Financial Inclusion Has Made a Difference

A High Level Conference on Kenya’s Economic Successes, Prospects and Challenges - Making Inclusive Growth a Reality

Alfred Hannig, Alliance for Financial Inclusion (AFI)
Nairobi, September 17-18, 2013
Would you lend money to these people?
Microsoft corporation 1978

Source: Xavier Sala-i-Martin's Home Page.
The AFI Network

- Founded in September 2008, AFI is a global network of policymakers in emerging and developing countries.

- AFI is dedicated to accelerating the adoption of innovative financial inclusion policy solutions with the ultimate aim of making formal financial services more accessible and useable to the billions of unbanked people.

- AFI provides members with the tools and resources to share, develop and implement their knowledge of cutting-edge policies.
The Alliance for Financial Inclusion

- 108 Institutions, 89 countries
- Unique Peer Learning network (working groups)
- 7 policy areas
- More than 35 tangible policy changes
- Financial Inclusion as mainstream international policy agenda
- Maya Declaration
Overview

Why Financial Inclusion?
- Overall level of financial inclusion – barriers and opportunities
- Financial inclusion as regulators’ mandate

Evidence around the globe
- Financial inclusion has made a difference
- Empirical evidence from the World Bank
- National evidence across different regions

Kenya and Financial Inclusion
- Level of Financial Inclusion in Kenya
- Kenya is leading the way in mobile financial services
- Opportunities for the future
The importance of financial inclusion

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2.5 billion of adults do not have access to formal financial system

Source: World Bank – Global Findex. Based on the question: do you have an account at a formal institution
Data presents barriers and opportunities

Global Findex Database with data from 148 countries. Key findings:

- 2.5 billion of unbanked and that is just an estimate, it could be much higher.
- Main reported barriers to access are cost of services, physical distance to access points, and lack of documentation.
- Data shows potential of technology and innovation to overcome barriers.
- Huge untapped market


Distribution unbanked population (age 15+) per country income

- Banked
- Low income
- Upper middle income
- Unbanked
- Lower middle income
- High income
G20, IMF, World Bank, and other multilateral institutions have called for an improvement in the quality of economic growth to be more “inclusive.” They recognize the benefits of financial inclusion for inclusive growth, stability, and integrity.

**G20 Leaders’ Declaration**  
(Saint Petersburg, September 2013)  
Reaffirms commitment to Financial Inclusion, Financial Education, and Consumer Protection
Financial Inclusion becoming part of regulators’ mandate

- Financial Inclusion is no longer only a development concern but a cornerstone of economic development framework and model
- Financial inclusion is a policy goal complementary to stability, integrity and consumer protection
- Financial Inclusion is understood in a broad framework including access, usage and quality of a range of financial services.

<table>
<thead>
<tr>
<th>No. of Countries</th>
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<tbody>
<tr>
<td>Have dedicated financial inclusion strategy</td>
<td>31</td>
</tr>
<tr>
<td>Created a dedicated financial inclusion unit</td>
<td>22</td>
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Is financial inclusion a mandated objective for your institution?

Source: GPF 2013 electronic voting results for the session, *Driving Policies for Optimal Impact*
Evidence around the globe

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Evidence around the globe
- Financial inclusion has made a difference
- Empirical evidence from the World Bank and IPA
- National proven effective policy reforms

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Financial Inclusion has made a difference

A World Bank analysis of Mexico’s drive to increase financial inclusion shows...

- 10% increase in financial inclusion
- leads to
- 7% increase in employment
- 5% increase in new businesses
- 3% increase in GDP

Source: World Bank – “The Economic Impact of Banking the Unbanked: Evidence from Mexico”
Financial Inclusion has made a difference

IPA analyses show:

Households in Nepal increased their cash assets by over 50% and their total assets by 16% when they were given access to a savings account.

Tobacco farmers in Malawi cultivated almost 10% more land, increased their agricultural output by more than 27%, and increased household spending by 17.4% when they were given a commitment savings account.

Evidence of successful policies - Tanzania

<table>
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<tr>
<th>Policy Changes</th>
<th>Results</th>
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<tbody>
<tr>
<td>• Introduced Guidelines for Introducing Electronic Payment Schemes</td>
<td>• MFS registered accounts increased from 112,000 to 33 million in five years</td>
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<td>• Launched the Africa to Price Responsibly and Educate on Interest Rates (APR &amp; EIR) Program for transparency in the microfinance sector</td>
<td>• There is a monthly average of 48 million financial transactions worth about 1.7 trillion Tanzanian shillings through mobile phones</td>
</tr>
<tr>
<td>• Issued a Credit Reference Bureau Regulation</td>
<td>• There are currently 138,000 agents operating in the country</td>
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Policy Changes

- Created a Financial Sector Master Plan that mapped out a decade of reforms
- Pursued a conscious policy to have an extensive commercial banking branch network across the country

Results

- Deposit accounts have increased from 9,738 to 29,311 per 10,000 adults from 2000 to 2011
- A significant increase in credit from 3,105 loan accounts to 8,600 loan accounts per 10,000 adults in the same time period

1 AFI Case Study on BNM’s CEMC. 2 Speech by Dr Zeti Akhtar Aziz, Kuala Lumpur, December 2011.
Kenya and Financial Inclusion

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Evidence around the globe
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Financial Inclusion in Kenya

Account at a formal financial institution (%age 15+)
42%

Account at a formal financial institution, income, bottom 40% (%age 15+)
19%

Loan from a financial institution in the past year (%age 15+)
10%

Source: World Bank – Global Findex. Based on the question: do you have an account at a formal institution
Kenya is leader in mobile money

Central Bank of Kenya’s enabling regulatory approach allows 23 million people (74% of adult population) to use mobile financial services via 90,000 agents.

Source: GSMA - Mobile Money for the Unbanked, State of the Industry: Results from the 2012 Global Mobile Money Adoption Survey
Number of live mobile money services for the unbanked 2001-2012

Source: GSMA - Mobile Money for the Unbanked, State of the Industry: Results from the 2012 Global Mobile Money Adoption Survey
M-Shwari: Interest bearing saving accounts and small loans via mobile phone

- Account opening and loan disbursement immediately over the phone
- Cooperation between Safaricom and the Commercial Bank of Africa
- Credit scoring algorithm based on voice data, payment of phone bills and savings history
- Total > 10 million USD saved in the first two months
Kenya is a global player in Financial Inclusion

- Central Bank of Kenya co-hosted the **first** AFI Global Policy Forum in 2009 in Nairobi

- Prof. Ndung'u served as the chair of the AFI Steering Committee leading a peer-to-peer approach internationally

- Kenya is constantly engaged in exchanging knowledge with other countries

Various policy changes led to an increase from 1 to 20 million people with access to banking services between 2002 and 2012
Opportunities moving forward

• Growing alignment of interests among governments, regulators, private sector and other global stakeholders
• Greater drive towards measurability of financial inclusion progress and focus on quality issues
• Recognition of country specific conditions and developing and emerging countries led approaches
• Peer learning with International Standard Setting Bodies
• Technological innovation and enabling regulatory framework
Thank you