FINANCIAL INCLUSION, GROWTH AND POVERTY REDUCTION

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ECCAS REGIONAL CONFERENCE

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Financial inclusion targets are aggressive

- *World Bank Group President, Jim Yong Kim, set out a global challenge of 'Universal Financial Access by 2020'.*
- *The UN Secretary General's High Level Panel on the post-2015 MDGs recommended bank accounts for women and universal access to financial services as enabling targets.*
- *Over 50 countries have headline commitments to financial inclusion, for example:*
  - *Nigeria: Increase usage of payments from 21.6 percent of adults in 2010 to 70 percent by 2020 (2012 National Financial Inclusion Strategy)*
  - *Rwanda: Increase access to formal financial services from 21 percent to 80 percent by 2017 (Maya Declaration commitment made in September 2011, also committed to the G20 Peer Learning Program)*

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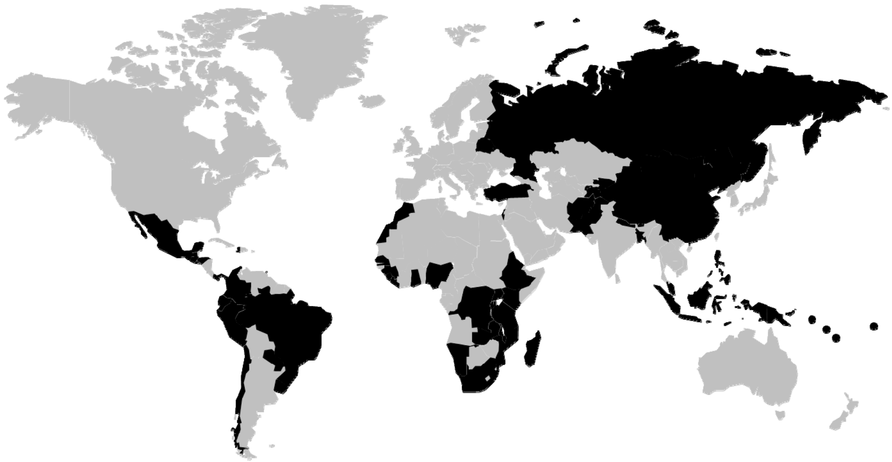
Commitments to Financial Inclusion as of 2015

57 countries have made headline FI commitments through the Maya Declaration, the G20 Peer Learning Peogram, and/or the Better Than Cash Alliance



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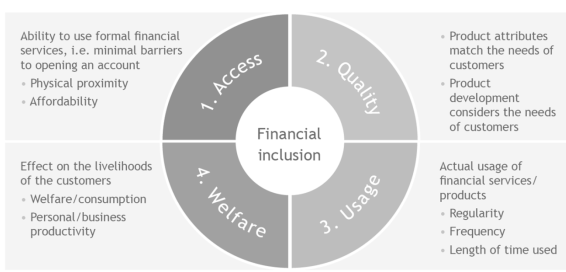
What is Financial Inclusion? 1/2

GFDR 2014

Financial inclusion is defined as the proportion of individuals and firms that use financial services. **Financial inclusion** and **access to finance** are **different** issues.

Financial inclusion does not mean finance for all at all costs.

AFI



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What is Financial Inclusion? 2/2

Universal access for individuals and SMEs, at a reasonable cost, to a wide range of financial services, provided by responsible and sustainable institutions

	INDIVIDUALS/MICRO-ENTERPRISES	SMALL AND MEDIUM ENTERPRISES
Credit	• Consumption smoothing • Investment in human development (health, education etc.)	• Financing for working capital and for investment • From financial institutions or through supply chain
Savings	• Cushion in case of shocks • Low risk source of self-financing	• Firms rely primarily on retained earnings (savings) for financing
Insurance	• Risk management tool for managing shocks	• Lowers risk of business activity
Payments	• Electronic/innovative retail payments, Government payments (including Conditional Cash Transfers) and remittances	• Firms rely on payments for efficient, low cost, safe transactions

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Evolution from Microcredit to Financial Inclusion

1995

Microcredit
- Demonstrated that poor can use and repay micro loans (not 'charity cases')

Early 2000's

Microfinance
- Recognition of broader financial service needs of poor/small firms
- Emerging problems with client over-indebtedness linked to rapid lending growth and weak financial infrastructure

Late 2000's

Access to finance
- 1st generation FI initiatives driven by Government mandates (e.g. Brazil, S. Africa)
- Innovation in financial service delivery e.g. through mobile phones, points of sale

Now

Financial Inclusion
- Understanding that governments can seed market development, and regulators can encourage and enable financial institution responses
- Increased competition from non-traditional providers e.g. telecoms companies, post offices
- Financial literacy and consumer protection also prioritized

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Why is Financial Inclusion so important?

