Session 4
Financial Inclusion

1 Objective

Designing financial inclusion strategies is a significant tool for ending poverty. It not only provides access to financial services and enhances the financial literacy of the poor, but it also allows micro, small and medium enterprises (MSMEs), startups and young firms, and innovative projects greater access to finance. However, the level of financial inclusion and its impact on poverty, employment and narrowing the gender gap varies widely across countries. Policies, therefore, need to be mainstreamed to improve full and equal access to financial services for all, with appropriate attention given to financial stability matters. This session covers financial inclusion strategies and policies that are most effective in allowing all citizens and firms access to financial services.

2 Background

Broad-based, affordable access to financial services has a well-documented link to economic opportunities for the poor, especially in countries with special needs. Greater access to financial services benefits the poor enormously by providing households a way to plan for the future and invest in land and shelter, as well as to save and to borrow in emergencies, It also helps MSMEs, startups, young firms and innovative projects obtain business loans that are vital to productivity, competitiveness, and innovation.

Large disparities in access to and the use of financial services persist in Asia and the Pacific. While account penetration for households is nearly universal in the Republic of Korea, Singapore and Hong Kong, China, less than 15 per cent of adults in Afghanistan, Cambodia, Pakistan, Tajikistan, and Turkmenistan hold accounts at formal financial institutions. Estimates show that South Asia, East Asia and the Pacific together account for more than half of the world's unbanked adults. In South Asia, 625 million adults are without an account, while in East Asia and the Pacific, 490 million people remain unbanked. On the other hand, when taking into account that about 700 million of the world's poor live in predominantly Muslim-populated countries, strengthening the linkage of microfinance with Islamic finance would help further increase access to finance.

In-country disparities can be even larger when examining financial services access within population segments and across income levels. For example, in Indonesia, only 22 per cent of the poorest 40 per cent of households have an account at a

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financial institution compared to 45 per cent of the wealthiest 60 per cent of the population. Similarly, in Bhutan, Bangladesh, Georgia, India, Kazakhstan, Myanmar and Viet Nam, the poorest 40 per cent are much less likely to hold such accounts than the richest 60 per cent. Large disparities also exist in the region between the percentage of females versus males that hold accounts in formal financial institutions, illustrating the persistence of gender inequality with regard to access to and use of financial services. While a larger percentage of females hold accounts in five countries in the region, large discrepancies between male and females persist in many others. For example, in India, only 47 per cent of females surveyed held an account at a formal financial institution compared to 63 per cent of males. These disparities suggest that higher exclusion is linked to higher income inequality and vulnerable groups, such as the young, the elderly, the undereducated, the unemployed and the poor.

Micro, small and medium enterprises serve as the backbone of the national economies in the Asia-Pacific economies, accounting for 98 per cent of all enterprises and 66 per cent of the national labour force on average in the region between 2007 and 2012. However, these firms are particularly constrained in accessing credit from a formal financial institution. Key hurdles behind this are high interest rates, collateral requirements, and cumbersome paperwork. Given their potential for employment generation and contribution to GDP, many economies in the region have begun to pursue inclusive finance policies to facilitate access to finance at an affordable cost for MSMEs. These include public credit guarantee schemes in Indonesia (People's Business Credit) and Thailand (a portfolio guarantee scheme), mandatory lending in the Philippines, secured transaction reforms to establish collateral registries and promote movable asset financing in the Pacific subregion, refinancing schemes in Bangladesh and Malaysia, and the establishment of a centralized credit bureau in Viet Nam. The diversified nature of MSMEs should be tailored to support the financing models to individual country contexts.

3 Policy issues for discussion

A comprehensive suite of policy options supporting innovative and diversified financing models, including Islamic financing mechanisms that serve the financing needs of households and firms that currently have no access to financial services, need to be developed. To make a significant impact on the poor, financial inclusion strategies must promote the development and provision of a broad range of quality financial products and services, aligned with the needs of client segments. In order to support greater financial inclusion in rural areas and in the poorest segments, adequate market infrastructure related to national identification, credit information, collateral management frameworks and registries payments needs to be developed.

The mobilization of new investment in infrastructure development will enable the expansion, use and functionality of microfinance products and channels, such as mobile and agent banking, savings, insurance, pensions, and also expand the reach of financial education. Additionally, through providing a regulatory framework conducive to expanding account ownership, such as licensing bank agents, introducing tiered documentation requirements, requiring banks to provide basic or low-fee accounts and allowing the evolution of new technologies, such as mobile money, governments can help lower the cost of financial services and help make financial institutions more accessible by making it cost-effective for them to locate outlets in more remote areas.

