Financial Inclusion: Insights into Current Status & Strategies for Future

Prepared by

WhitePeak Consulting

info.whitepeakconsulting.org

www.whitepeakconsulting.org

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FINANCIAL INCLUSION: BRIDGING ECONOMIC GAP

Financial Inclusion: Bridging Economic Gap

Financial inclusion has received increasing attention in the wake of the COVID pandemic, as the poorest and most vulnerable communities have been adversely impacted by the lack of access to formal financial services. Governments, policymakers and other stakeholders recognized the need to achieve greater financial inclusion through a deliberate, coordinated approach, ensuring no person or community is left behind. Given the renewed attention on the subject, it is crucial to first lay the foundation and provide a comprehensive picture of what financial inclusion is, why it is important, what causes financial exclusion and how it fits in with broader goals for communities and countries.

Financial Inclusion: An overview

In essence, financial inclusion aims at benefiting the world's poor, the vast majority of whom do not use formal financial services of the sort provided by banks, insurers, or microfinance institutions (MFIs). [1] Different institutions and economist have defined the financial inclusion in the following way:

- The International Monetary Fund: "Universal access to, and use of, a wide range of reasonably priced financial services." [2]
- The World Bank Group: "Financial inclusion means that individuals and businesses have access to useful and affordable financial products and services that meet their needs – transactions, payments, savings, credit and insurance – delivered in a responsible and sustainable way." [3]
- Raghuram Rajan[4]: "Financial inclusion is about (a) the broadening of financial services to those people and enterprises who do not have access to financial services sector; (b) the deepening of financial services for those who have minimal financial services; and (c) greater financial literacy and consumer protection so that those who are offered financial products can make appropriate choices." [5]

Importance of financial inclusion

Nearly two billion people worldwide lack access to basic financial services. [6] A disproportionately large number of these people are poor and/or belong to vulnerable groups. Financial inclusion is the bridge between economic opportunity and outcome. On a macro level, financial inclusion broadens the resource base of the financial system by developing a culture of savings among the population. On a micro level, by bringing low-income groups and vulnerable groups within the scope of formal banking sector, financial inclusion protects their wealth and other resources against external shocks and prevents their exploitation by facilitating easy access to formal credit. Access to financial services can, in particular:

- **Increase household income:** Financial services provide reliable sources of financing to people for business activities, which can increase household incomes.

[1] Global Financial Inclusion, McKinsey & Company. (2010)
[2] From Financial Innovation To Inclusion, IMF (2021)
[3] Financial Inclusion-Overview- World Bank (2022)
[4] Former Chief Economist at IMF (2003-2006); Former Governor of the Reserve Bank of India (2013-2016)
[5] The Changing Paradigm for Financial Inclusion, RBI (2016)
[6] Financial Inclusion: Bridging Economic Opportunities and Outcomes, IMF (2016)

- **Help build assets:** Access to financial services also helps households plan and expand business activities, which can enable them to save, manage cash flows and reduce the need to sell assets in times of crisis. With increased income and the ability to save and take on credit, financial services provide the means for poor families to acquire land, construct or improve their home, purchase livestock and consumer durables or expand their businesses.
- **Increase security:** Only a fifth of the developing world utilize financial institutions to keep money safe. Cash is usually stored at home- an insecure method to save, or invested in jewelry or livestock- a highly inflexible way to accrue and access savings. When households are included in financial services, they are able to deposit and grow their funds in formal, trusted financial institutions, thus increasing security.
- **Reduce vulnerability:** Financial services also allow poor and vulnerable groups to make the transformation from living paycheck to paycheck to planning for the future. Access to financial services, thus reduces their vulnerability to exigent circumstances. [7]

Financial Inclusion and SDGs

Financial inclusion has been identified as an enabler for 8 of the 17 Sustainable Development Goals (SDG) 2030[8]. These include:

- Better access to financial services enables people, even in the rural segments of a country, to have better access to funds and other related financial services. This enables people to come out of poverty and thereby enabling **SDG 1- Eliminating extreme poverty**.
- Better and improved access to avenues for raising funds, access to crop agricultural insurance and improved credit facilities also enables the people working in the primary sector to manage their finances in the season for plantation and thereby generate higher yields. It not only improves food production in the country but also generates food security in the economy, which is the second SDG i.e. **Reducing hunger and promoting food security (SDG 2).**
- When people are able to come out of the poverty line, are ensured of their food security ,have access to various insurance facilities; achieving **SDG 3- Achieving good health and well-being**, is bound to fall in place.
- Increased availability of funding options has removed the barrier of monetary constraints which stop people from getting educated. Through better access to finance, people are encouraged to invest in educating their children and this enables the achievement **SDG 4- fostering quality education**.
- Financial inclusion encourages women entrepreneurs to take up ventures which would not be possible for them otherwise. Enhanced women empowerment is the key to promoting **gender equality- SDG 5**.
- Financial exclusivity weakens up the thread between smaller goals and larger socio-economic goals. These five SDG's acts as a strong base for achieving broader socio-economic goals such as promoting **shared economic growth (SDG 8)**, promoting **innovation and sustainable industrialization (SDG 9)** and **reducing inequalities (SDG 10)**
- Additionally, in **SDG 17 on strengthening the means of implementation** there is an implicit role for greater financial inclusion through greater savings mobilization for investment and consumption that can spur growth

[7] 5 reasons why financial inclusion matters, FINCA International (2017)
[8] Financial Inclusion and the SDGs, UNCDF

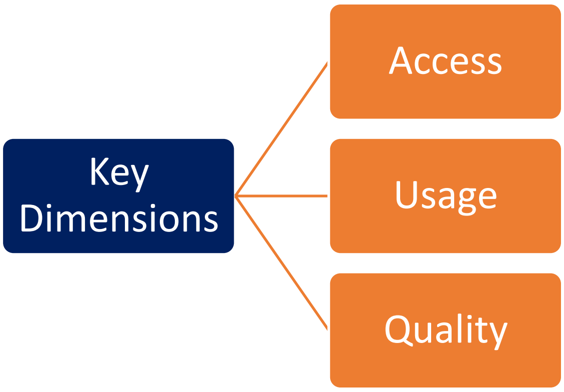
Figure 1: UN SDGs in the context of Financial Inclusion

EVALUATION PARAMETERS FOR FINANCIAL INCLUSION

Evaluation Parameters for Financial Inclusion

Three Dimensions of Measuring Financial Inclusion

Quantifying financial inclusion progress is usually undertaken across the three dimensions of (i) access to financial services; (ii) usage of financial services; and (iii) the quality of the products and the service delivery. [9]



