



Financial Inclusion and Development:
Recent Impact Evidence

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Agenda/ Outline of the paper

1. A Vast Majority of Poor Households Live and Work in the Informal Economy
2. Increasingly Robust Evidence of Beneficial Economic Impact
 - Microeconomic Level
 - Local Economic Activity
 - Macroeconomic Level
3. Additional Indirect Benefits

A Vast Majority of Poor Households Live and Work in the Informal Economy



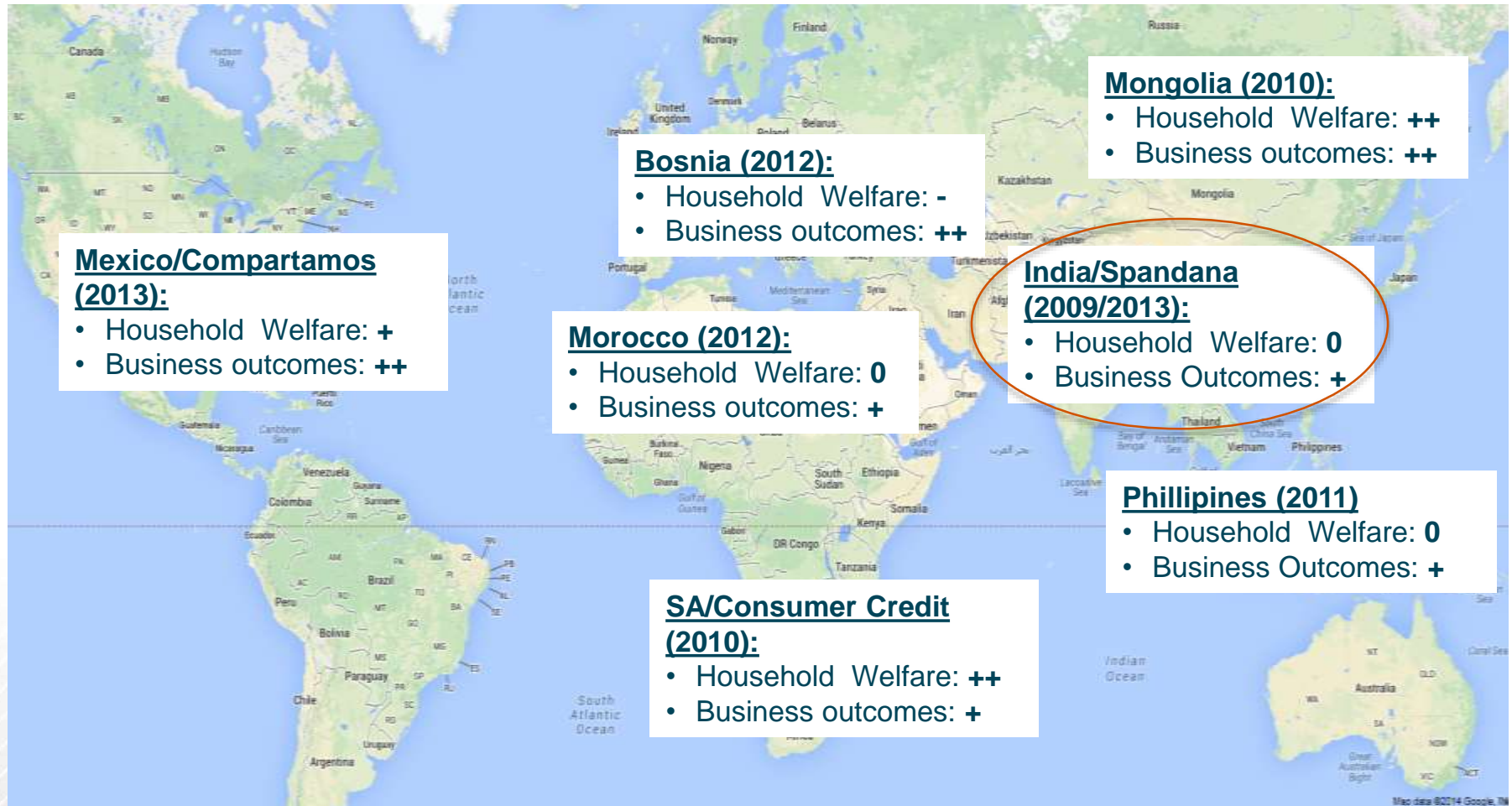
40+%
below
\$2/day

~50-60%
with
informal
jobs

50+%
w/out formal
financial
account

Microeconomic Level: Credit

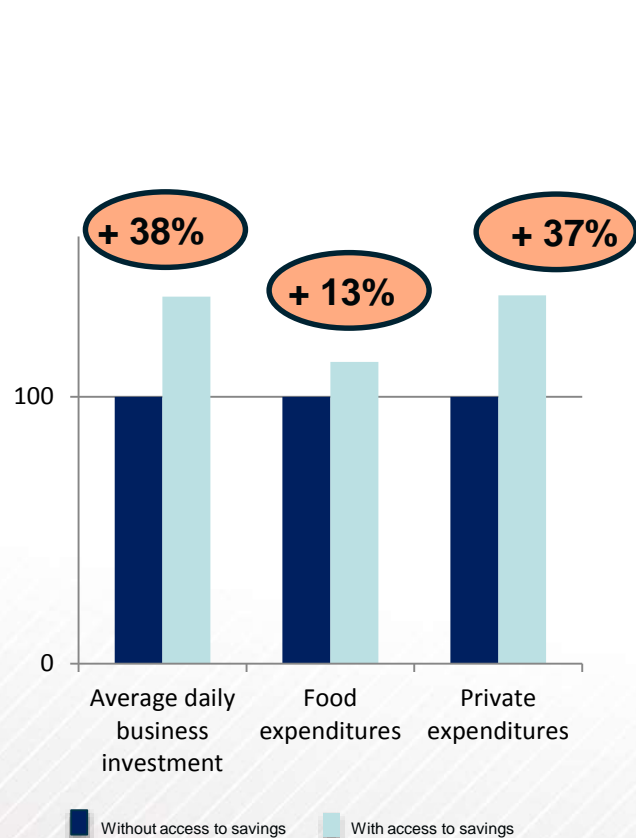
Businesses benefit from access to credit, linkage to broader welfare less clear



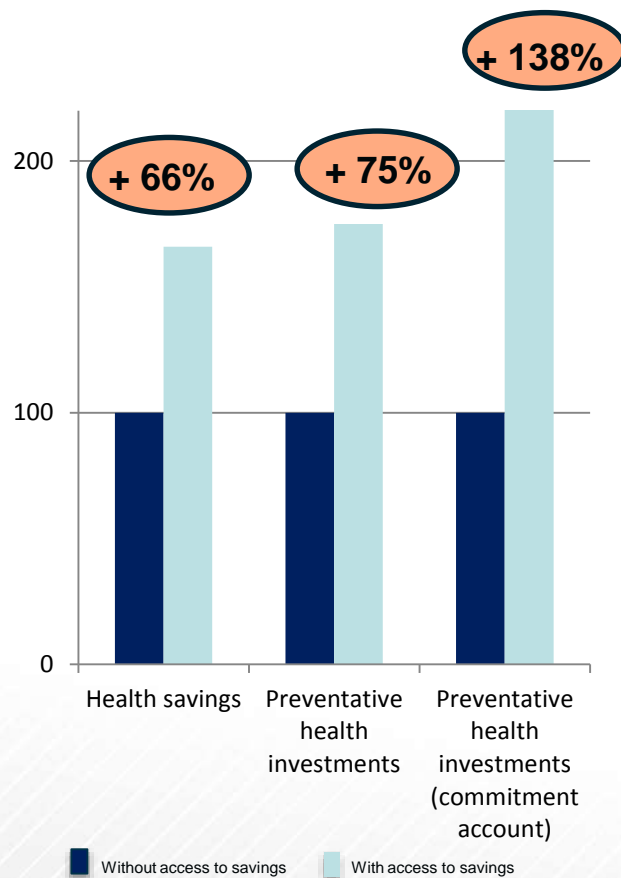
Microeconomic Level: Savings

Savings help manage cash flow spikes, smooth consumption and build working capital