Half of the world's adult population does not have an account at a formal financial institution

Extreme disparities in access to and usage of formal financial services across and within countries.

Financial inclusion can be a key driver of economic growth and poverty alleviation, as access to finance can boost job creation, reduce vulnerability to shocks and increase investments in human capital.

Without inclusive financial systems, individuals and firms need to rely on their own limited resources to meet their financial needs and pursue promising growth opportunities.

From a policy perspective, greater financial inclusion also holds the promise of potentially making other policies more effective and efficient.

Financial exclusion is problematic and deserves policy action when it is involuntary, that is when there are individuals who would like to use financial services but are excluded by barriers – such as high fees, distance, and lack of suitable products – that result from market failure.

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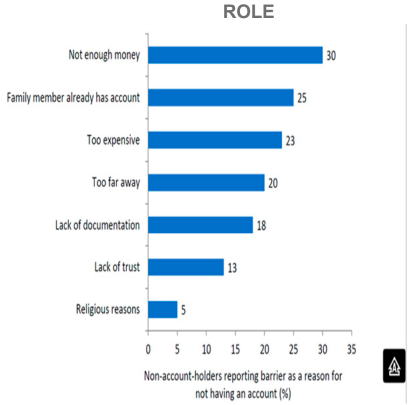
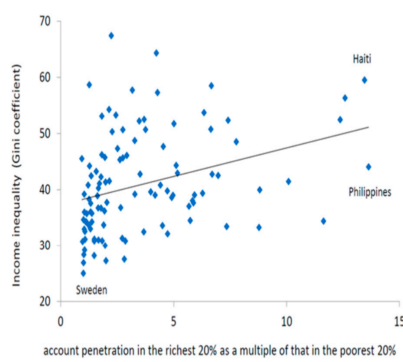
Barriers to Financial Inclusion and Economic Inequality

NOT ALL "UNBANKED" NEED FINANCIAL SERVICES, BUT BARRIERS PLAY A KEY ROLE



FINANCIAL INEQUALITY AND ECONOMIC INEQUALITY



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Disparities in financial accounts

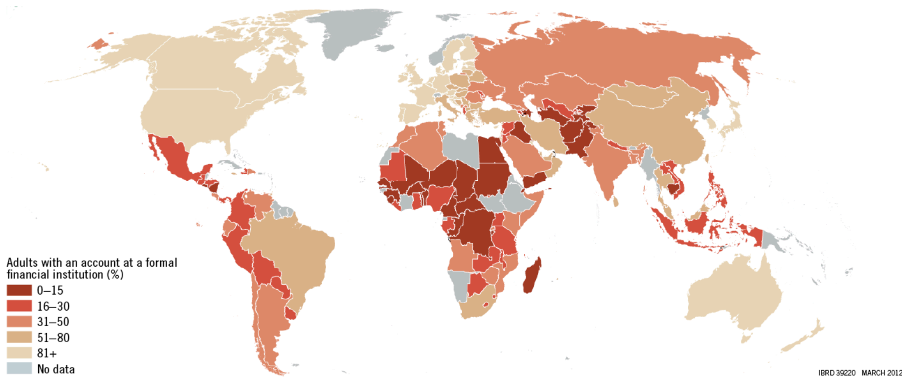
Over 2.5 billion adults do not have a formal account

41% of adults in **developing economies** are banked—compared to 89% of adults in high-income economies

