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Advancing financial access for the world's poor

# Global Financial Inclusion Landscape – Results-to-date and Opportunities going forward

**Tilman Ehrbeck, CEO of CGAP**

**S& C Forum, SDC October 17, 2012**

# Overview

- Why financial access matters for the poor

- Increasingly robust impact evidence

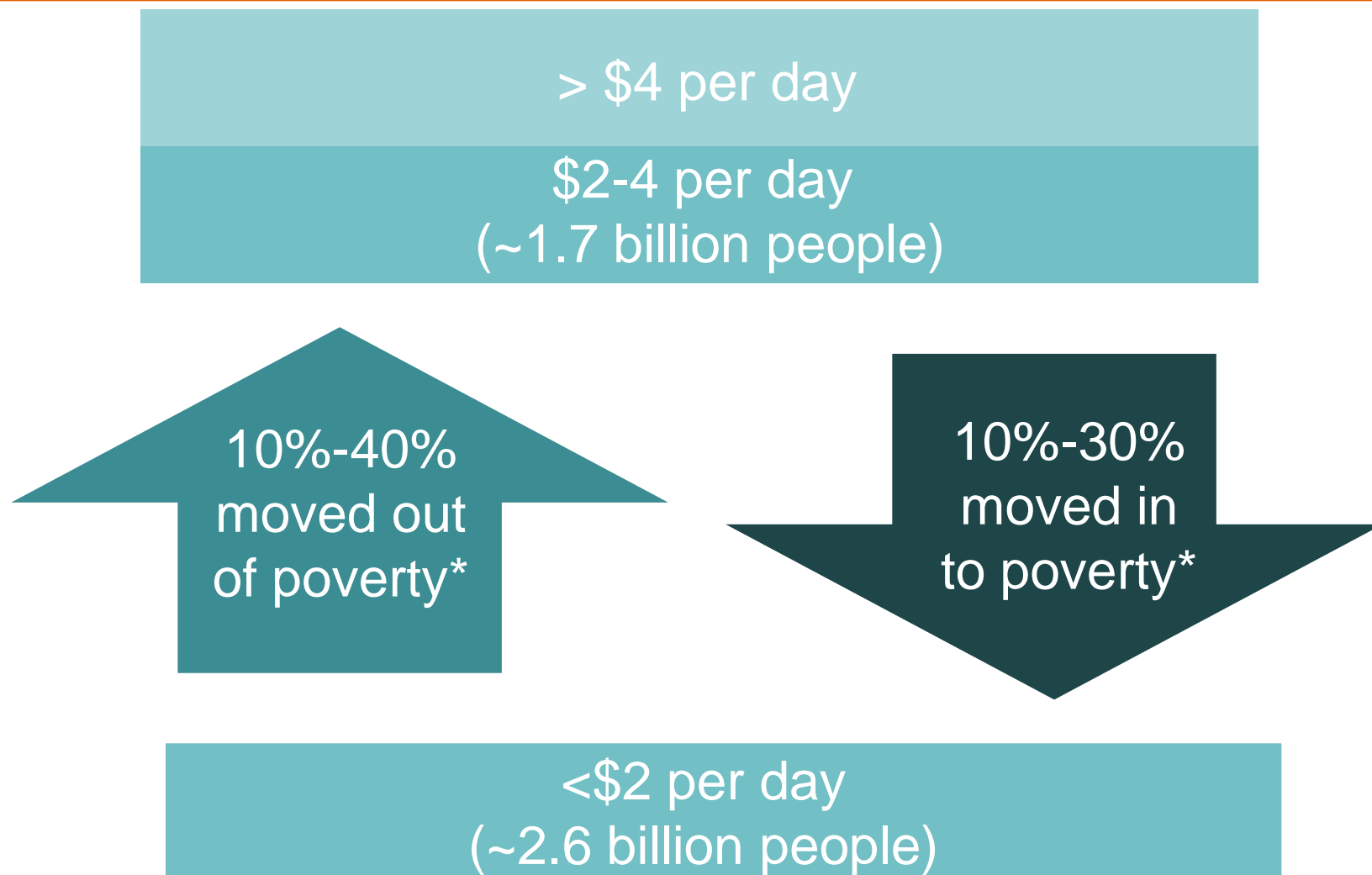- Progress and opportunities going forward

# Poor families have aspirations



Grow & protect livestock

Build new stable

Expand housing

Get children best education

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# Poor families are vulnerable

> $4 per day

$2-4 per day
(~1.7 billion people)

10%-40%
moved out
of poverty*

10%-30%
moved in
to poverty*

<$2 per day
(~2.6 billion people)

* Typical period for estimates is 2-10 year cycle.

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# Poor families have very active financial lives



Source: Collins, Daryl, Jonathan Murdoch, Stuart Rutherford, and Orlando Ruthven. 2009. *Portfolios of the Poor: How the Worlds Poor Live on $2 a Day*. New Jersey: Princeton University Press. Slide from Collins, et al. May 2010
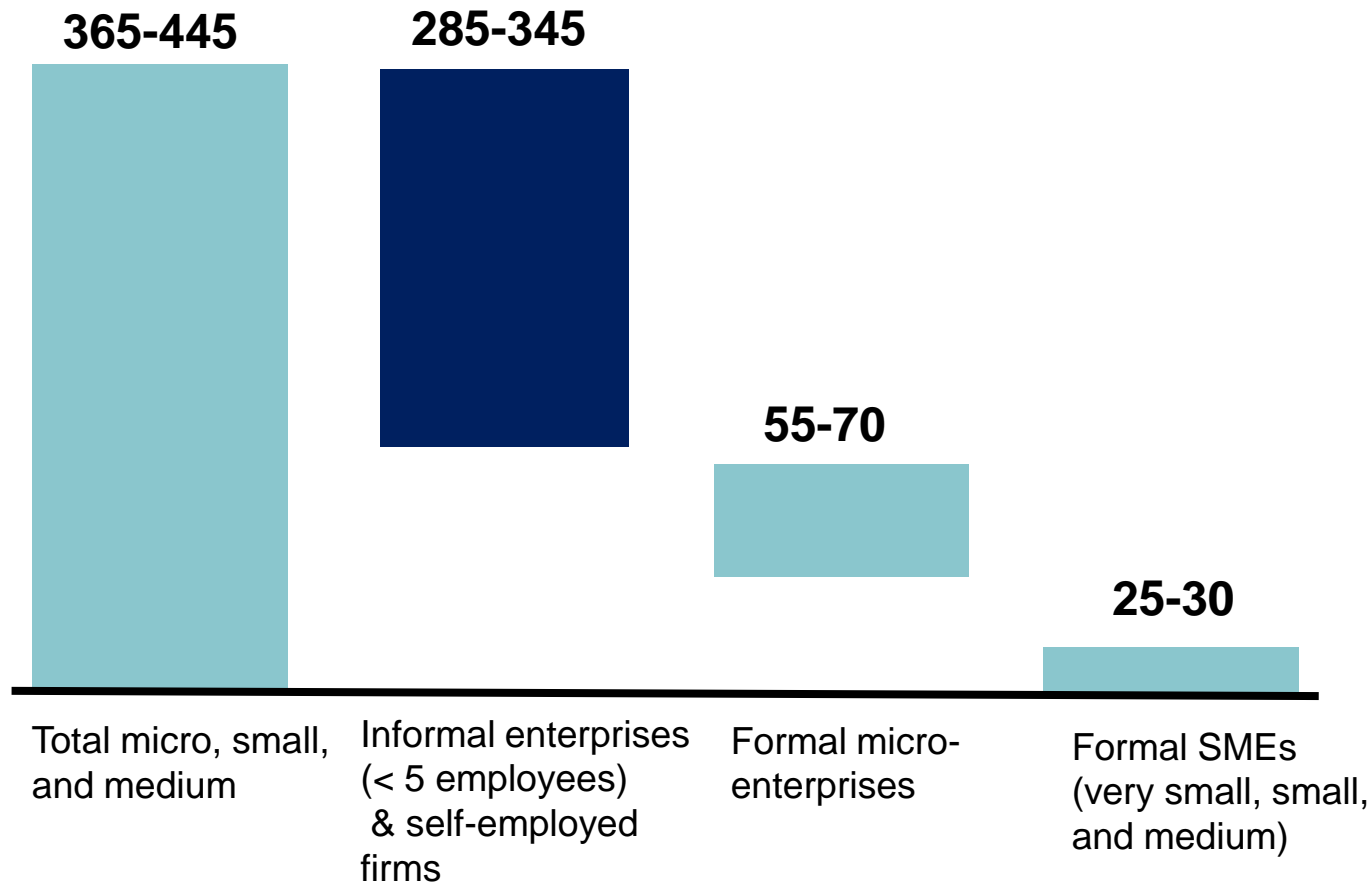
# Informal financial services are less reliable and more expensive