- **Access Indicators:** It show the details pertaining to access points in the form of Banking Outlets (Bank Branches, Business Correspondent outlets), Automated Teller Machines (ATMs) and Point of Sale (PoS) terminals. The access parameters can be represented both in terms of geography (e.g. number of banking outlets per 1000 sq. km) as well as demography (e.g. number of banking outlets per 100000 adult population). Typically, data for access indicator is obtained from the data available with the Government/ Regulators.
- **Usage Indicators:** It show how the products are being used by the target customers. Data for usage can be collected through primary and secondary sources. While data on number of accounts, products, etc. can be collected from financial service providers, insights into the usage of different financial products and services may be obtained through surveys/ feedback from customers.
- **Quality Indicators:** It describe the supporting pillars that ensure that the customers can use the financial services to their satisfaction. For example, financial literacy and capability is an important enabler to help customers make right choices. However, lack of proper service by the provider may result in dissatisfaction to the customer which may result in financial exclusion. Measuring quality under financial inclusion can include financial literacy and capability, clarity and transparency in the communication of the service provider, customer satisfaction, availability of grievance redressal process and timely redressal mechanisms. [10]

[9] How to measure financial inclusion, World Bank (2016)
[10] National Strategy for Financial Inclusion, Reserve Bank of India (2020)

G20 Financial Inclusion Indicators

The G20 Financial Inclusion Indicators is comprehensive framework that includes both demand side and supply side data to provide a holistic assessment of financial inclusion. The table below details some of the major indicators under each of the three dimensions used to measure financial inclusion.[11]

Category	Indicator
Access	
Points of Service	Number of branches per 100,000 adults
	Number of ATMs per 100,000 adults OR number of ATMs per 1000 sq. km.
	Number of POS terminals per 100,000 inhabitants
Interoperability of Points of Service	Combined index of: Interoperability of ATMs and,
	Interoperability of POS terminals
Usage	
Formally banked adults	% of adults with an account at a formal financial institution
	Number of depositors per 1,000 adults OR Usage Individuals number of deposit accounts per 1,000 adults
Adults with credit at regulated institutions	% of adults with at least one loan outstanding from a regulated financial institution
	Number of borrowers per 1,000 adults OR Usage Individuals number of outstanding loans per 1,000 adults
Adults with insurance	Number of insurance policy holders per 1000 adults. Segregated by life and non-life insurance
High frequency of account use	% of adults with high frequency use of formal account
Saving propensity	Saved at a financial institution in the past year. (Institutions include banks, credit unions, cooperatives and microfinance institutions)
Remittances	% of adults receiving domestic and international remittances
Quality	
Financial Knowledge	Financial knowledge score. Basic financial concepts, such as: (A) Inflation, (B) Interest rate, (C) Compound interest, (D) Money illusion, (E) Risk diversification, (F) Main purpose of insurance
Financial Behavior	Source of emergency funding; a) borrow from friends/relative; b) work more; c) sell assets; d) use only savings; e) loan from savings club; f) loan from bank; g) would not be able to find it
Disclosure Requirements	Disclosure index combining existence of a variety of disclosure requirements: (1) Plain language requirement (e.g. understandable, prohibition of hidden clauses) (2) Local language requirement, (3) Prescribed standardized disclosure

[11] G20 Financial Inclusion Indicators, GPFI

	format, (4) Recourse rights and processes (5) total rate to be paid for a credit (basic costs plus commission rates, fees, insurance, taxes)
Dispute Resolution	Index reflecting the existence of formal internal and external dispute resolution mechanisms (1) Internal dispute resolution mechanism indicator: and (2) External dispute resolution mechanism indicator.
Cost of Usage	Average cost of opening a basic current account.
	Average cost of maintaining a basic bank current account (annual fees).
	Average cost of credit transfers
Credit Barriers	% of SMEs required to provide collateral on their last bank loan (reflects the tightness of credit conditions)
	Getting credit: Distance to frontier Measures the extent of informational barriers in credit markets

Table 1: G20 Financial Inclusion Indicators

CURRENT STATUS AND CONSTRAINTS

Current Status and Constraints

Global Scenario

Financial inclusion increased significantly in the last decade. Globally, financial Inclusion is commonly measured using the World Bank's Global Findex Database[12][13]. As per the 2021 Global Findex, the percentage of adult population holding a bank account, has increased remarkably from a global average of 51% in 2011 to 76% in 2021.The vast majority of account owners have an account at a bank or regulated institution such as a credit union, microfinance institution, or a mobile money service provider. From 2017 to 2021, the average rate of account ownership in developing economies increased by 8 percentage points, from 63% of adults to 71 % of adults. However, this still leaves an estimated 1.4 billion adults worldwide without an account, in other words, unbanked. About half of unbanked people included women poor households in rural areas or out of the workforce. [14] [15]

Moreover, since account ownership is nearly universal in high-income economies, virtually all unbanked adults live in developing economies. The Global Findex report also shows that 54 percent of the unbanked—740 million people—live in only seven economies- China, India, Pakistan, Indonesia, Bangladesh, Egypt, and Nigeria. [16]

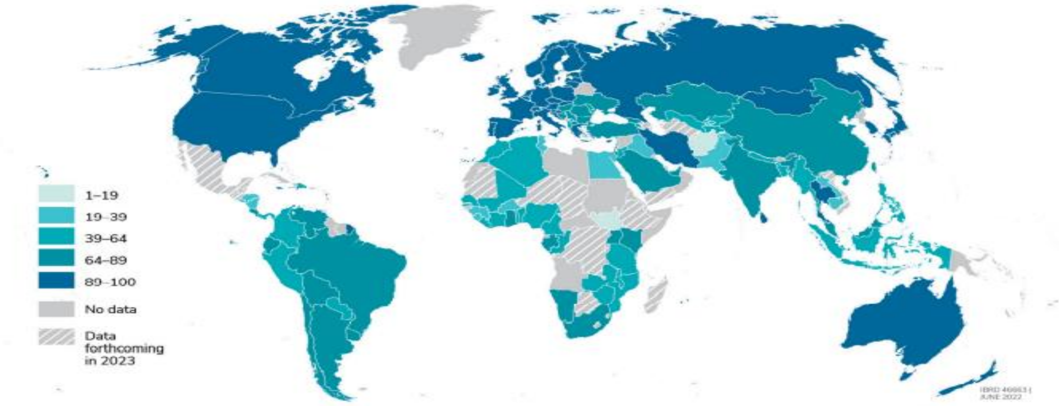


Figure 2: Account Ownership around the World [Adults with an account (%), 2021] [17]

[12] The Global Findex Database is one the prominent data source for measuring financial inclusion is, developed by the World Bank in 2011 and is updated every three years. The 2021 edition of the database is built using a survey of about 125,000 adults in 123 economies, covering inter alia, account holdings, credit and savings activities, and whether wages or government transfers are paid directly into accounts.
[13] Global Findex Database 2021: Financial Inclusion, Digital Payments, and Resilience in the Age of COVID-19, World Bank (2021)
[14] The Global Findex Database 2017: Measuring Financial Inclusion and Opportunities to Expand Access to and Use of Financial Services, World Bank Economic Review (2020)
[15] Global Findex Database 2021: Financial Inclusion, Digital Payments, and Resilience in the Age of COVID-19, World Bank (2021)
[16] Global Findex Database 2021: Financial Inclusion, Digital Payments, and Resilience in the Age of COVID-19, World Bank (2021)
[17] Global Findex Database 2021

The sources of global growth in account ownership have also changed and expanded in recent years. Between 2014 and 2017, account ownership increased by 27 percentage points, and this increase was driven primarily by India. If India is excluded, account ownership grew by just 3 percentage points, from 55 percent in 2014 to 58 percent in 2017. However, between 2017 and 2021, account ownership grew by more than 5 percentage points in 62 out of 123 economies, including by more than 10 percentage points in 34 economies.

