

Identifying Key Stylized Facts To Further Improve Financial Inclusion

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3 Suspects Have Been Identified

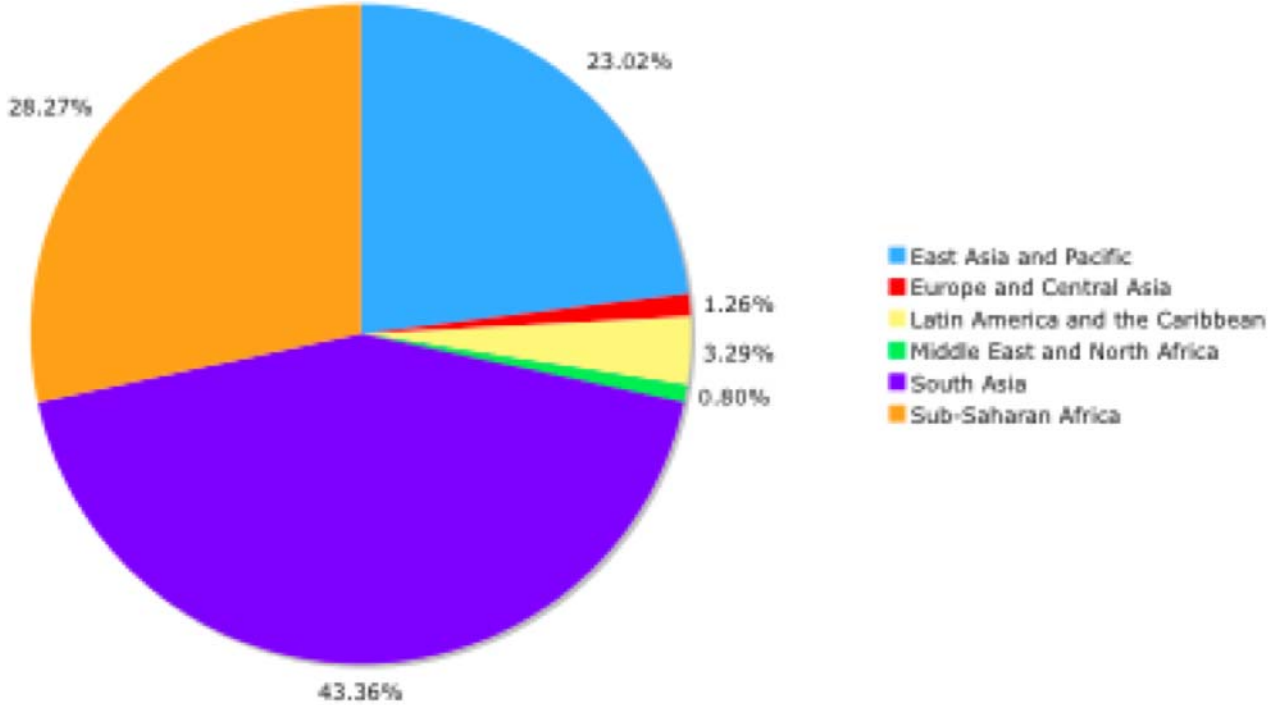
- GDP per head level and/or growth
- Population Density
- Donor Support

Stylized facts, however.....