37% of **women** in developing economies are banked—compared to 46% of men

23% of adults living **below $2 per day** have a formal account

Account penetration around the world

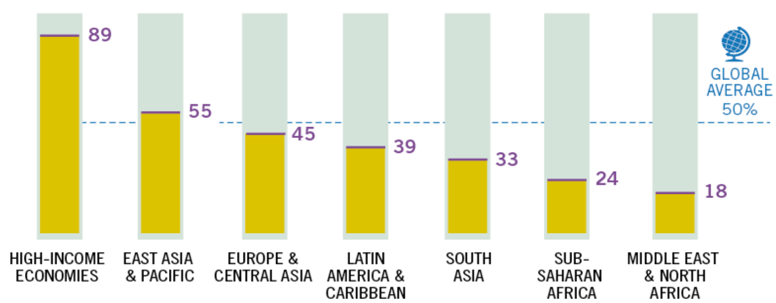


Source: Demirguc-Kunt and Klapper 2012.

GLOBAL FINDEX ACCOUNTS

Account penetration

Adults with an account at a formal financial institution (%)



Source: Demirguc-Kunt and Klapper 2012.

23% of adults in developing economies have a debit card—compared to 62% in high-income economies

11% of account holders in developing economies use their accounts for business purposes—compared to 29% in high-income economies

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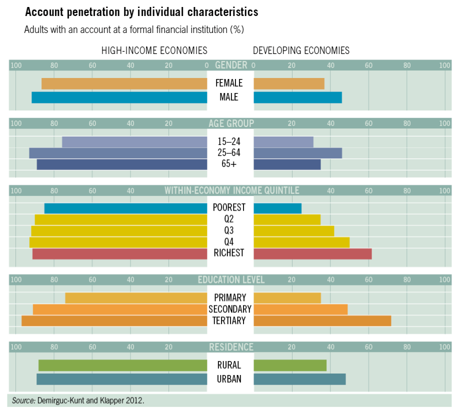
GLOBAL FINDEX ACCOUNTS



Women, youth, the poor, and rural residents are the least likely to have a formal account

Adults in the poorest income quintile in developing economies are half as likely to be banked as adults in the richest quintile

A 6-9 percentage points gender gap persists across income groups in developing economies

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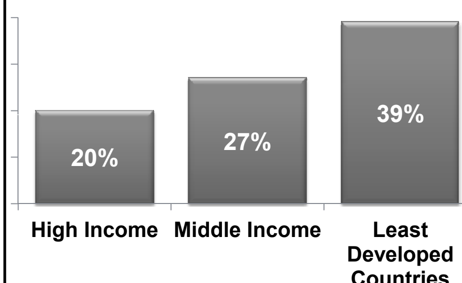
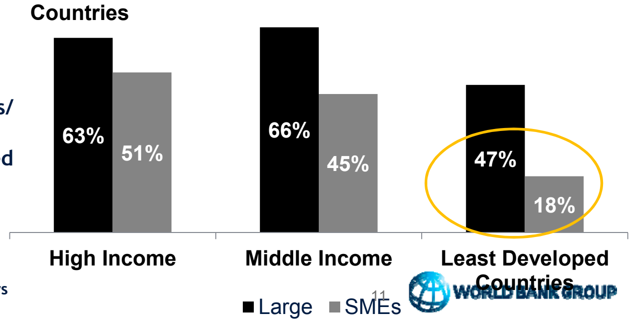
Smaller firms, and firms in LDCs, are more likely to be constrained in their access to finance



- Firms cite access to/cost of finance as a top constraint
- Critical for small firms to bridge payment delays and also to raise productivity and grow
- Of the estimated 365-445 million enterprises in emerging markets, 85% (310-378m) suffer from credit constraints

- % of firms with bank loans/ line of credit
- Access is more constrained for smaller firms and for lower income economies



Source: World Bank Enterprise Surveys

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Measuring Financial Inclusion: role of targets

Well-defined, publicized, and monitored, targets can have a rallying effect.

Tracking progress against targets often provides insights into obstacles and/or opportunities for expanding inclusion.

Targets are informed by goals, and measured through indicators.

FI targets should be viable (affordable for consumer, sustainable/profitable for provider) and safe (do not threaten consumer protection or stability).

Robust FI indicator monitoring uses both demand and supply side sources that are consistently and sustainability collected over time.

Measurement needed across all four dimensions of FI identified in National Strategy: (1) Access, (2) Quality, (3) Usage, and (4) Welfare.