Put another way, in 2017, of the 467 million newly banked adults in developing economies, 186 million lived outside of India, whereas in 2021, of the 567 million newly banked adults in developing economies, 527 million lived outside of India. Of this recent growth, 284 million was contributed by 17 developing economies. Among the economies experiencing significant growth just since 2017 are Brazil, Ghana, Morocco, and South Africa, each of which have seen double-digit growth in account ownership. [18]

Regional Performance

Account Ownership

Account ownership[19] differs significantly in various regions worldwide. Three regions the East Asia & Pacific (EAP), Latin America & Caribbean (LAC) and Sub-Saharan Africa have been discussed. The EAP region performs the best in terms of account ownership in a financial institution in all categories-percentage of people aged 15 + with an account, percentage of women with an account, percentage of youth with an account and percentage of people belonging to the poorest 40% with an account, while Sub-Saharan Africa performs the poorest. Sub-Saharan Africa lags behind the EAP region by 27.8% and the LAC region by 18.5% in terms of percentage of people aged 15 + with an account.

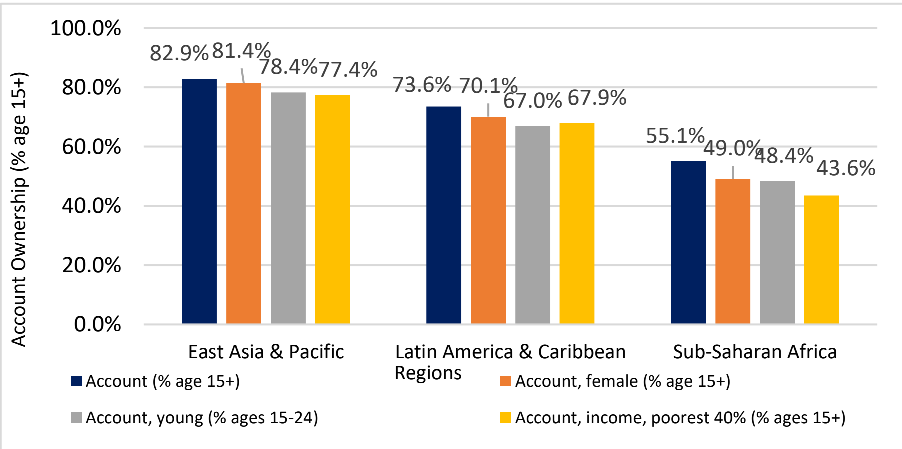


Figure 3:Account ownership in different regions in 2021

Account Activity

Account ownership is needed to use financial services, but ownership alone is not enough to drive development outcomes. Efforts directed only at expanding access to basic accounts are unlikely to lead to development outcomes unless policies, products, and incentives to increase the use of accounts for payments, savings, and credit are adopted.

[18] Global Findex Database 2021: Financial Inclusion, Digital Payments, and Resilience in the Age of COVID-19, World Bank (2021)

[19] Account ownership is the gateway that equips men and women to use financial services in a way that facilitates development. Owners of account are able to store, send, and receive money, enabling the owners to invest in health, education, and businesses.

The EAP region leads in terms of percentage of adults who saved at a financial institution (42.1%) and percentage of adults who borrowed from a financial institution (36.4%). Further a greater percentage of people saved funds rather than borrow, in both EAP and Sub-Saharan Africa. In contrast, in the LAC region, 11.9% more people borrowed funds rather than save. Further, LAC also leads in terms of percentage of people who made a utility payment using a financial institution.

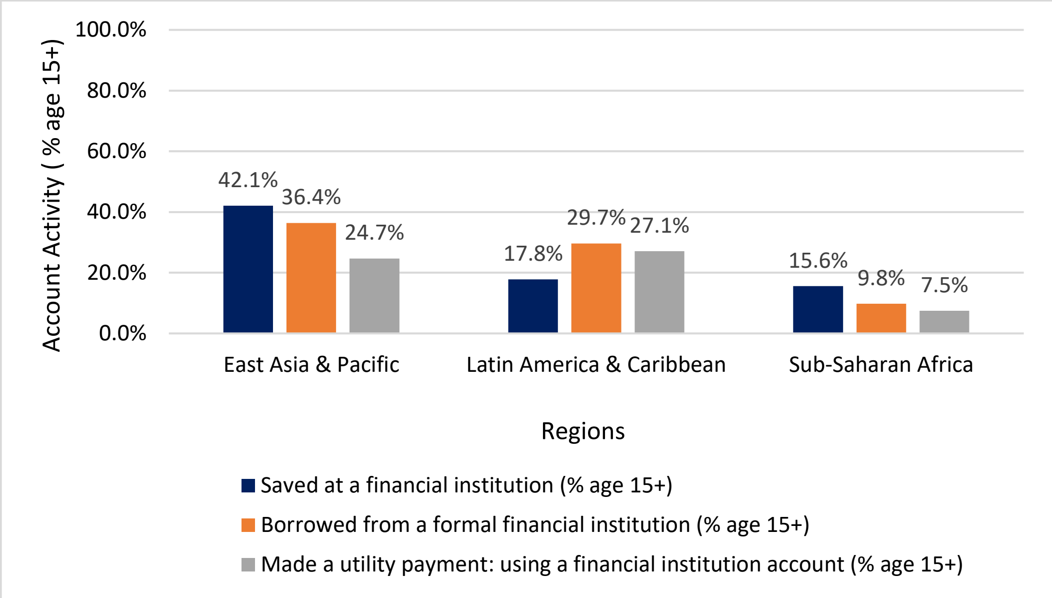


Figure 4: Account activity in different regions in 2021

Constraints to Financial Inclusion

Reasons for financial exclusion

Financial exclusion occurs due to several physical, socio-cultural and psychological barriers. Some of the key reasons resulting in involuntary exclusion are listed below:

- Lack of surplus income to deposit in banks or other formal financial institutions
- Lack of trust in the system due to lack of financial literacy
- Financial institutions may not be suitable to customer's requirements
- High transaction costs associated with lending and borrowing activities
- Lack of requisite documents for opening customer accounts or borrowing funds
- Remoteness of service provider from potential clients
- Lack of awareness about the various financial products
- Poor quality of services rendered in terms of catering to target audiences [20]

Reasons for not opening an account with a financial institution

In the EAP and Sub-Saharan Africa, lack of sufficient funds is the main reason cited by unbanked adults for not opening an account with a financial institution. In the LAC, lack of sufficient funds and the perceived cost of financial services are the two leading reasons people still remain unbanked. Distance

[20] National Strategy for Financial Inclusion 2019-2024, RBI

from financial institutions, lack of necessary documentation and lack of trust of financial institutions are other reasons consistently stated in all three regions among unbanked adults.

