FINANCIAL INCLUSION – OPPORTUNITIES & RISKS FOR DONORS

INSIGHTS FROM A FIVE-COUNTRY SAVINGS PROJECT

ROCKEFELLER PHILANTHROPY ADVISORS

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Financial inclusion holds the promise of harnessing the power of the private sector and technology to help achieve social ends.

"Banks can—indeed must—be at the heart of any solution to the potentially destabilizing trend of social and economic inequality."

- CHRIS PAGE
CHAIR OF THE GAFIS PROGRAM ADVISORY COMMITTEE
SENIOR VICE PRESIDENT AT ROCKEFELLER PHILANTHROPY ADVISORS

People living in poverty often lack access to safe, reliable ways to manage the little money they have. As a result, they face *de facto* exclusion from the financial system the rest of us rely on.

To address this problem, a unique philanthropic project, funded by the Gates Foundation and led by Rockefeller Philanthropy Advisors and Bankable Frontier Associates, formed partnerships with five large banks in the developing world.

The approach was straightforward: research *and* implement new approaches to providing poor people with the financial tools they deserve.

This philanthropic-public-private collaboration focused on *sustainable* financial inclusion — developing savings accounts that could accommodate the needs of the "unbanked" while also delivering a return that allowed banks to continue service.

The learnings from the **GATEWAY FINANCIAL INNOVATIONS FOR SAVINGS (GAFIS)** project are laid out in full in a 47-page report on-line. (See Resources, page 28.)

Here we focus on how those learnings might help individual and corporate donors, foundations and public agencies interested in the field.

WHY DOES FINANCIAL INCLUSION MATTER?

It lies at the intersection of two major disruptions gathering force in the global economy.

First, the gap between rich and poor is widening — a recent estimate says less than one percent of the world's population holds 41 percent of all its wealth.

Second, potent technological advances indicate the future of banking will revolve around cost-effective mobile applications and that telecommunications companies and banks will compete to deliver financial services, perhaps even to capture a formerly ignored market like the very poor.

Financial inclusion holds the promise of harnessing the power of the private sector and technology to help achieve social ends. It is both a business opportunity and a way to buffer inequality by bringing the reliability of low-cost, secure financial tools to people who have never had access to them.

For donors with patience and tolerance for risk, the field provides the opportunity to act as a catalyst for the financial enfranchisement of a whole sector of society.

MISCONCEPTIONS

Sometimes the best way to begin to understand an area of philanthropic endeavor is with a clean sweep of old assumptions.

One of the biggest misunderstandings that haunts the field of financial inclusion is the idea that people with low incomes are "too poor to save."

In fact, just the opposite is true.

"These people are too poor not to save," says David Porteous, the managing director of Bankable Frontier Associates.

Financial diaries show that people living in poverty actively manage their money in a number of informal ways, not only to keep food on the table, but also to save for lump sum expenditures and emergencies. The problem is that these informal ways of saving can be insecure or illiquid, costly or inaccessible. The result is that an already limited resource is often diminished further.

Another big misconception, according to Porteous, leads people to believe that financial inclusion is mostly about getting people in poverty to save more.

"In many cases, they are already saving a lot relative to their income and immediate needs," he says. "The issue is not to help them save more, but to help them to save better. The message of GAFIS is about shifting the composition of savings so they are better geared to people's needs and circumstances."