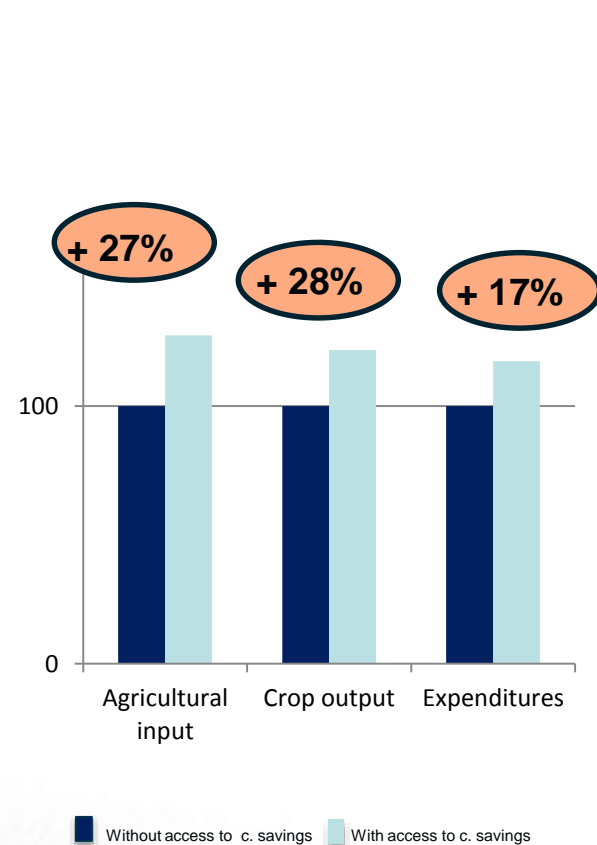
Business investments of women (Kenya)*



Health savings and investments (Kenya)**



Agricultural activity (Malawi)***



* Dupas, Pascaline et al. (2012a). Savings constraints and microenterprise development: evidence from a field experiment in Kenya. AEJ: Applied Economics. Forthcoming.

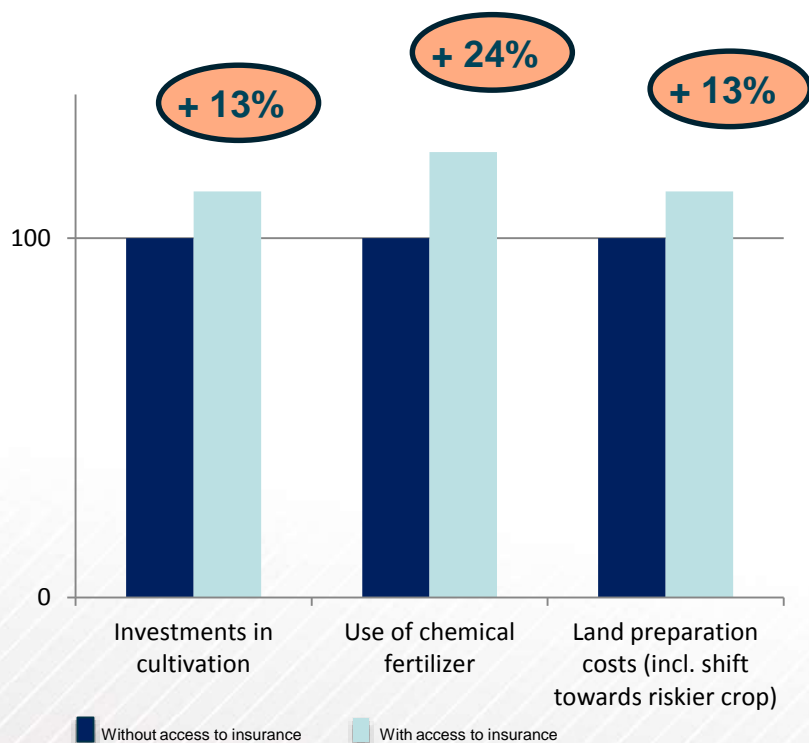
** Dupas, Pascaline et al. (2012b). Why don't the poor save more? Evidence from health savings experiments, NBER Working Paper.