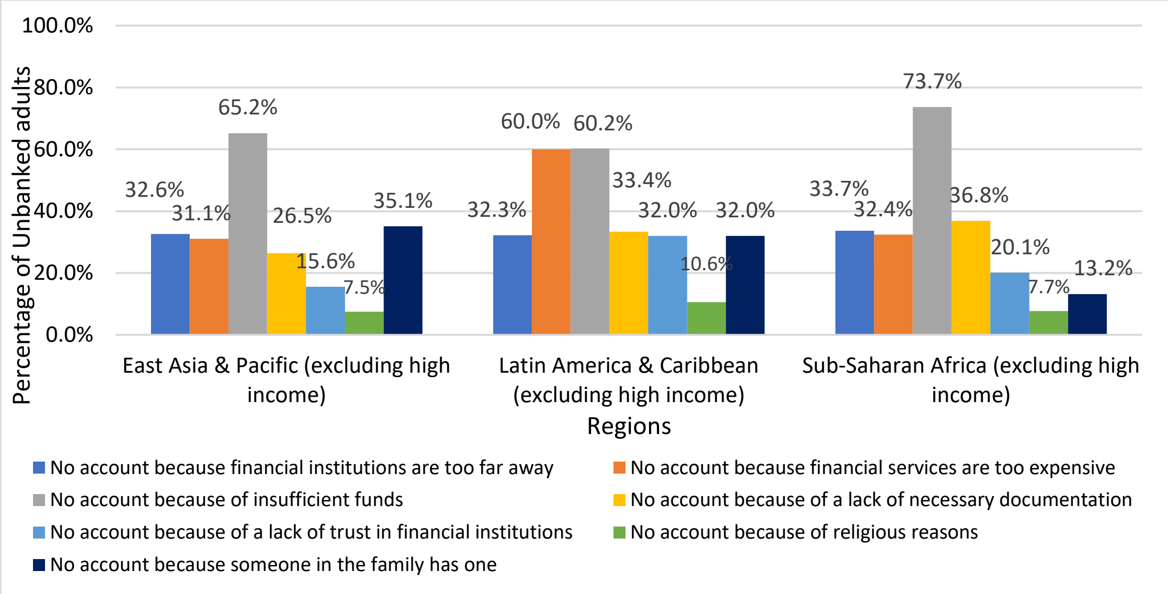


Figure 5: Reasons for not having an account in different regions in 2021

The growth in account ownership since 2011 has not benefited all groups equally. Women, youth, the poor, and the less educated, remain less likely than men, older adults, the rich, and the educated to have an account.

Mainstreaming vulnerable groups

The growth in account ownership since 2011 has not benefited all groups equally. Women, youth, the poor, and the less educated, remain less likely than men, older adults, the rich, and the educated to have an account.

Addressing the Gender Gap

According to the Global Findex, in 2021, 74 percent of men while only 68 percent of women in developing economies had an account. Nevertheless, this gap of 6 percentage points is a noteworthy reduction from 9 percentage points which had been the average gap for many years. The figure shows the narrowing gender gap in developing countries from 2017 to 2021.

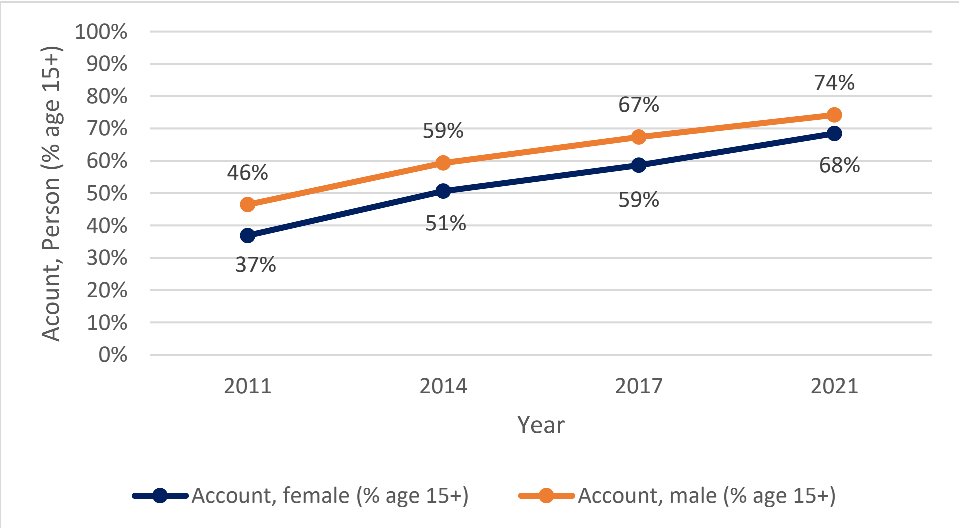


Figure 6: Efforts to narrow the gender gap have paid off in developing countries[1]

However, even this gender gap is unequally spread worldwide. For instance, in 2021, Sub-Saharan Africa and the Middle East and North Africa (MENA) reported 12 and 13 percentage point gender gaps. By contrast, the gender gap in account ownership in East Asia and Pacific is insignificant at 3 percentage points. In Latin America and the Caribbean, women are 7 percentage points less likely than men to have an account. [21]

The financial services industry can be both a catalyst and barometer of gender equality. Providing equal access to the full range of needs-based financial services – savings, credit, insurance, payments – and the accompanying financial education, to women will contribute significantly to their social and economic empowerment. Financial inclusion provides women the tools for accumulating assets, generating income, managing financial risks, and fully participating in the economy.

Women's empowerment through financial inclusion can be carried out through financial education, making microfinance work for women and promoting women's access to better quality insurance, among others. [22]

Tackling Financial Exclusion of Youth

Account ownership is lower among youth (those between the ages of 15 and 24) than among older adults (those who are 25 and above). According to the Global Findex, in 2021, only 66% of youth aged 15–24 worldwide had an account, while 79% of adults aged 25 did. The figure represents this disparity of account holdings in youth and older adults in developing countries, between 2011 and 2021.