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Financial inclusion policy – overall findings from research

Policy should focus on addressing market and government failures:

- Not on promoting financial inclusion for inclusion's sake, and certainly not on making everybody borrow
- Direct government interventions in credit markets tend to be politicized and less successful, particularly in weak institutional environments
- Role for government in creating legal and regulatory framework
  - Protecting creditor rights
  - Regulating business conduct
  - Overseeing recourse mechanisms to protect consumers

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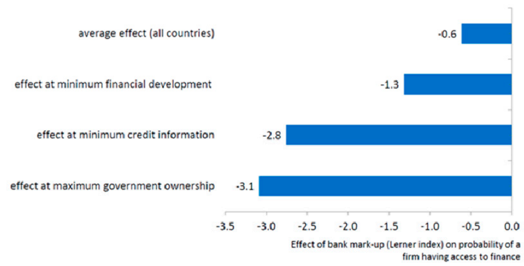
Financial inclusion policy – overall findings from research

Competition policy: important part of consumer protection /financial inclusion

Healthy competition among providers increases consumers' market power (incl. importance of level playing field across institutions and players)

New evidence: lack of bank competition diminishes firms' access to finance



Source: Love and Martinez Peria 2012

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Transformational change is now possible

Increasing data availability for evidence-based policy making

- New country data available across countries: Global Findex, Global Payments Systems Survey, Financial Consumer Protection & Literacy Surveys
- G20 Financial Inclusion Indicators

Focus on policy, regulations and financial infrastructure to accelerate private sector innovation, investment

- Payments systems in place
- Mobile phones widely available
- Banking correspondents enabled by Points of Sale, regulations
- Credit Reporting Systems improved

Global consensus on the importance of FI leading to country commitments to action

- G20 priority since 2008
- WB engagement with Standard Setting Bodies
- Alliance for Financial Inclusion (AFI) - network of regulators and other agencies from over 80 countries
- 37 country commitments to improve Financial Inclusion

Unique opportunity to support transformational change – bringing together all parts of WBG and partners resources at country level

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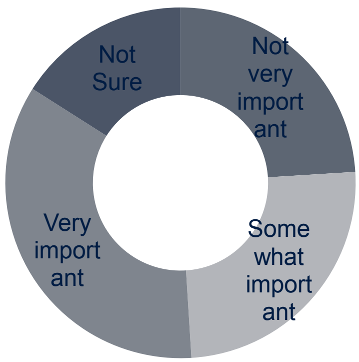
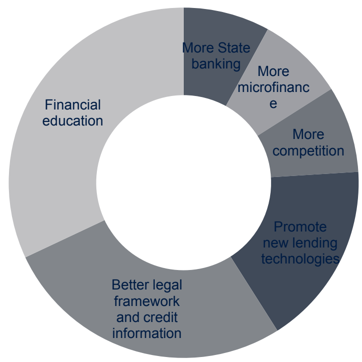
Role of new technologies to raise financial inclusion

WHAT IS THE ROLE OF NEW TECHNOLOGIES IN EXPANDING ACCESS TO FINANCE?



WHAT IS THE MOST EFFECTIVE POLICY TO IMPROVE ACCESS TO FINANCE AMONG LOW-INCOME BORROWERS?



16 Financial Development Barometer: poll of financial sector officials and experts from 21 developed and 54 developing economies.

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The Promise of Technology

Technological innovations can lower the cost and inconvenience of accessing financial services.

A regulatory framework needs to create enabling conditions for the providers of technology-based financial services, while protecting the rights of consumers.

To harness the potential of technologies, regulators need to allow competing financial service providers and consumers to ***take advantage of technological innovations***.

Mobile banking, agent banking, and biometric identification are strong examples of the promise of technology to enhance financial inclusion.