Policies in the region to facilitate access to finance for MSMEs have largely focused on enhancing bankability. Government measures aimed at closing the supply-demand gap in lending to MSMEs have yet to sufficiently fill the financing demands of MSMEs. MSME loans to total bank loans remain in the 20-30 per cent range, with 10 per cent year-on-year lending growth on average in the region, but this is a declining trend. The persistence of supply-demand gaps in MSMEs finance suggests MSME financing models need to be expanded beyond traditional bank lending to include non-bank financing avenues and capital market financing for MSMEs, including through private equity, venture capital and angel investors.

Peer learning and experience-sharing can promote a more inclusive finance approach in the Asia-Pacific region with increased emphasis on the ways to design and implement financing strategies through financial inclusion programmes. For example, experiences and lessons involving microfinance, SMEs, mobile banking technology, and agent banking may be possible areas for peer learning in the region. Also, more resources should be allocated to capacity development and expanding peer learning and experiences, which can be supported by the Alliance for Financial Inclusion and other regional institutions.

Possible Questions

- How can formal financial institutions be incentivized to provide financial services to households and firms that have no access to such services?
- Which business models and innovations are most effective for financial services providers to engage in financial inclusion?
- What is the scope for peer learning and experience-sharing among countries, including through the Alliance for Financial Inclusion and related institutions?

HIGH-LEVEL SPEAKERS

The Chair will introduce the panelists, explain the structure and objectives of the session and moderate the discussions. The speakers in the panel discussions will be kindly requested to limit their interventions to seven minutes

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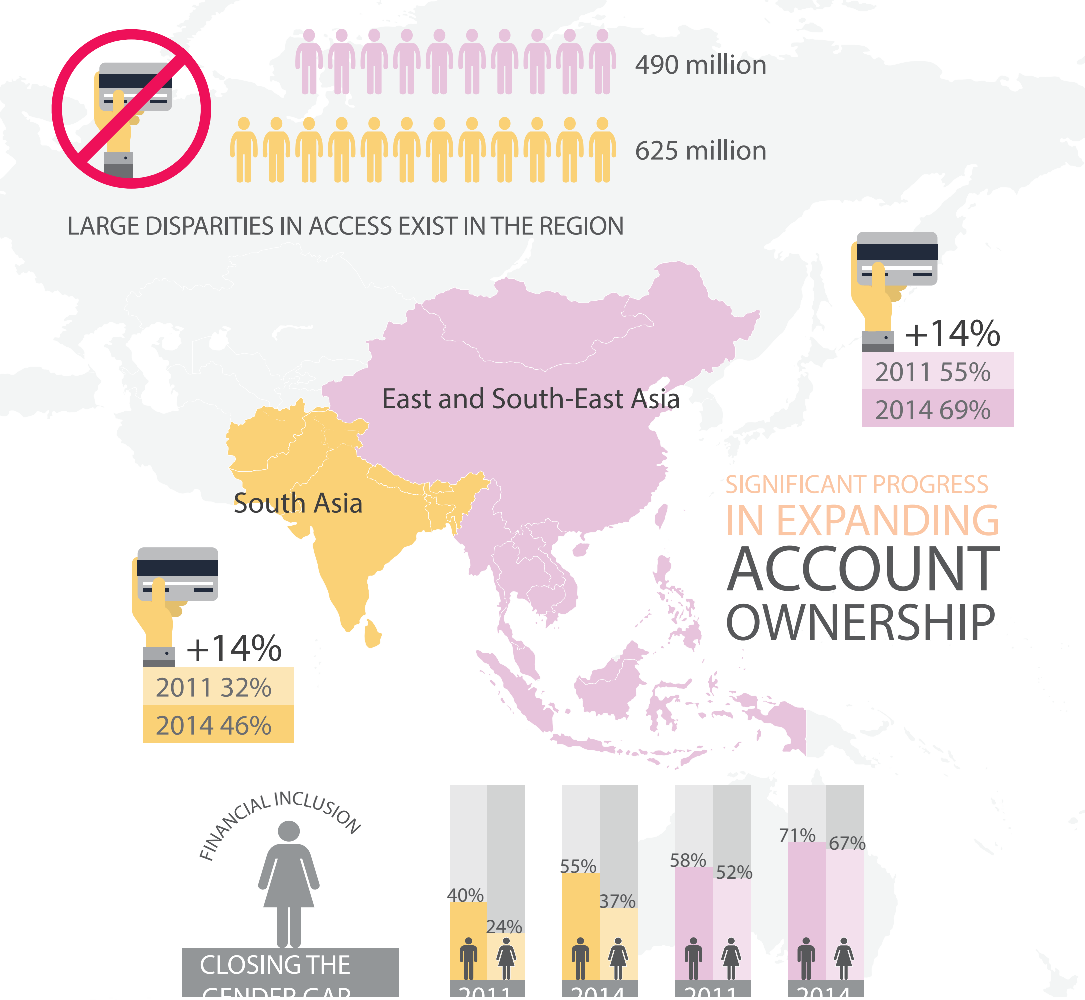
Mainstreaming Financial Inclusion



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