*** Brune, Lasse et al. (2013). Commitments to save. A field experiment in rural Malawi. Working Paper.

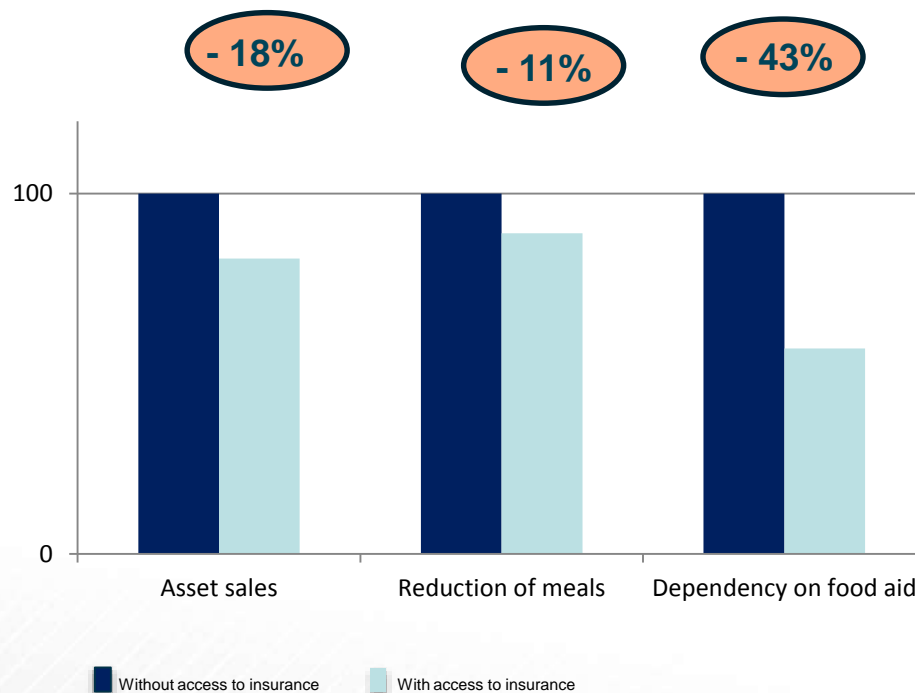
Microeconomic Level: Insurance

Access to insurance increases risk appetite and protects livelihoods

Agricultural activities (Ghana) *



Protection against negative impact of natural disasters (Kenya) **



Microeconomic Level: Payments

Mobile money reduces households' transaction costs and improves ability to share risk

- Sharing risk in Kenya (Jack/Suri 2014)
 - M-Pesa users were able to fully absorb negative income shocks through increase in remittances
 - Consumption of households without access to M-Pesa fell on average 7%
- Reducing transaction costs in Niger (Aker et al. 2010)
 - Reductions in costs of cash transfer programs (both for implementing agency and recipient)
 - Recipients' cost savings resulted in diversification of expenditures (including food)

Local Economic Activity

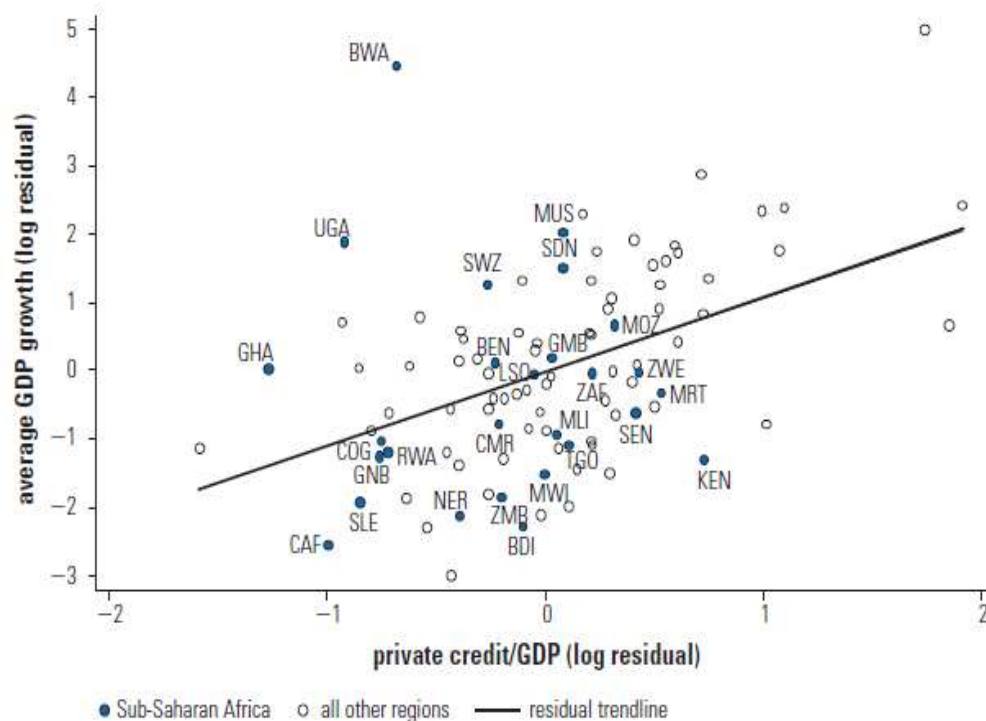
Financial access improves the local economy