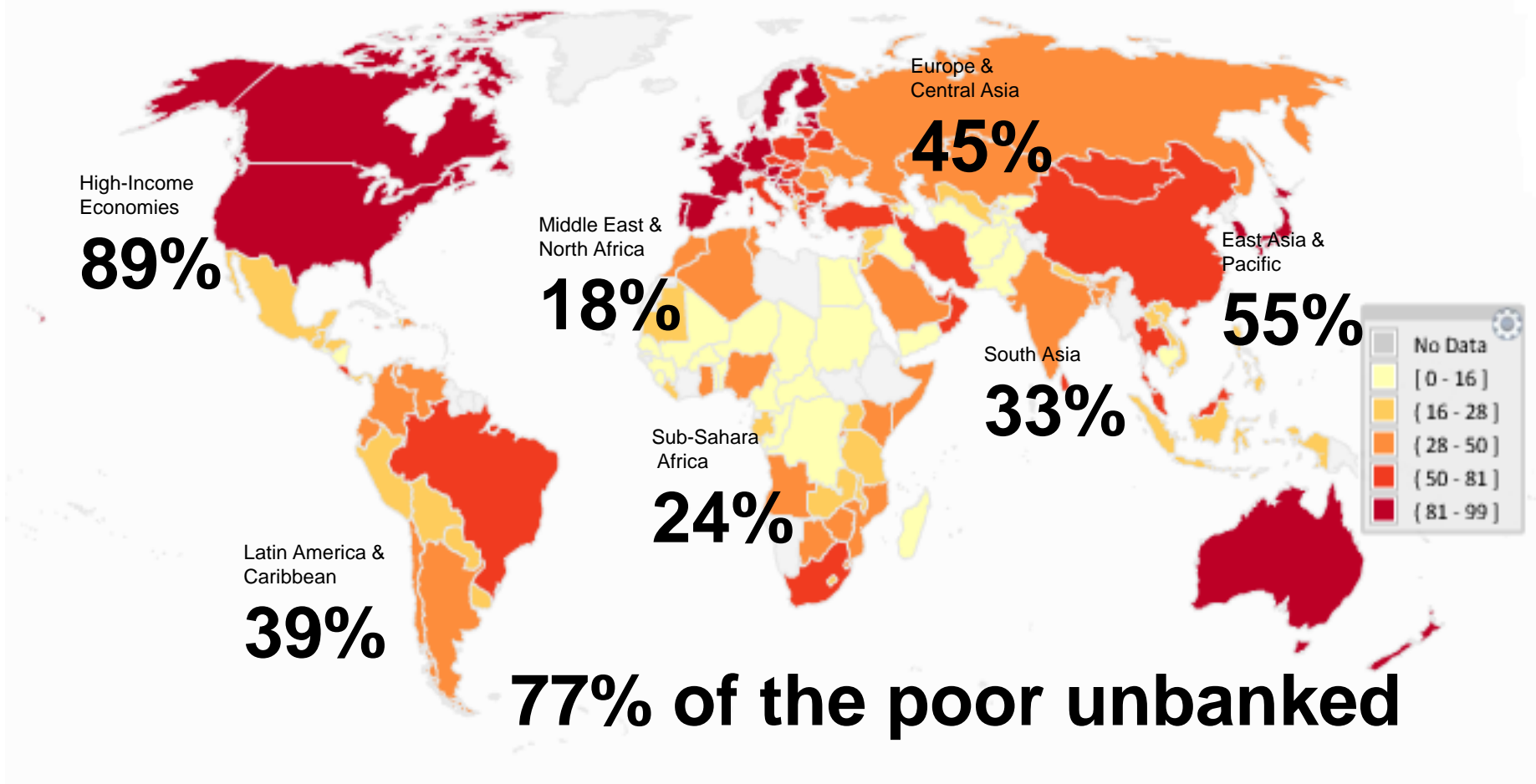| Underlying need | Mani's financial strategy | Cost of informal services | | Cost of formal services |
|---|---|---|---|---|
| **Intra-year liquidity mismatch** | Pawning jewelry with local money lender | 180% annualized | Credit card | 24% APR on overdrawn amount |
| **Long-term savings** | Investment in gold and agricultural land | Fluctuates with gold prices and land value. Latter correlated with rainfall | Mutual funds, fixed deposits | Approximately 4-5% real rates of return |
| **Short-term savings** | Physical savings at home | Zero nominal returns | Bank account | 3.5% nominal returns |
| **Emergency loan towards medical emergency** | 100 day loan | 50% annualized | Personal loan | 14-16% APR |
| **Home improvement loan** | Village feast as investment | Obligation to contribute to other village feasts | Home improvement loan | 8-15% APR |
| **Remittance** | Informal provider | Unreliable, 3-5% | Bank or postal remittance services | 0.5% till Rs. 10,000 -- declining thereafter for increasing amounts |