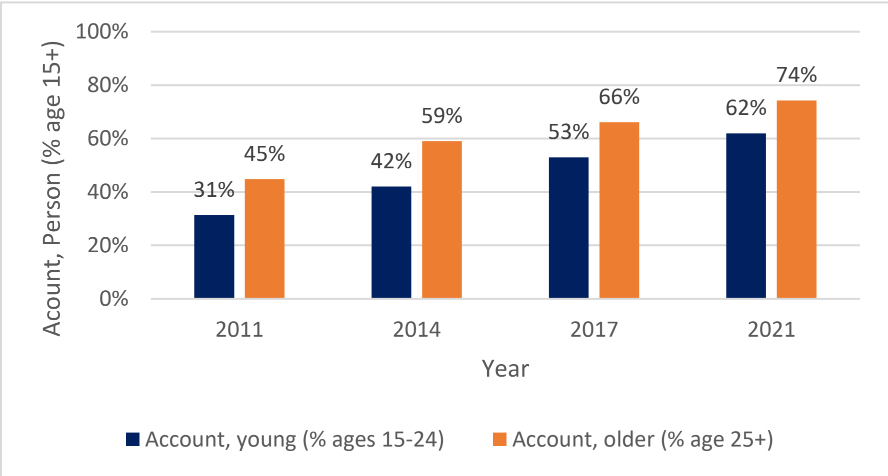


Figure 7: Youth are less likely to have an account as compared to older adults

Youth are often excluded from access to formal financial services for various reasons including legal restrictions, high transaction costs and negative stereotypes about youth. Few financial service providers (FSPs) such as banks, credit unions or microfinance institutions, understand and adequately serve the youth market, and regulatory frameworks are not designed to be youth inclusive or protective of youth rights.

Access to financial and social assets is a key contributing factor to help youth make their own economic decisions and escape poverty. Providing young people with financial services can promote entrepreneurship and asset building, and support sustainable livelihoods. Mainstreaming youth into the formal financial system can be facilitated by entrepreneurship and financial literacy trainings, and mentorship opportunities. [23]

[21] Global Findex Database 2021: Financial Inclusion, Digital Payments, and Resilience in the Age of COVID-19, World Bank (2021)
[22] Gender and financial inclusion, ILO
[23] Financial Inclusion of Youth, UNCDF

Targeting the Poor

Financial exclusion is a significant driver of the vicious cycle of poverty. Most poor households still operate almost entirely through a cash economy. This means they save using physical assets, such as livestock or jewelry. These assets are highly insecure and leave the poor vulnerable to shocks. Additionally, these forms of savings earn no interest and can lose value over time.

Without formal financial histories, the poor are also cut off from opportunities such as building credit or getting a loan to start a business which can potentially stabilize their livelihoods and eventually pull them out of poverty. Moreover, lack of access to formal financing mechanisms makes it harder for the poor to withstand common financial setbacks, such as serious illness, a poor harvest, or an economic downturn. [24]

The figure represents the difference between account owners with incomes in the poorest 40% of a developing economy's households and those with incomes in the richest 60%, between 2011 and 2021.

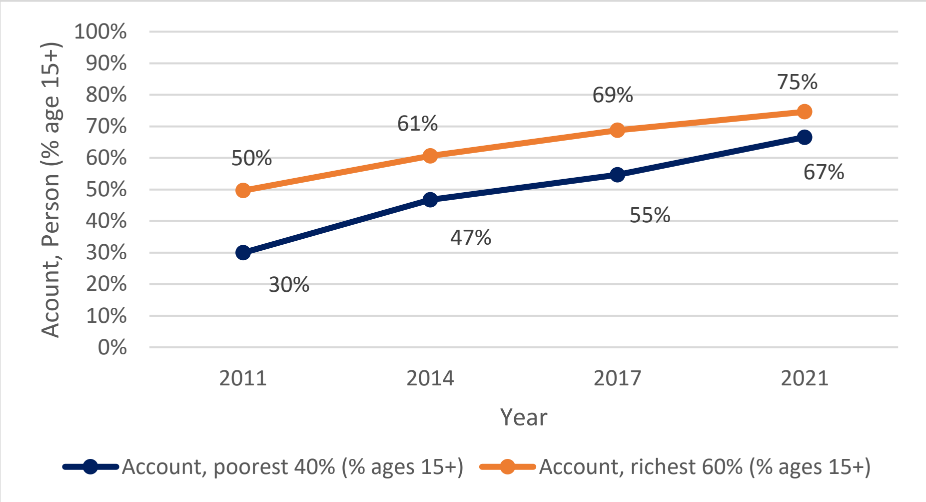


Figure 8:Gap between the poor and rich in developing countries

Implementing macroeconomic policies to accelerate economic growth increases the marginal effect of financial inclusion in lowering poverty rates. In developing countries, economic growth leads to the development of an efficient and inclusive financial system that promotes participatory investment and financial risk management from poor households. Thus, both the pace and pattern of economic growth matter for increasing financial inclusion. [25]

Meeting the Unmet Financing Need for MSMEs

While Micro, Small and Medium Enterprises (SMEs) contribute greatly to GDP and jobs in developing countries, access to finance is a key constraint to SME growth. The International Finance Corporation (IFC) estimates that 65 million firms, or 59 % of formal micro, small and medium enterprises (MSMEs) in developing countries, have an unmet financing need of USD 5.2 trillion every year (of a total of $8.9 trillion in potential demand for MSME finance, only USD 3.7 trillion is currently being supplied). East Asia and Pacific accounts for the largest share (46%) of the total global finance gap and is followed by Latin America and the Caribbean (23%). [26] [27]

[24] Financial Services for the Poor, Bill & Melinda Gates Foundation
[25] Does financial inclusion reduce poverty and income inequality in developing countries? A panel data analysis, Journal of Economic Structures, (2020)
[26] Small and Medium Enterprises (SMEs) Finance, World Bank
[27] MSME FINANCE GAP: Assessment of the Shortfalls and Opportunities in Financing Micro, Small and Medium Enterprises in Emerging Markets, IFC (2017)

The finance gap as a proportion of potential demand is the highest in the low-income and lower-middle income countries (80%) in comparison to all developing countries (59%). Further, the microenterprise finance gap as a proportion of its potential demand is the highest in the lower-middle-income countries (94%), and lowest in the high-income countries (63%). The SME finance gap as a proportion of potential SME demand is highest in low-income countries (78 percent), as compared to 56 percent in all developing countries. [28]