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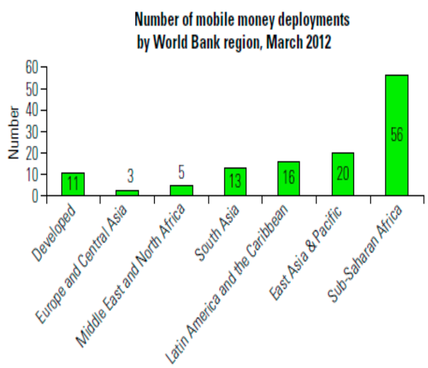
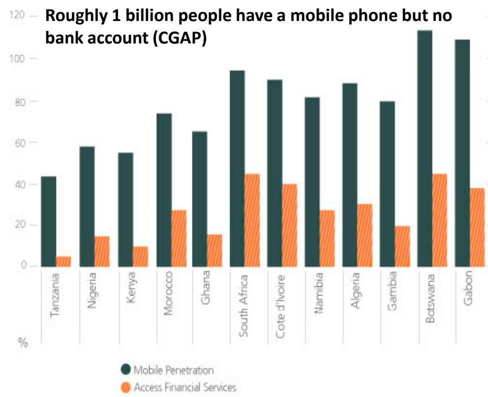
Mobile Financial Services have significant potential, particularly in sub-Saharan Africa





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Product Design and Business Models

Wider use of financial services can also be fostered by innovative product designs that address market failures, meet consumer needs, and overcome behavioral problems.

- Commitment accounts
- Index-based insurance

Innovative business models can help enhance economic growth.

- Credit through retail chains
- Reliance on payment histories in loan decisions
- Reduction in costs through the use of existing distribution networks

Governments must strike a careful balance between financial stability concerns and support innovations in product design and business models that allow for greater inclusion.

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Financial capability

- Classroom-based financial education for general population do not work
- Financial literacy can be increased by well-designed, targeted interventions
- More likely to work in "teachable moments" (e.g., new job, new mortgage)
- Especially beneficial for people with limited financial skills
- It helps to leverage social networks (e.g., involve both parents and children)
- "Rule of thumb" training helps by avoiding information overload
- New delivery channels show promise—example: messages in soap operas

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Main messages

- Financial inclusion: critical role in sustainable development, reducing poverty, boosting shared prosperity
- Financial inclusion varies widely around the world; poor people and young and small firms face the greatest barriers
- Innovative technologies, services, business models, and delivery channels hold much promise for increasing financial inclusion
- The role of policy is to address market and government failures, not to increase inclusion for inclusion's sake
- Key areas: strengthening regulations, improving information environment, ensuring competition among providers, educating & protecting customers.

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Thank you

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Finance & Markets

The World Bank Group and Financial Inclusion

- *The World Bank Group offers a comprehensive set of instruments to support policy and legal reforms, financial infrastructure, guarantee mechanisms, regulatory standards, financing platforms, and financial sector investment & innovation*
- *Instruments include financing, policy advice, data, and technical assistance.*
- *Financing, technical assistance, diagnostics and advisory services in >100 countries*

Global
Principles, technical guides , survey data, research

MENA region
Technical assistance through WB-IFC MENA MSME facility

100 countries

Mozambique
CPFL Diagnostic, Support to FSD/FI Strategy, Mobile/Innovative Payments Technical Assistance

Indonesia
Data, analysis and advisory inputs to support Government/Regulator-led FI reforms, inc. for innovative payments and financial education

Nigeria
Housing Finance Project, Data & Research to inform FI policies

Jordan
SME Finance diagnostics leading to TA and investment loan, Advisory services for financial infrastructure

Tunisia, Egypt
Post-revolution financing and TA to support MSME sector

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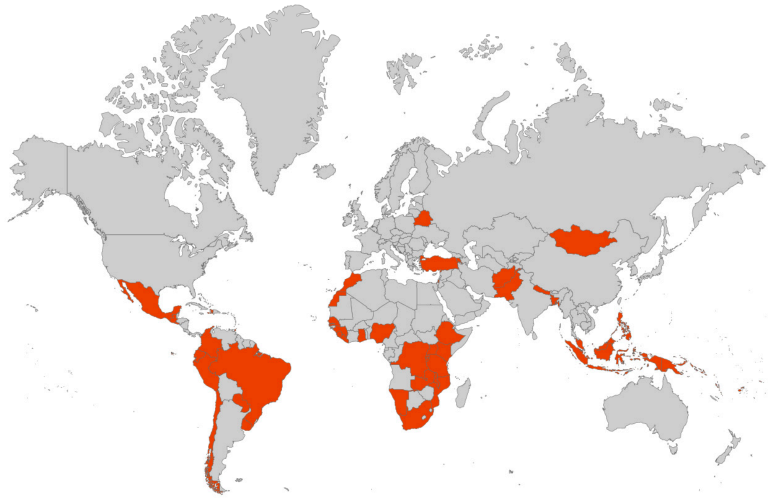
The World Bank Group and Financial Inclusion

Countries committing to financial inclusion through the Maya Declaration, the G20 Peer Learning Program, and the Better Than Cash Alliance:



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What is the Financial Inclusion Support Framework?