**5-10x higher cost for poorer families**

**CGAP**   Source: IFMR Trust

# Majority of enterprises very small and informal

**Number of enterprises by segment and formality in emerging markets**
Millions



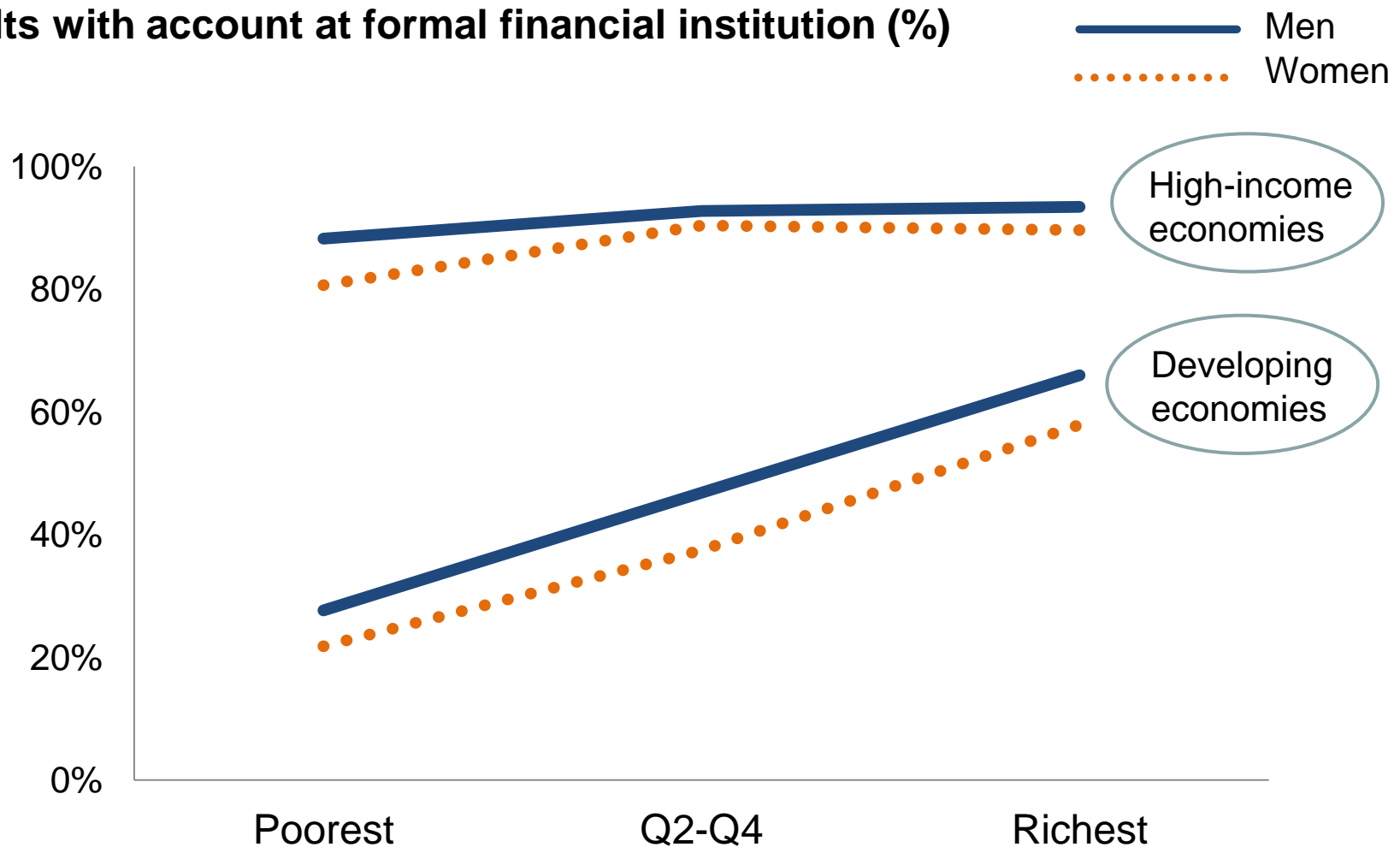| Segment | Value (Millions) |
|---|---|
| Total micro, small, and medium | 365-445 |
| Informal enterprises (< 5 employees) & self-employed firms | 285-345 |
| Formal micro-enterprises | 55-70 |
| Formal SMEs (very small, small, and medium) | 25-30 |

# Globally, half of working-age adults unbanked

**Percentage of adults with account at formal institution**

High-Income Economies

**89%**

Middle East & North Africa

**18%**

Europe & Central Asia

**45%**

East Asia & Pacific

**55%**

South Asia

**33%**

Sub-Sahara Africa

**24%**

Latin America & Caribbean

**39%**

**77% of the poor unbanked**

| No Data |
| [0 - 16] |
| ( 16 - 28 ] |
| ( 28 - 50 ] |
| ( 50 - 81 ] |
| ( 81 - 99 ] |

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Source: Global Findex Database, World Bank (2012)

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# Persistent gender gap across income groups

**Adults with account at formal financial institution (%)**



Legend: Men (solid blue line), Women (orange dotted line)

High-income economies

Developing economies

Source: Global Findex Database, World Bank (2012)