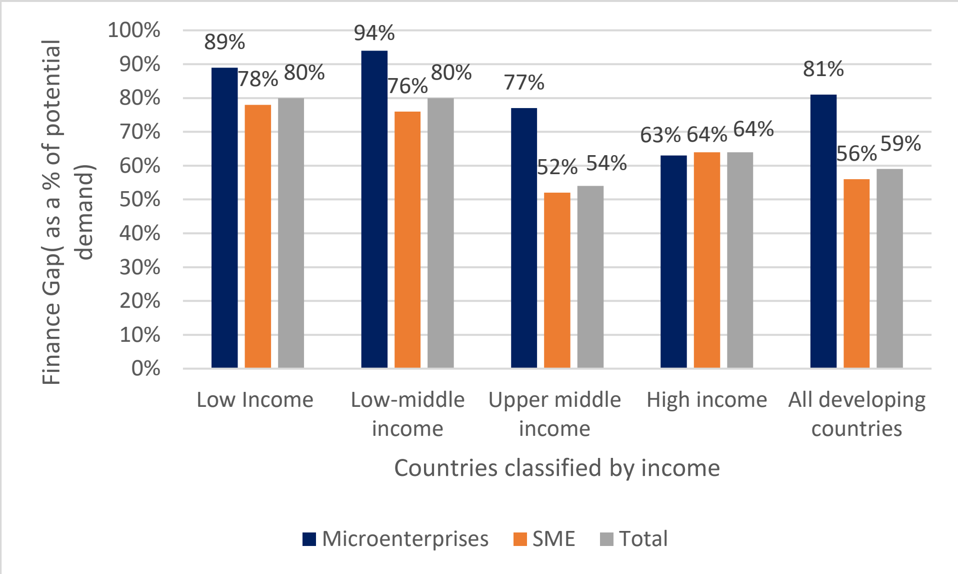


Figure 9: Finance gap as a percentage of potential demand

A holistic approach is needed to tackle the financing gap for SMEs. The World Bank adopts an approach combining advisory and lending services to clients to increase the contribution that SMEs can make to the economy. Major support the World Bank provides includes: advisory and policy support for SME finance, financial sector assessments, implementation support for various initiatives, improving credit infrastructure, introducing innovation in SME finance and advocacy for SME finance at global level among others.

[28] MSME FINANCE GAP: Assessment of the Shortfalls and Opportunities in Financing Micro, Small and Medium Enterprises in Emerging Markets, International Finance Corporation (2017)

STRATEGIES TO ACCELERATE FINANCIAL INCLUSION

Strategies to Accelerate Financial Inclusion

Financial Inclusion Framework

Countries can adopt a financial inclusion framework that helps in accelerating and increasing the effectiveness of reforms and other country-led or organization-led actions to achieve national financial inclusion goals. Generally, a financial inclusion framework can include the key strategies and enabling environment required to catalyze private sector financing, knowledge and innovation, to spur the usage of a broad range of financial services – payments, savings, insurance, credit – by low-income individuals and micro, small and medium enterprises (MSMEs), who are currently un- or under-banked. [29]

The following financial inclusion framework has been adapted from national strategies of various developing countries (such as India, Tanzania and Malaysia) and approaches of the World Bank.

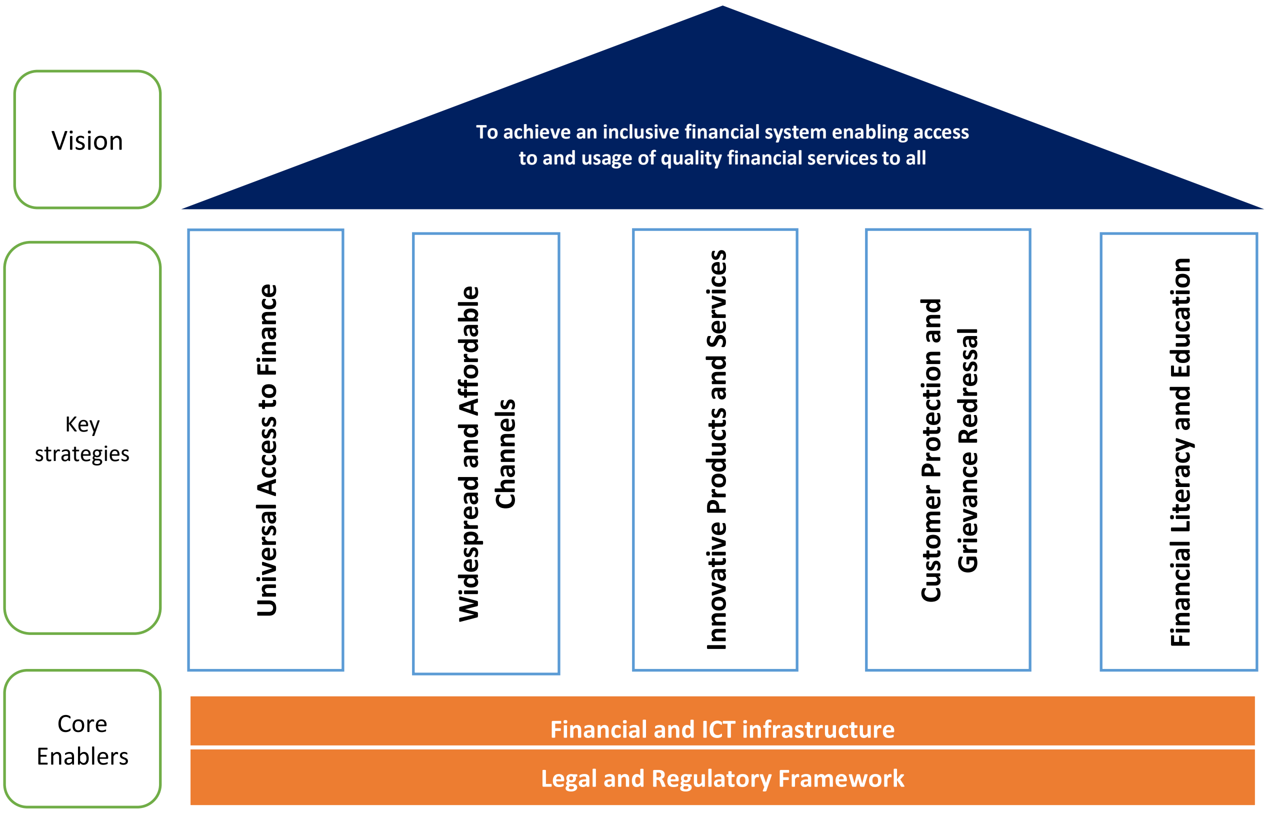


Figure 10: Financial Inclusion Framework

[29] Financial Inclusion Support Framework (FISF), World Bank (2022)

To achieve an inclusive financial system enabling access to and usage of quality financial services to all, the strategic pillars and critical enablers identified are essential. A few key strategies and approaches for financial inclusion have been discussed below:

Strategies for Inclusive Finance

Universal Access to Finance: Universal access to finance is achieved when adults worldwide have access to a transaction account or an electronic instrument. Having a transaction account opens the door to other formal financial services, such as savings, payments, credit and insurance. Access and use of appropriate financial services can help people better manage risks, step out of poverty and build a better life. [30]