The World Bank Group launched the Financial Inclusion Support Framework (FISF) in April 2013, to offer multi-year support in line with countries' strategies and targets.

FISF is comprised of three components:

Country Support Programs

Technical assistance and capacity building packages, initially in 6 countries, potentially expanding to 15.

Financial Inclusion Challenge

Results-based grants to (1) support FI reforms in countries, and (2) accelerate private sector response to FI reforms.

Research and Models

Reports may cover agricultural finance, women and finance, and the relative impact and cost effectiveness of FI reforms.

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Country Support Programs

How are country support programs implemented?

Country Support Programs (CSP) will be deployed in four steps: (i) Country Request and Selection, (ii) Scoping Exercise, (iii) Preparation Mission in close coordination with country counterpart(s), and (iv) Delivery of Technical Assistance & Capacity Building

Request

Request for support received from the lead entity for financial inclusion (e.g., Central Bank, Ministry of Finance)

Scoping

Identification of country counterparts and any existing programs.* Assessment of the state of financial inclusion and definition of the scope of

Preparation

Elaboration and agreement of a Country Support Plan, with country counterpart(s), including timeline, budget, and

Assistance

Providing technical assistance and capacity building activities: (1) strengthening regulators and other counterparts, (2) advisory/technical inputs.

****CSPs complement the IFC Global SME Finance Initiative and CGAP's leading edge knowledge work, as well as the UNCDF MAP and other partner initiatives. They will fit within any existing national coordination mechanisms.***

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Scope of Country Support Programs

Sectors supported will be determined by country priorities and by diagnostics/data analysis, and may include:

Micro & SME Finance	Agricultural Finance	Payments
Microfinance, SME Finance, Housing MF	e.g. Agricultural insurance, supply chain finance	e.g. Innovative Retail Payments, G2P payments, Remittances
Financial Consumer Protection	**Financial Capability**	**Financial Infrastructure**
e.g. Market conduct supervision, disclosure of information	Financial education, financial literacy	Secured transactions, credit information, UIDs

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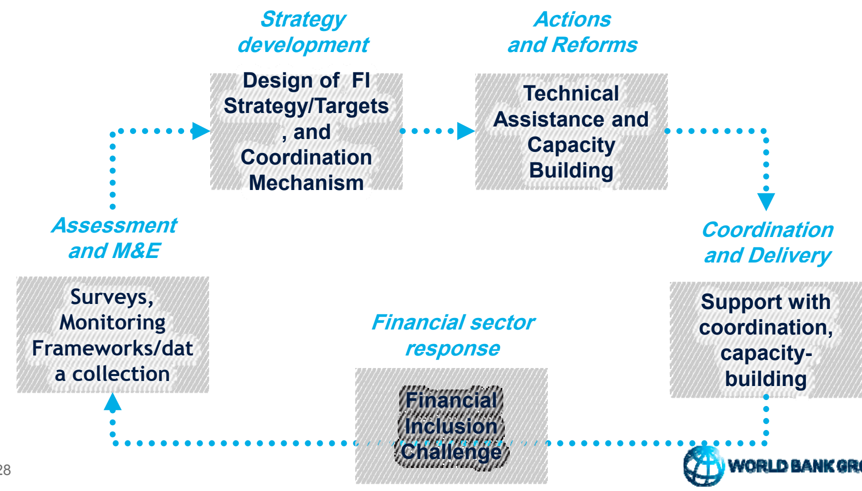
Support

Types of support offered by FISF to country leads

Country support programs can offer support at any stage of design, implementation, and monitoring:



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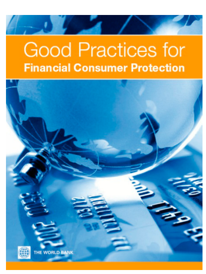
New World Bank Group initiatives on digital financial services and financial inclusion

Digital Financial Inclusion:

Objective is to explore how the digital agenda related to payments services and transaction accounts can be leveraged to offer a wider array of appropriate, responsible financial products and services to the unbanked and underbanked. The project will aim to (1) formulate hypotheses on the main obstacles and drivers for products and services beyond payments, (2) identify models of evolution and innovative approaches, and (3) develop policy tools and guidance.