# Young and old disadvantaged across all regions

**Account penetration by age group (%)**

Legend: ■ 15-24 yrs ■ 25-64 yrs ■ 65+ yrs



| Region | 15-24 yrs | 25-64 yrs | 65+ yrs |
|--------|-----------|-----------|---------|
| MENA | 13 | 20 | 20 |
| SSA | 17 | 29 | 19 |
| SA | 25 | 36 | 32 |
| LAC | 26 | 44 | 43 |
| ECA | 32 | 51 | 35 |
| EAP | 50 | 58 | 38 |
| High-Income country avg. | 76 | 93 | 89 |
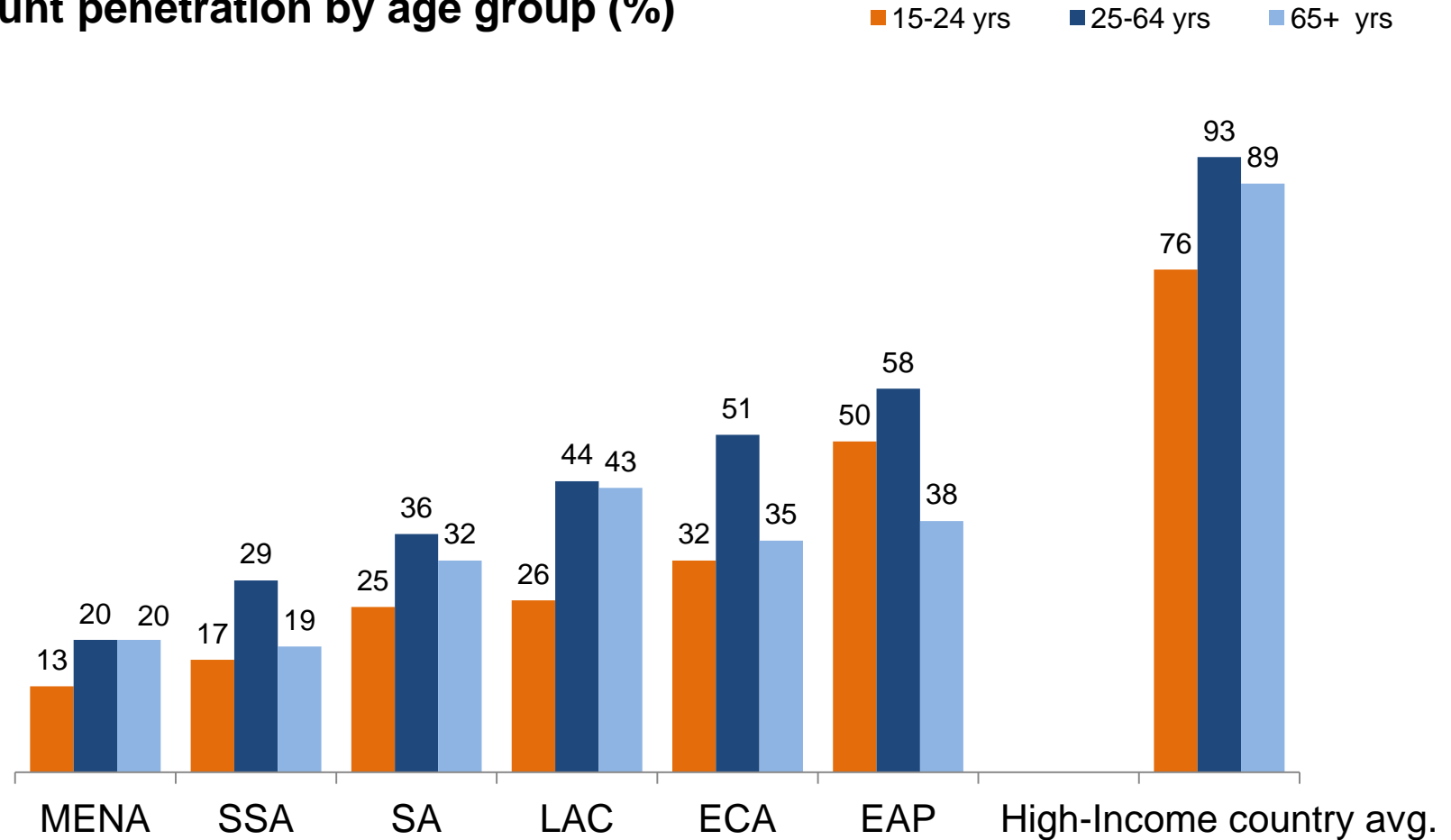
# Persistent rural divide in developing world