- Strategies and approaches that can be adopted to ensure universal access to finance include: expanding access points; driving up scale and viability of access to finance through high-volume government programs (such as social transfers, into those transaction accounts); focusing on reaching disadvantaged populations (such as women and rural producers); and encouraging use of financial services, to move from access to finance to account use.[31]

Widespread and Affordable Channels: Accessible delivery channels provide greater convenience for customers at a lower cost for banks and have been instrumental in helping providers overcome challenges related to infrastructure and geography in many developing countries. [32]

- Strategies to ensure accessible and affordable delivery channels include agent banking networks, multiple FI branches, ATMs, Point of Sale (POS) terminals, among others. Agent banking is a key approach that can be adopted, as it enables consumers to obtain banking services by licensed financial institutions through third-party agents such as retail outlets and post offices. Such approaches can cost-effectively expand the physical presence of financial service providers while providing meaningful benefits to those reached. [33]

Innovative Products and Services: Appropriate and affordable products (savings and credit products, payment), services (money transfer services- both domestic and international) and insurance, provide poor people with capacity to increase or stabilize their income, build assets and have much greater resilience to economic shocks. [34]

- Leveraging technology, existing customer networks, infrastructure, and big data are strategies that can enable financial service providers to lower transaction costs and deliver financial products well-suited to the needs of low-income consumers.
- Financial institutions can plan to provide a basic bouquet of financial services that include a Basic Savings Bank Deposit Account, credit, a micro life and non-life insurance product, a pension product and a suitable investment product to adults.
- Financial institutions can also strive for greater capacity building so that they can deliver a wider range of innovative financial products. [35]

[30] 5 ways universal financial access can help people build a better life, World Bank (2015)
[31] UFA2020 Overview: Universal Financial Access by 2020, World Bank (2018)
[32] Innovation in financial inclusion, EY (2017)
[33] 8 key approaches to accelerate financial inclusion, World Bank (2017)
[34] Innovative Financial Inclusion, G20 Financial Inclusion Experts Group—ATISG Report (2010)
[35] National Strategy for Financial Inclusion, Reserve Bank of India (2020)

Case Study: Grameen Bank, Bangladesh

Introduction: Grameen Bank (GB), is a bank in Bangladesh, founded by economist Muhammad Yunus as a means of providing small loans to poor individuals. GB became an independent bank in 1983. GB aims to provide banking for the poor through its mission of providing comprehensive financial services, empowering the poor to realize their potential and break out of the vicious cycle of poverty.

Unique Features: Grameen Bank (GB) has reversed conventional banking practice by removing the need for collateral and created a banking system based on mutual trust, accountability, participation and creativity. GB provides credit to the poorest of the poor in rural Bangladesh, without any collateral. At GB, credit is a cost-effective weapon to fight poverty and it serves as a catalyst in the overall development of socio-economic conditions of the poor who have been kept outside the banking orbit on the ground that they are poor and hence not bankable.

Credit Delivery System: Grameen Bank credit delivery system has the following features:

- There is an exclusive focus on the poorest of the poor.
- Borrowers are organized into small homogeneous groups. Such characteristics facilitate group solidarity as well as participatory interaction. Organizing the primary groups of five members and federating them into centres has been the foundation of Grameen Bank's system. The Centres are functionally linked to the Grameen Bank, whose field workers have to attend Centre meetings every week.
- Special loan conditionalities which are particularly suitable for the poor. These include loans given without any collateral, loans repayable in weekly instalments spread over a year, eligibility for a subsequent loan depends upon repayment of first loan etc.
- Close supervision of credit by the group as well as the bank staff. This is ensured through stress on credit discipline and peer support solidarity and transparency in all bank transactions.
- Simultaneous undertaking of a social development agenda addressing basic needs of the clientele.
- Design and development of organization and management systems capable of delivering programme resources to targeted clientele.
- Expansion of loan portfolio to meet diverse development needs of the poor. As the general credit programme gathers momentum and the borrowers become familiar with credit discipline, other loan programmes are introduced to meet growing social and economic development needs of the clientele.

Impact: As of October, 2021, GB has been able to cater to 9.44 million members, 97% of whom are women. With 2,568 branches, GB has been providing services in 81,678 villages, covering more than 93% of the total villages in Bangladesh. GB has been a huge success with an impressive repayment rate of 98.92% on loans. [36]

Customer Protection and Grievance Redressal: Customer Protection and Grievance Redressal helps improve customers' trust in financial institutions. Protecting consumers by establishing rules for disclosure, fair treatment, and recourse can shield them from potential abuse and unfair treatment by providers.

[36] Credit Delivery System, Grameen Bank

- Robust customer grievance redressal mechanisms can be established at different levels of the financial system. Periodical internal audits can be conducted to assess the qualitative efficacy of the grievance redressal mechanism in the banking system. [37]
- The World Bank's Good Practices for Financial Consumer Protection can be integrated into the internal operations of financial institutions. It emphasizes the need for providers to present customers with clear information on the terms and conditions of products via a standardized form in order to facilitate comparison shopping, help consumers make informed financial decisions, and avoid risks such as over indebtedness. Adoption of these best practices can help financial institutions provide accurate financial services, thereby increasing trust among consumers.

Financial Literacy and Education: Financial Literacy is an important component to enable customers to use their accounts to their advantage and thereby enhance their financial well-being.

- Financial literacy can be shaped into a multi-stakeholder community led approach to effectively reach various groups. Easy to understand financial literacy modules for specific target audience in the forms of Audio-Video/ booklets can be made available for customers to increase their understanding of the product and processes involved in financial services.[38] Many governments have put in place financial education programs—often referred to as interventions—aimed at improving consumer awareness and promoting sound financial behavior that is greater financial capability. Some design features that can be included for the effectiveness of the interventions are:
    - **Targeting the less literate groups**: Literacy programmes should aim to target the less literate groups (such as women, youth, the elderly, the poor, and lower education consumers).
    - **Leveraging social networks:** Peers effect play an important role in financial information transmission and adoption of new financial products. For instance, farmers are more likely to buy insurance when they get the information from their neighbors. Leveraging such network effects would be a cost-effective strategy to spread financial education.
    - **Adapting the delivery channel to the targeted audience:** The delivery format can take the form of courses, workshops, and individual counseling. Online courses, radio, television can be more effective than standard delivery modes. [39]

Core Enablers of Financial Access

Conducive Infrastructure: A conducive infrastructure is critical to enabling access to financial services through closing the information asymmetry gap and strengthening physical infrastructure including telecommunications networks, electricity and roads.

