

- 1.43bn new accounts created in 2015
- 85% of them in China and India where 32% of the unbanked reside
- 33% of new accounts in Sub-Saharan Africa are e-money accounts

- In China, the number of new accounts exceeded the size of the country’s unbanked population
- In India, two new accounts were opened for every three unbanked adults
- E-money accounts are driving account growth in parts of Africa

Global Payment Systems Survey - 2015 data
*Defined as account held with banks or other authorized and/or regulated payment service providers (PSPs) that can be used to make and receive payments, and store value.
From unserved to served: Digital technologies could hold key to gateway, through solutions to costs, risks, data and outreach constraints
Example: Digitizing Social Transfers can drive Financial Access

**Access**
Social transfers are made through an account rather than cash. The beneficiary now owns and accesses the account to receive payments.

**Usage**
The beneficiary uses the account not only to receive payments, but also to conduct transactions, save, and get access to other services.

**Quality**
The beneficiary knows his/her rights and obligations and is capable of shopping around for the best products and services that best suit his/her needs.

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**ID systems** help with KYC requirements.

**Financial infrastructure** allows consumers to build credit information.

**Competitive financial markets** with barriers to serving low-income consumers removed.

**Transaction accounts** such as mobile wallets, cards, bank accounts.

**Consumer Protection & Financial Awareness** ensure that consumers use & benefit from services

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**Ethiopia: Productive Safety Net Project (PSNP):** provided transfers to 8 mn households in cash (2010):

- Following FMGP engagement to enable payments to be digitized and paid into transaction accounts (inc. broader support for modernizing payment systems infrastructure and legal framework)

- As of 2017: 500,000 new accounts, 96% beneficiary satisfaction with e-payments, $1 million USD in savings for PSNP to date, estimated $9 million USD potential savings by 2020.

*Digital technology can help boosts financial inclusion ... and achieving the SDGs.*
Caveat: Digital finance presents challenges as well as opportunities

Digital finance has the potential to rapidly expand financial access and inclusion

But it also poses important risks and thus countries need partnership support

- **Depositor & investor risk:** New providers may be insufficiently regulated / monitored, and may not fully comply with disclosure or transparency requirements.
- **Regulatory & Supervisory Perimeter, Capacity:** Fintech players may not fit with regulatory/ supervisory remits. Developing country supervisors have systems & capacity constraints.
- **Fraud or other market abuses, inc. AML/CFT:** Access to customer information can lead to abuse without adequate consumer protection mechanisms. Cryptocurrencies (like Bitcoin) have been used for illicit activities.
- **Risks of cyber attack:** Cyber attacks can be at the regulator, financial market infrastructure, financial institution or consumer level.
- **Financial Stability:** Unsupervised linkages; Exacerbate credit cycles; Untested credit models; Affect banking system profitability.
- **Over-indebtedness:** New/easier access to digital credit may cause borrowers to be more susceptible, particularly without adequate financial capability.
Closing thoughts...

Since 2010, more than 55 countries have made commitments to financial inclusion, and more than 30 have either launched or are developing a national strategy. Our research indicates that when countries institute a national financial inclusion strategy, they increase the pace and impact of reforms.

As countries have accelerated efforts toward financial inclusion, it has become apparent that they face similar hurdles which impede their progress. To ensure success countries will need to focus on:

• Ensuring financial access and services extend to hard-to-reach populations, including women and the rural poor; devise useful and relevant financial products, tailored to particularly the vulnerable groups

• Increasing citizens’ financial literacy and capability so they understand different financial services and products

• Making sure everyone has valid identification documents, and a low-cost, accessible means for them to be authenticated. Globally, a lack of IDs makes it hard to open a bank account, access capital and credit.

• Establish robust financial consumer protection frameworks, and adapt relevant regulatory and supervisory authorities, including by utilizing technology to improve supervision (so-called “regtech”)

Thank you!

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