**Account penetration urban vs. rural areas (adults, %)**   ■ Rural  ■ Urban
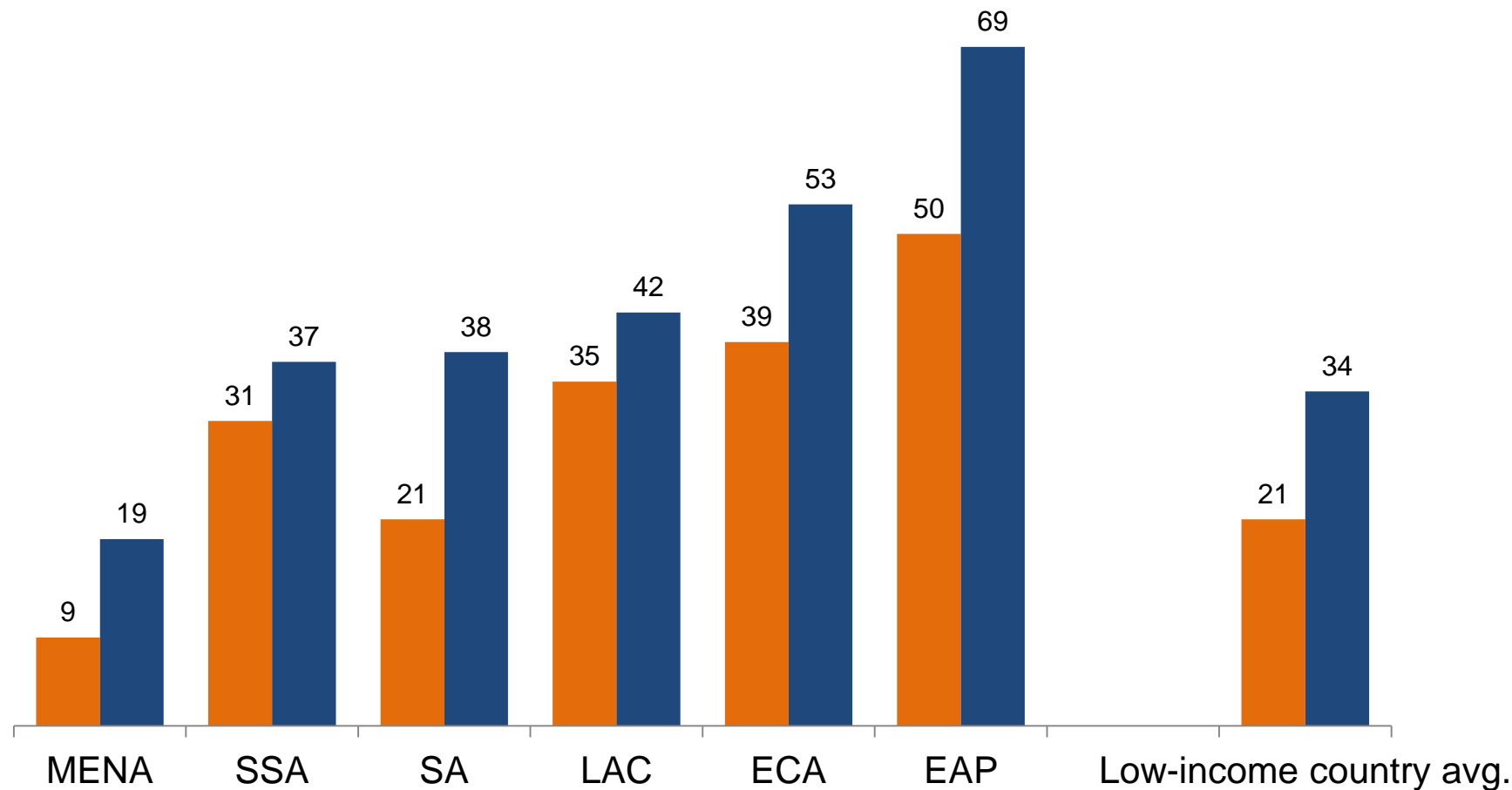


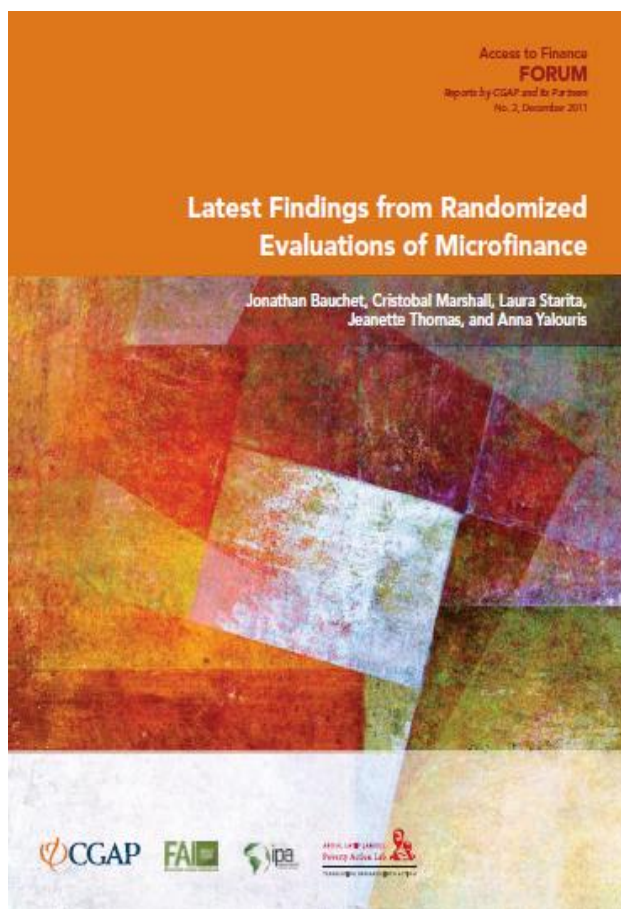| Region | Rural | Urban |
|--------|-------|-------|
| MENA | 9 | 19 |
| SSA | 31 | 37 |
| SA | 21 | 38 |
| LAC | 35 | 42 |
| ECA | 39 | 53 |
| EAP | 50 | 69 |
| Low-income country avg. | 21 | 34 |

Source: Global Findex Database, World Bank (2012)

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# Overview

- Why financial access matters for poor people

- Increasingly robust impact evidence

  – Household welfare

  – Social policy effectiveness & efficiency

  – Macro impacts

- Progress and opportunities going forward

# New brand of impact evaluation: Kenya example

**Average daily investment of female vendors (in Ksh)**

347

+ 45%

240

***Without access*** to savings account

***With access*** to savings account

Source: Dupas, Pascaline, and Jonathan Robinson. 2010. "Savings Constraints and Microenterprise Development: Experimental Evidence from Kenya." Cambridge: National Bureau of Economic Research October.
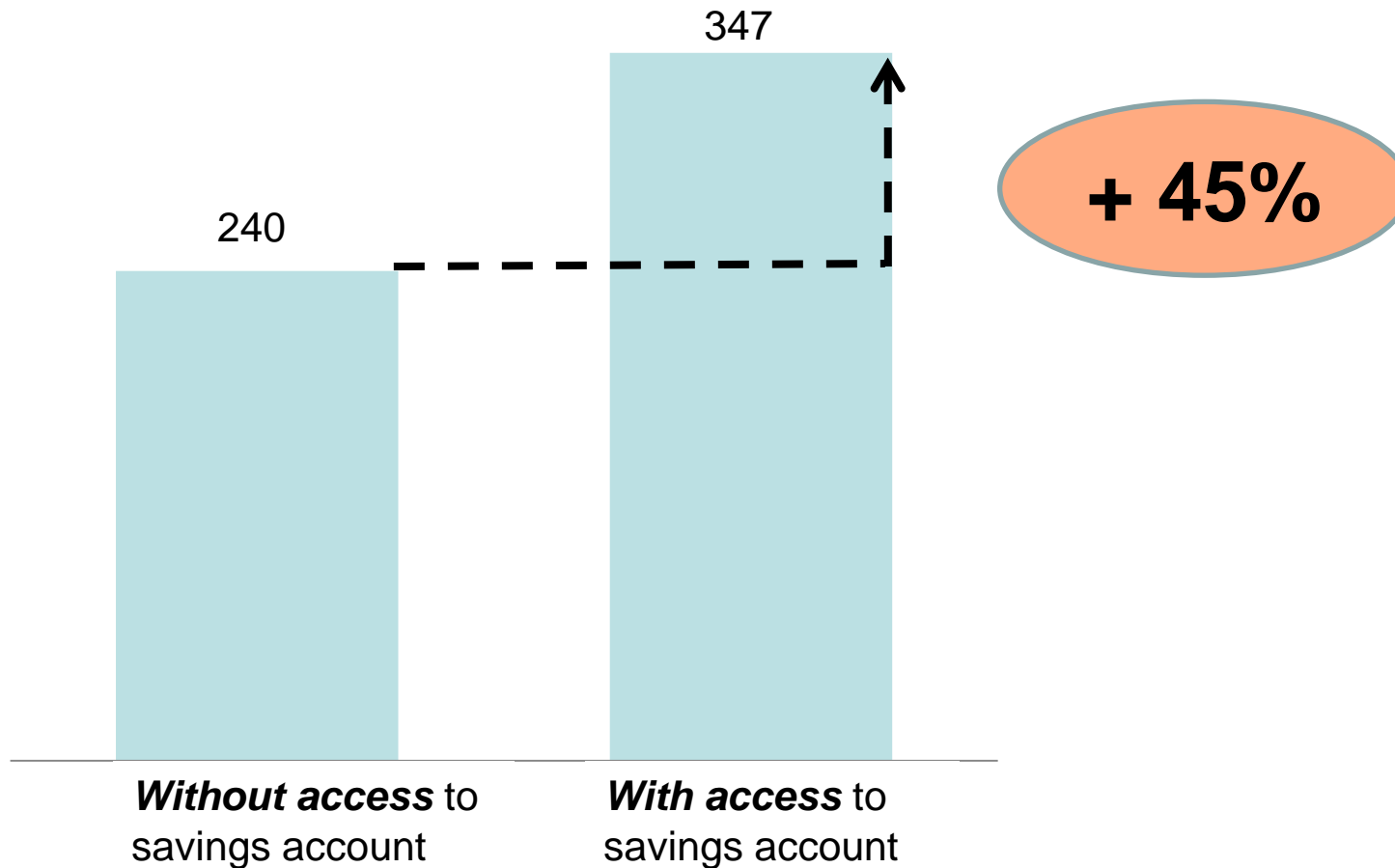
# Product impact evidence accumulating and positive

**Latest Findings from Randomized Evaluations of Microfinance**

| | Enterprise activity | Household welfare |
|---|:---:|:---:|
| **Credit** (5 studies) | ✚ | ? |
| **Savings** (4 studies) | ✚ | ✚ |
| **Insurance** (2 studies) | ✚ | ✚ |
| **Payments** (1 study) | ✚ | ✚ |