- Information asymmetries and lack of collateral are often obstacles to the underserved accessing financial services. Expanding credit reporting systems and collateral registries (including for movables) and improving the efficiency and accessibility of retail payments systems can increase access to financial services. The government plays a critical role in

[37] National Strategy for Financial Inclusion, Reserve Bank of India (2020)
[38] National Strategy for Financial Inclusion, Reserve Bank of India (2020)
[39] Financial Inclusion: What Have We Learned So Far? What Do We Have to Learn?, IMF (2020)

strengthening financial infrastructure, which serves as the underlying foundation to support financial inclusion.

- According to the World Bank's Global Findex, over 300 million adults worldwide cite excessive documentation as a major obstacle to opening an account. A flexible, risk-based Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) regime, combined with a comprehensive, accessible national identification scheme are critical to overcome this obstacle. Investing in requisite infrastructure to implement the AML/CFT regime and simplifying documentation requirements or adding exceptions for certain applicants (e.g. low-income) or products (e.g. small-value, low-risk transactions) can benefit vulnerable groups.
- Inadequate physical infrastructure, such as poor telecommunication connectivity, limited availability of either fixed or mobile telephone communications in some remote areas in the country, shortage of power, and inadequate transportation infrastructure adversely impacts the outreach of financial service. Therefore, construction, maintenance and rehabilitation of physical infrastructure could play a major in role in increasing the reach of financial services.

Enabling Legal and Regulatory Frameworks: Enabling legal and regulatory frameworks promote the increase of financial access points and widen outreach of financial services to the excluded population. Enabling regulatory environment can ease business licensing requirements, promote innovations in the financial sector, and develop proportional prudential requirements while maintaining an appropriate balance between financial inclusion objectives and other policies, such as financial stability and consumer protection.[40]

- Diversity of financial institutions is a key strategy that can fostered through the implementation of a robust legal and regulatory framework. Inclusive financial sectors have many types of financial institutions beyond commercial banks – postal banks, microfinance institutions, and credit cooperatives – that apply various business models and operate in different geographic regions to serve distinct customer segments. A legal and regulatory framework that allows for entry of diverse institutions and applies proportionate regulation and supervision tailored to their respective levels of risk is critical to reaching customers that aren't fully served by commercial banks. Policies that promote a healthy, competitive environment and level playing field across all providers are also necessary.
- The regulatory frameworks can also encourage the development of affordable and appropriate financial products, such as basic bank accounts and micro insurance that address the needs of underserved, low-income customers who face unique obstacles and have unique financial needs.

National Financial Inclusion Strategy as a tool for accelerated Financial Inclusion: Lessons Learned from Paraguay

Introduction: Countries worldwide have recognized the potential of financial inclusion in ensuring inclusive and sustainable economic growth. Globally, great strides have been made toward financial inclusion and the attention has shifted from access to usage of accounts. Countries have in particular, recognized the need to take a strategic approach to financial inclusion. Countries have formulated National Financial Inclusion Strategies (NFIS), which are roadmaps of actions, agreed and defined at the national or subnational level, which stakeholders follow to achieve financial inclusion objectives. Since 2010, more than 55 countries have made commitments to financial

[40] National Financial Inclusion Framework NFIF 2018-2022, Tanzania

inclusion, and more than 60 have either launched or are developing a national strategy.[41 42] Lessons learned from the Paraguay's NFIS that achieved significant progress toward financial inclusion in the country are discussed below:

Paraguay's National Financial Inclusion Strategy (2014-2018)

Vision: Paraguay's NFIS was developed with the goal to reduce poverty and promote economic growth in Paraguay through financial inclusion. The vision of the strategy was to provide qualitative and affordable financial services for the population in a diverse and competitive marketplace. Key elements that can be attributed for the success of Paraguay's NFIS are:

- **Robust and in-depth analytical work is necessary t**o achieve a thorough understanding of the constraints that prevent financial inclusion and to provide a focus for the development of the NFIS and to set its priorities. Data collection was refined to more accurately capture the Paraguayan context—including the unique role of cooperatives and mobile money—and additional categories were included, such as payments, insurance, and financial capabilities.

- **High-level government support and project champions** are key factors in the success of Paraguay's program**.** The project received the full support of the highest political leadership and of key influencers throughout the process. The use of a presidential decree, the link to the national development plan, and the staffing of the National Financial Inclusion Committee with very senior officials, demonstrates the importance of financial inclusion to Paraguay and its prominence as a national priority.

- **An appropriate Implementation Support Framework (ISF)** to manage and lead the reform effort is essential to the objectives of the financial inclusion agenda. The ISF in Paraguay used a multitiered approach for the development and implementation of the NFIS recommendations. The ISF provides clearly defined roles and responsibilities and recognizes the importance of including stakeholders at various levels. The ISF was expanded to include seven working groups, based on the seven key areas of the NFIS, to support the implementation of the recommendations.

- **It is important to engage key stakeholders**, especially in the private sector, as early in the process as possible and to keep them engaged throughout. In Paraguay, the stakeholders included private sector organizations, such as banks, cooperatives, NGOs, multilateral agencies, and public sector representatives, such as the Ministry of Finance. Various donor agencies were included throughout the process including the German Society for International Cooperation, Ltd., the Spanish Aid Agency, and the Inter-American Development Bank, which provided useful insights and feedback Regulators were also actively involved in the design of the NFIS and are involved and represented at all levels of the implementation support structure

- **The strategy must be focused on implementation, include a clear action plan, and provide a robust monitoring and evaluation (M&E) framework.** Authorities developed a comprehensive M&E framework that includes key performance indicators for each thematic area, specific targets, the agency responsible for implementation, data collection and reporting, and the frequency of reporting. National targets were developed with the

[41] Peru Launches National Financial Inclusion Strategy to Expand Financial Inclusion, World Bank (2015)
[42] Overview: National Financial Inclusion Strategies, World Bank (2015)

input of stakeholders. Indicators for financial inclusion were used to set the targets and will be used to monitor progress toward their achievement. The core indicators used were consistent with the G20 basic set of financial inclusion indicators

Impact: Paraguayan authorities involved the general public and the private sector early in the data gathering and diagnostic stage of developing the NFIS. By deepening collaboration among all relevant stakeholders, the National Committee increased coordination among more than 50 existing initiatives led by ministries, multilateral organizations, donors, NGOs, and other private sector entities to increase financial inclusion. Through this process of involving stakeholders, the NFIS also successfully introduced unique social micro insurance products – a key component of the strategy. Microseguro Social, a life insurance product introduced, reached 13,000 families in Paraguay and beneficiaries included families living in poverty and Paraguayan youth. [43] [44] [45]

[43] Developing a financial inclusion strategy: 5 lessons from Paraguay, World Bank (2016)
[44] Inclusive Insurance in National Financial Inclusion Strategies Survey Report, AII, AFI (2018)
[45] Developing a National Financial Inclusion Strategy: The Paraguay Experience (2015)

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