At Least Three Factors Must Be Taken Into Account

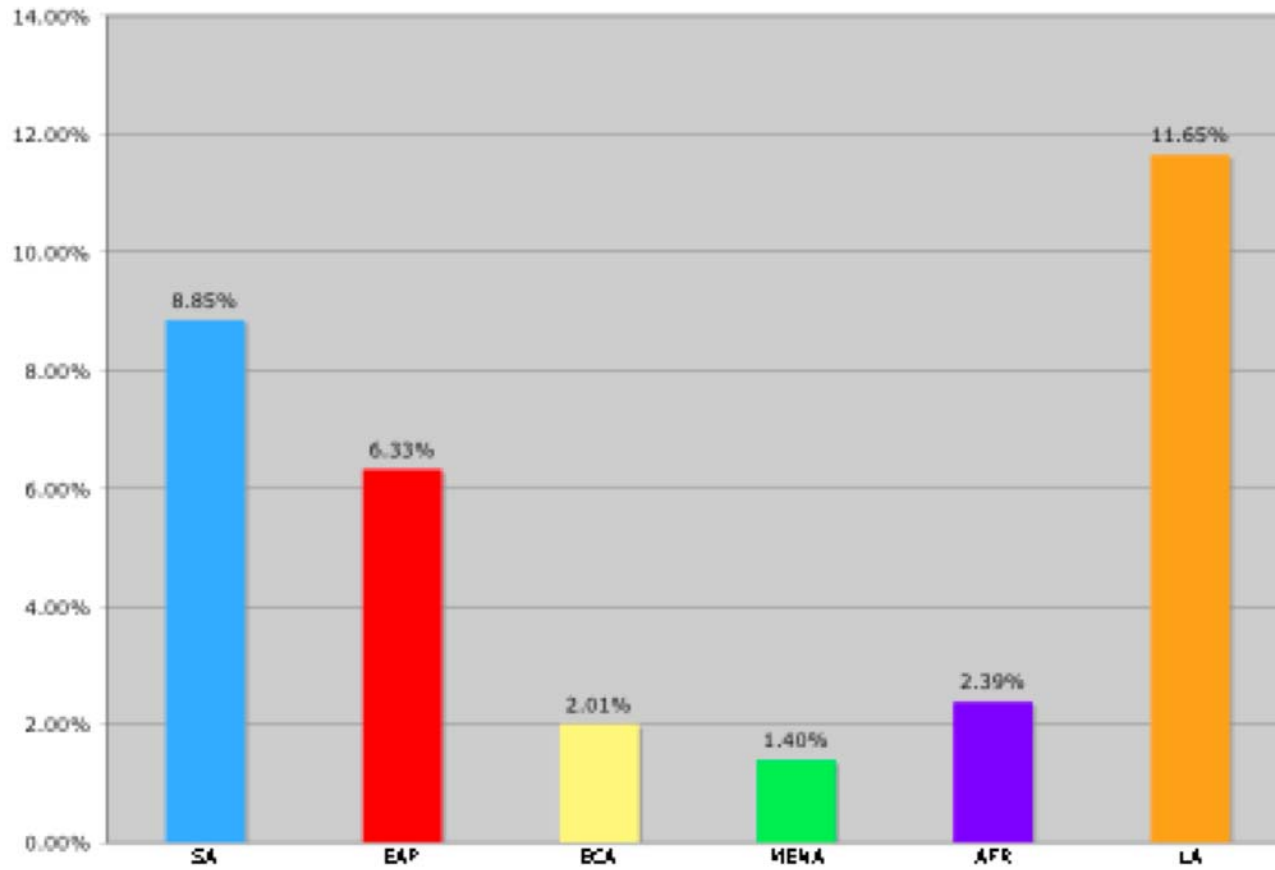
- Geography
- Age
- Funding

Geographical Distribution of Poverty



Source: Armendáriz- Vanroose (2009)

Age



Source: Armendáriz – Vanroose (2009)

Key factor 1: Geography and Age Combined

Geography

Where poverty is more acute --> larger number of unbanked & population density is highest because of lower transaction costs: **South Asia**

Age

Experience (country/region) matters: Microcredit first developed in mid – 1970s in parallel movements in South Asia and **Latin America** (Armendáriz – Morduch (2005))

In turn accords well with latest figures on “outreach”: Highest in Asia and Latin America

Top Ten Microfinance Institutions Ranked From Highest To Lowest In Terms Of Clients Served