# Enhancing efficiency of other policy interventions

**Cost of Bolsa Familia grant delivery**
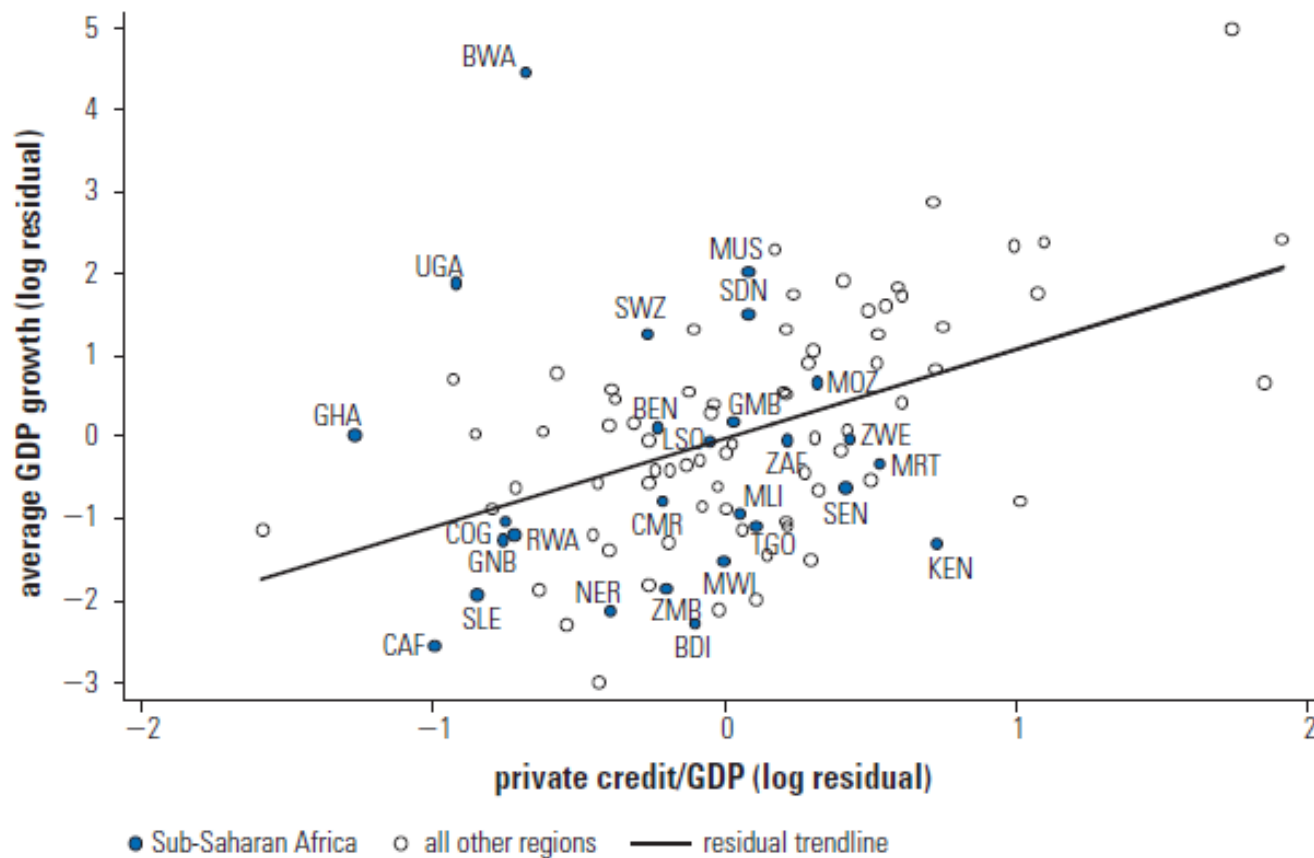(as % of total)

14.7

2.6

- 82%
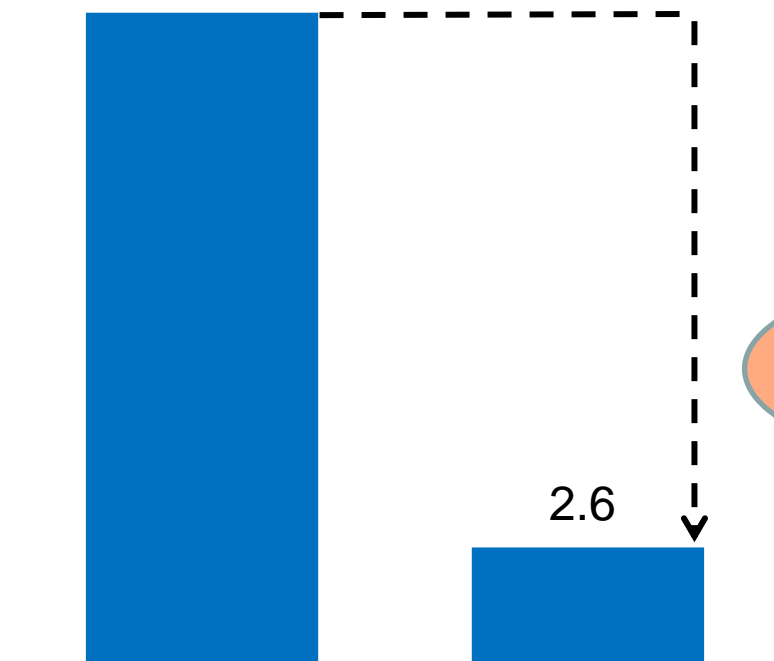
Before electronic delivery
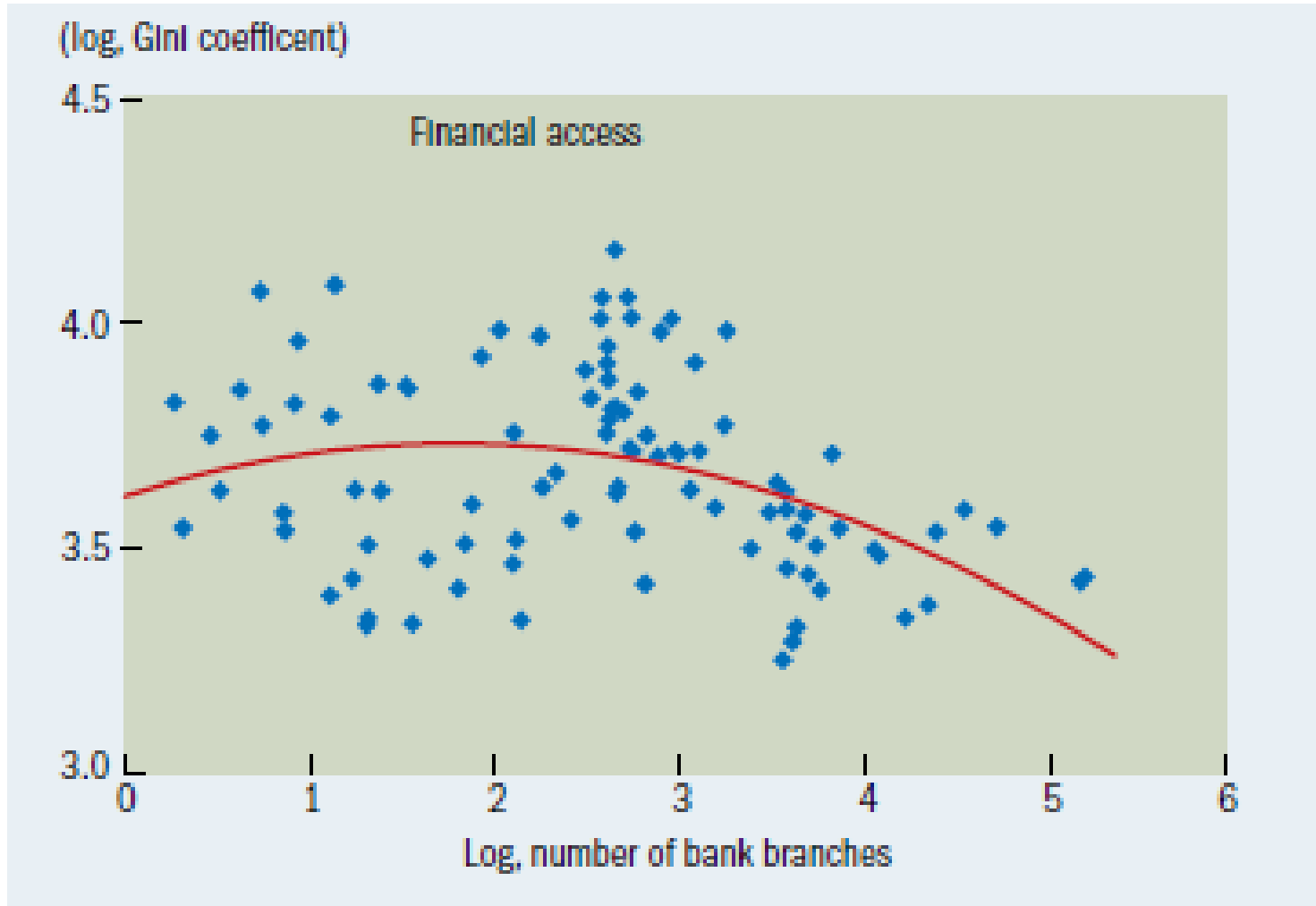
After electronic delivery