World Bank's Good Practices for Financial Consumer Protection:

The Good Practices for Financial Consumer Protection are currently being revised to incorporate emerging consumer protection concerns with respect to digital finance. Recent innovations in financial products, delivery systems and providers of financial services are raising new consumer protection issues. The revised Good Practices will identify the consumer risks with these new business models and the measures that might be taken to mitigate and monitor those risks.

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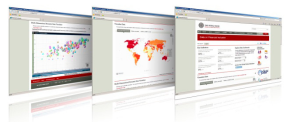
GLOBAL FINDEX DATA RELEASE

THE WORLD BANK
Development Research Group
Finance and Private Sector Development Team

Global Findex Suite of Products



- Financial Inclusion Data Portal
- World Bank eAtlas of Financial Inclusion
- The Little Data Book on Financial Inclusion 2012
- Global Financial Inclusion Microdata Databank

Reference citation for the Global Findex:

Asli Demirguc-Kunt and Leora Klapper, 2012, "Measuring Financial Inclusion: The Global Findex Database", World Bank Policy Research Paper 6025

www.worldbank.org/globalfindex

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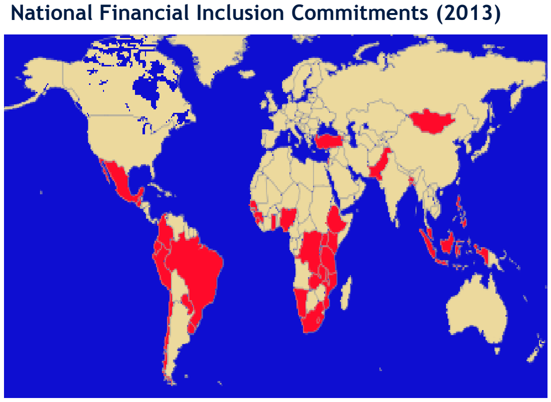
Wave of Country/Regulator Commitments to financial inclusion

Commitments through G20 and Alliance for Financial Inclusion

National Financial Inclusion Commitments (2013)



Examples of FI Commitments

- ✓ adopt innovative channels to improve agent and mobile banking (Malaysia)
- ✓ create a code of good practice for consumer protection (Guatemala)
- ✓ set up FI indicators and monitoring (Rwanda)

Gates Foundation and USAID also launched 'Better Than Cash' Initiative in 2012 to promote FI through electronic money and mobile phones

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INCLUSION FINANCIERE, CROISSANCE et REDUCTION DE LA PAUVRETE

1. WHY FINANCIAL INCLUSION?
2. DEFINE FINANCIAL INCLUSION
3. MEASURING FINANCIAL INCLUSION
4. FINANCIAL INCLUSION POLICY
5. LESSONS IN TACKLING FINANCIAL INCLUSION

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1. Why Financial Inclusion?

- Half of the world's adult population does not have an account at a formal financial institution
- 77% of adults living on $2 a day or less do not have a bank account
- Extreme disparities in access to and usage of formal financial services across and within countries.
- Significant scope exists for public policy to alleviate market failures and expand financial inclusion.
- Over 50 countries have committed to financial inclusion targets.
- Cross-cutting issue beyond specific services or institutions