Institution	Country	Legal Status	Main Mission	Other Mission (s)
Grameen Bank	Bangladesh	Regulated Bank	Poverty Reduction	Focus on women
ASA	Bangladesh	NGO	Income Generation	Integrate women
VBSP	Vietnam	State-Owned Regulated Bank	Poverty Reduction	Low interest rates
BRAC	Bangladesh	NGO	Poverty Reduction	Literacy & Disease
BRI	Indonesia	Regulated Bank	Wide Financial Services to small entrepreneurs	Best Corporate Governance & Profits for Stakeholders
Spandana	India	Regulated Financial Institution	Leading Financial Service Provider	Marketable & Equitable Solutions for Benefit of Stakeholders
SHARE	India	Regulated Financial Institution	Poverty Reduction	Focus on Women
Caja Popular Mexicana	Mexico	Regulated Cooperative	Cooperative for Improving Quality of Life of Members	Offer Competitive Financial Products to its Members
Compartamos	Mexico	Regulated Bank	Create Development Opportunities	Develop “trust relationships”
BCSC	Colombia	Regulated Bank	Leading in “popular” banking	To develop social objectives among community members

Source: Armendáriz – Szafarz

The “missing factor”

- While “Geography” and “Age” together might be playing an important role
- In the midst of a financial crisis, the key word is “source of funding” for greater financial inclusion
 - Local governments
 - International Donors
 - Socially Responsible Investors
 - **Savings**

Savings

- Research has shown that no matter how poor individuals are, there is a savings motive, mostly because of consumption smoothing.
- Understanding how the poor's willingness to save is crucial, however:
 - High – Frequency savings (Armendáriz – Morduch (2005)
Problem: high transaction costs
 - Security (CGAP – World Bank 2006)
Problem: Age of the institution matters
 - Flexibility (CGAP – World Bank 2006)
Problem Very difficult without compromising self-sustainability objectives

Major Obstacles

- Regulatory framework
- Macroeconomic Environment
- Institutional Capacity

Marguerite Robinson (2005 – 2006)

Are microfinance institutions relying on savings?

- Apart from the well-known cases among the top ten: BRI in Indonesia, and Credit Cooperatives (Caja Popular Mexicana), some well-known examples are promising:

Summary Profiles of the Participating Savings Banks				
Name	NSI National Savings Institute	Banefi Banco del Ahorro Nacional y Servicios Financieros	TPB Tanzania Postal Bank	GSB Government Savings Bank
Country	India	Mexico	Tanzania	Thailand
Type and services provided	Government savings-only scheme often accessed through post-offices	Stand-alone bank with own branch network, offering savings and payment services but no credit	Postal savings bank offering savings, payments, and small scale credits through its own branches and post-offices	Full-service retail bank with own branch network, offering savings, payments, and full range of credit, including microcredit
Number of Accounts	55 million (1 for every 16 adults)	4 million (1 for every 17 adults)	1 million (1 for every 20 adults)	36 million (2 for every 3 adults)
Number of Loans	None	None	<10,000	1.4 million
Number of Outlets	No branches, 150,000 post offices	506 own branches and links to local Cajas	21 own branches 105 post offices	600 own branches
Clients	<ul style="list-style-type: none"> 50 million adults 6 million in poorest third 	<ul style="list-style-type: none"> 2.7 million adults 0.9 million in poorest third 	<ul style="list-style-type: none"> 1.5 million adults 0.2 million in poorest third 	<ul style="list-style-type: none"> 14 million total adults 4.5 million in poorest third

But “Age of the Institution” Matters too

In a recent World Bank study (2005)

“Age of the institution matters for savings”

Accords well with the notion of poor people prioritizing “security” over financial returns on their savings

→ Hence the growing importance of “Downscaling Banks”

And How About “Flexibility”?

- Poor individuals’ preference for flexibility is understandable, particularly in rural areas where these individuals are often hit by unforeseen adverse shocks
- The role of **technology** for lowering transaction costs is crucial

But obstacles are huge, and donors’ aid, and socially responsible investments are crucial

Concluding Remarks

- Relying on geography, age, GDP per head growth and level can be potentially misleading
- The poor, particularly in Sub – Saharan Africa, remain relatively more financially excluded
- Relying on savings is a more reliable and stable source of funding
- Obstacles are huge, including downscaling commercial banks, re-designing credit cooperatives, and greater emphasis on technology appear to be crucial

Thank You - 😊