Key actions

• Switched to e-benefit cards

• Consolidated several social benefits into one account

# Macro correlation between financial depth and growth

**GDP Growth Rates and Financial Depth 1980-2003**

# Financial deepening reduces inequality

# Overview

- Why financial access matters for poor people

- Increasingly robust impact evidence

- Progress and opportunities going forward

  - Better understanding of needs

  - Product and business model innovations

  - Policy and infrastructure tailwinds

# Better understanding of demand segments

**One estimate of segments based on livelihoods**
Million people

| | |
|---|---|
| **World population < US $2 a day** | 2,640 |
| **All working age** | 1,635 |

| | |
|---|---|
| Low-wage salaried | **300** |
| Unemployed | **100** |
| Casual laborers | **365** |
| Microentrepreneurs | **160** |
| Pastoralists | **40** |
| Fishermen | **40** |
| Small-holder farmers | **610** |

# Product proliferation across broad range

NOT EXHAUSTIVE

**Green Bank** — *Everything we touch GROWS!*

**The Philippines**

- SEED commitment savings product (Save, Earn, Enjoy, Deposit)

**Tigo Family Care Insurance**

**Ghana**

- Life insurance bundled with purchase of airtime at no additional cost to user

**musoni**

**Kenya, Tanzania, Uganda**

- Microfinance with disbursements and collections via mobile wallet

**cignifi**

**Tanzania, Brazil, Mexico**

- Credit scoring based on cell phone call data and airtime purchases

**NATIONAL MICROFINANCE BANK**

**Jordan**

- In-patient health insurance for hospitalizations

**JIPANGE KUSAVE** — SECURE YOUR FUTURE THROUGH YOUR PHONE

**Kenya**

- Loans at different sizes with 1/3 withheld as savings

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Source: CGAP teams

# M-PESA's e-money success being replicated

**M-PESA Kenya
(users in millions)**
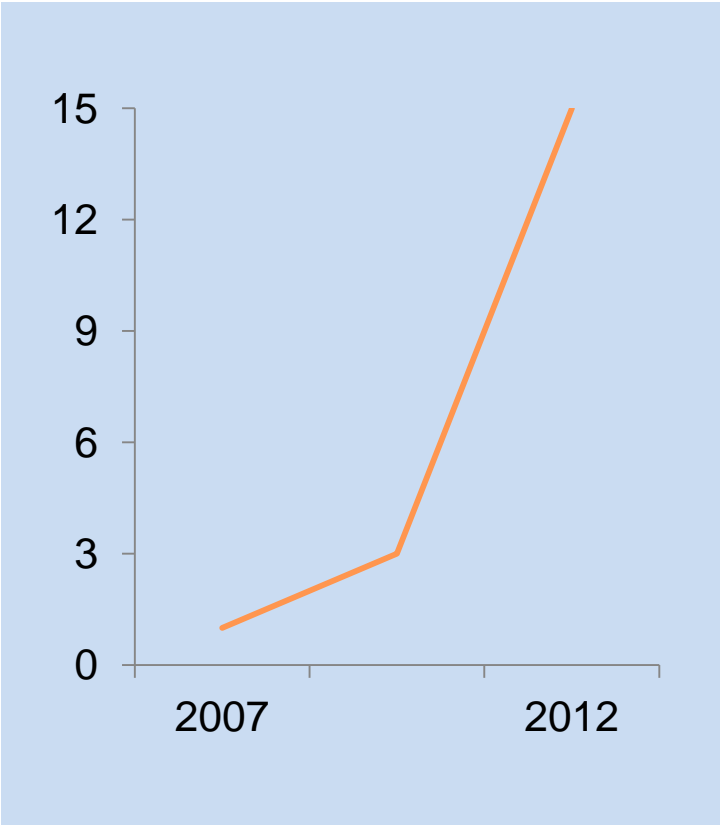


**Other Major Deployments
(users in millions)***
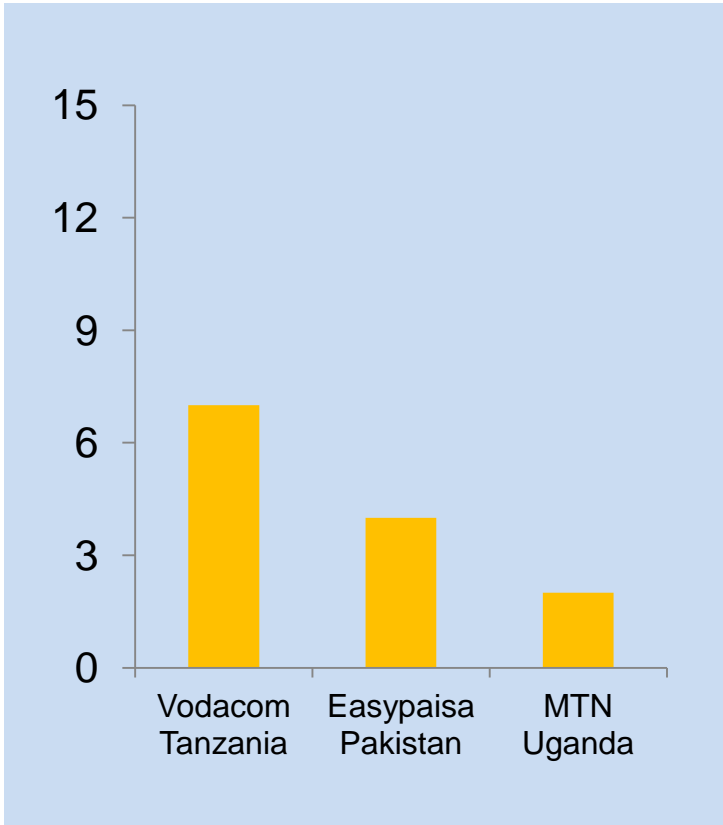


*Most recent available

Source: CGAP

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# New frontiers for financial innovation for the poor