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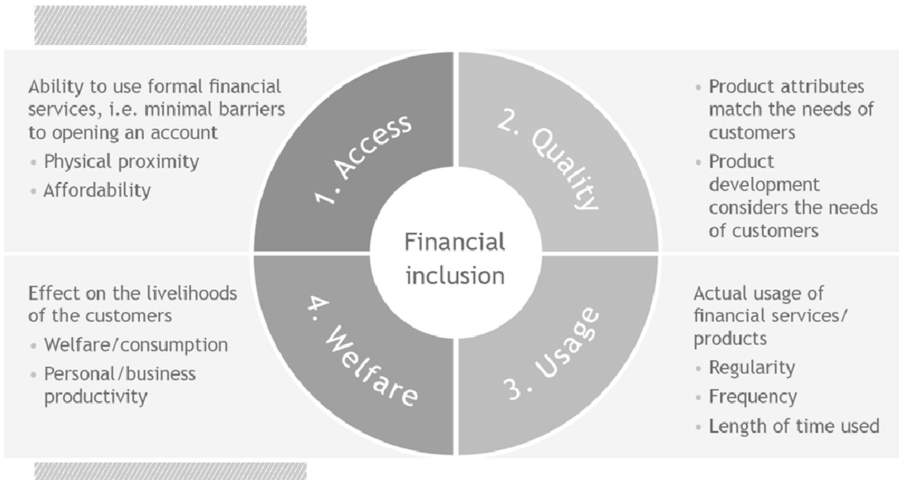
Dimensions of Financial Inclusion proposed by AFI



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GLOBAL FINDEX OVERVIEW

Goal to collect comparable cross-country data on financial inclusion by surveying individuals around the world:

— Measure the use of formal and informal financial services, using consistent methodology across economies and time

— Identify the segments of the population with greatest barriers to access to finance: poor, woman, youth, and rural residents.

— Motivate and track policies to expand financial services to the poor

— Design a questionnaire to harmonize financial inclusion questions across economies

Funded by a 10 year grant from the Bill & Melinda Gates Foundation (through 2020)

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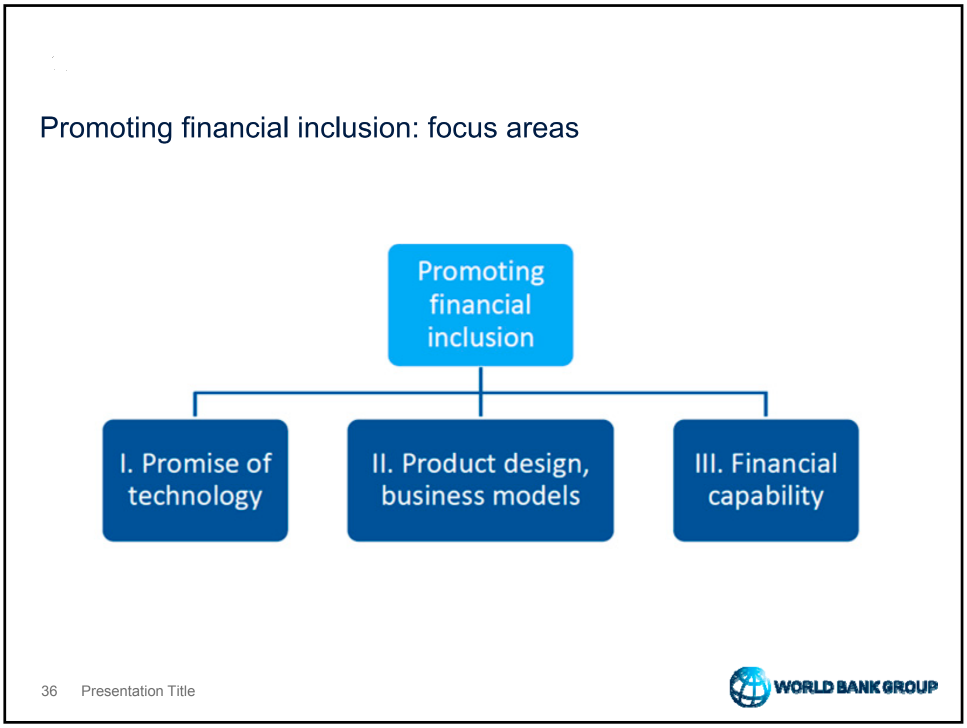
Promoting financial inclusion: focus areas
Promoting financial inclusion
I. Promise of technology
II. Product design, business models
III. Financial capability
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Financial
2
2014 GFDR on Financial Inclusion