- Opening bank branches in unbanked locations reduced rural poverty in India (Burgess and Pande 2005)
- Opening Banco Azteca branches in retail stores had a significant impact on regional economy in Mexico (Bruhn and Love 2013, Ruiz 2013)
 - 7% increase in overall income levels
 - Households were better able to smooth consumption and accumulated more durable goods

Macroeconomic Level

Positive correlation between financial depth and growth

GDP Growth Rates and Financial Depth 1980-2003



Correlation less clear if:

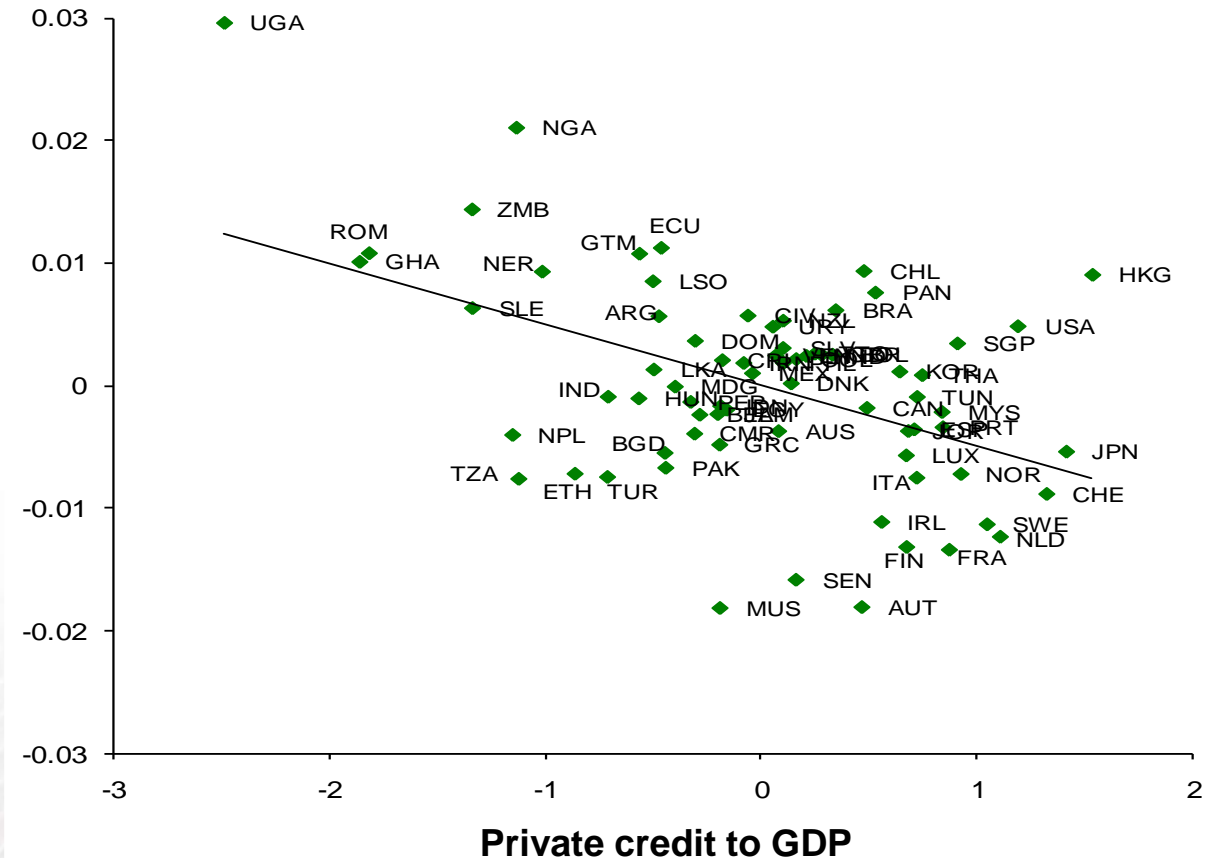
- Economies with weak institutional framework
- High inflation environments
- Very low and very high levels of financial intermediation
- Short time horizon

Macroeconomic Level

Financial deepening reduces inequality

Access to credit and income equality

Change in Gini coefficient



Additional indirect benefits

- More effective and efficient execution of other social policies
 - Payment of CCTs (e.g. Bolsa Familia reduced transaction costs from 14.7% to 2.6%)
- Enabling new private-sector business models that help address development priorities
 - E.g. Microleasing for off-grid solar power, community-based water stations (Kenya, Tanzania)

CGAP

Advancing financial inclusion to improve the lives of the poor



Foreign Affairs, Trade and
Development Canada
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et Développement Canada



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