**Microfinance Banks**

**Financial Start-ups**

**GRUNDFOS LIFELINK**
- Prepaid water card via community stations
- Enables remote payment by customers & controlled usage

**Kilimo Salama**
- Insurance for farmers per individual bag of seeds
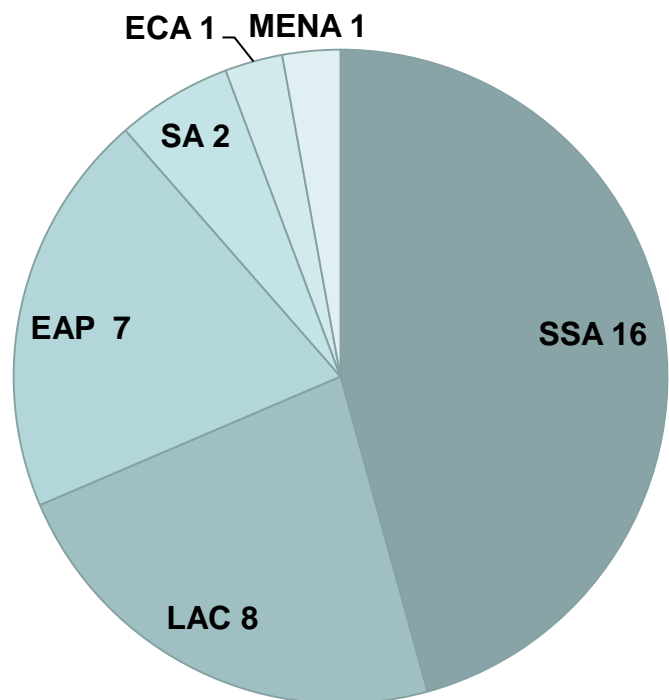- Enables low transaction costs for very small-value premium payments

**Payment Solutions**

**Insurance Companies**

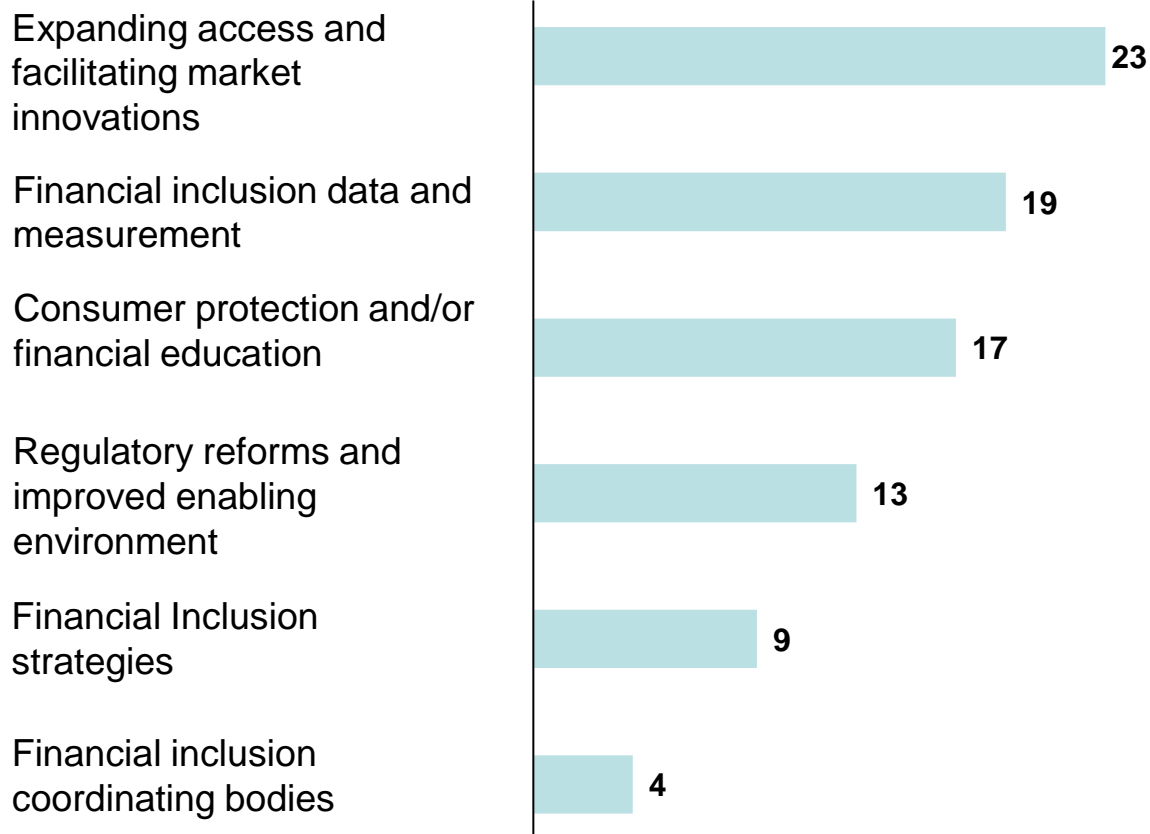**Commercial Banks**

Source: CGAP

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# Country commitments to financial inclusion

## Number of countries*

35 = 1.7bn people



- ECA 1
- MENA 1
- SA 2
- EAP 7
- SSA 16
- LAC 8

## Frequency of specific commitments



| Commitment | Frequency |
|---|---|
| Expanding access and facilitating market innovations | 23 |
| Financial inclusion data and measurement | 19 |
| Consumer protection and/or financial education | 17 |
| Regulatory reforms and improved enabling environment | 13 |
| Financial Inclusion strategies | 9 |
| Financial inclusion coordinating bodies | 4 |

*As of September 30, 2012
Source: Alliance for Financial Inclusion

# Purposeful evolution of field continues

**1995**

**Microcredit**
- Proof of concept for microcredit
- Sustainability in providing financial services to poor

**Early 2000s**

**Microfinance**
- Professiona-lization of microfinance sector (e.g., MIX)
- Recognition of broader financial service needs of poor

**Late 2000s**

**Access to finance**
- Branchless banking/ new business models to reach more people at lower costs
- Meaningful responsible finance agenda for traditional MFI sector

**Early 2010s**

**Financial inclusion**
- Inclusive financial provider eco-systems
- Link of financial innovation for poor to select other priorities on development agenda
- Consumer protection and financial literacy

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www.cgap.org

www.microfinancegateway.org