THE GAFIS PROJECT (2010–13)

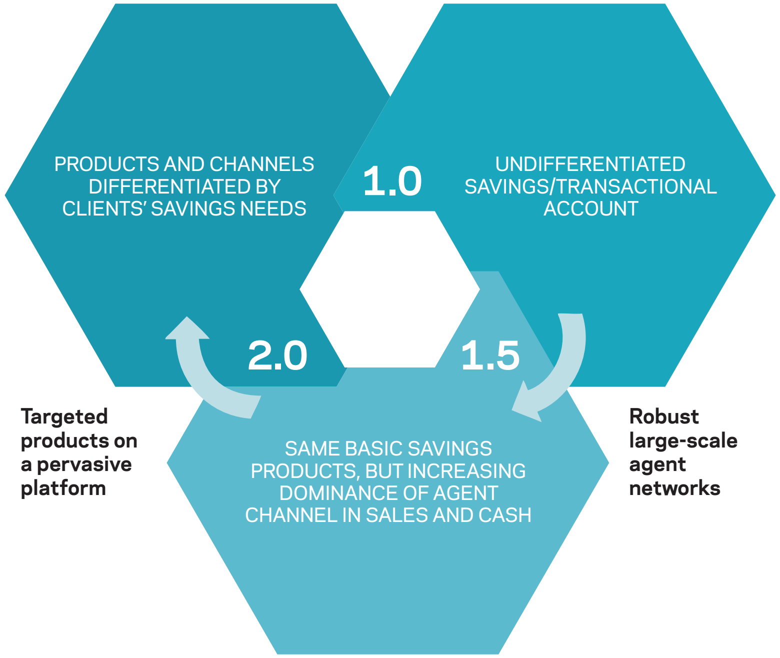
THE GOAL

Supporting development of savings products that are truly useful to poor clients in developing countries and that make long-term business sense for the financial institution offering them.

THE APPROACH

With support from the Bill and Melinda Gates Foundation, Rockefeller Philanthropy Advisors worked with Bankable Frontier Associates to help the project partners research, develop, test and roll out their products. An expert Project Advisory Committee, appointed and led by RPA, provided critical independent review in the strategy development and implementation phases.

PROGRESSION TOWARD INCLUSIVE BANKING PRODUCTS



THE BANKS

EQUITY BANK of Kenya has grown rapidly over the past decade to become the country's largest retail bank (by number of customers).

BANCOLOMBIA (Colombia), **ICICI BANK** (India) and **STANDARD BANK** (South Africa) are large multi-segment banking groups offering a comprehensive range of products and services across corporate, commercial and retail markets.

BANSEFI (Mexico), a state-owned bank, has a direct mandate to provide financial services to the poor.

THE OUTCOMES

- Research identifying the savings patterns of the poor *(See page 13).*

- Development of new financial products designed to serve poor people. These accounts have low-minimum balances, the capacity for a high number of transactions and more convenient access. *Banks opened new accounts serving 420,000 new low-income savers over three years as a result of the project.*

- Rapid growth of bank agents mostly located in existing community shops. *Banks now have nearly 25,000 of these agents — compared to only 2,600 in 2010.* These agents keep costs down for banks, and in turn customers, while bringing services into low-income neighborhoods.

- Structural change within the banks to facilitate financial inclusion. Though each bank approached internal change differently, each had a "champion" with enough managerial independence to innovate. In addition, the project brought together these champions on a yearly basis — none of the banks are direct competitors — so they could learn and get support from each other.

THE REMAINING CHALLENGES

- Technological — although the banks used text messaging to help connect with their customers, a truly electronic banking service remains a future goal.

- Profitability — the banks measured costs differently and so measures of profitability also varied, but for all the banks, a truly sustainable business model has not yet been achieved.

SUPPLY-SIDE INNOVATION

As mentioned, none of the five banks participating in the project were competitors and all of them had internal leaders — or "champions" — to guide the change process and to learn from the other banks in the program. One of these "champions," Natalia María Gómez Álvarez, Director of Inclusive Programs at Bancolombia, summed up the value of the collaboration: "[It was like] Someone having your back, someone who could validate your thoughts and ideas before going to market."

- A team from South Africa's Standard Bank visited Kenya to see Equity Bank's operation there. The South Africans left inspired by Equity's innovative marketing that the self-described "corporate" bank would normally have never thought to use on its own.
  The result: Standard completely changed its focus in marketing to inclusive savers, reenergizing how it positioned the brand to the customer.

- ICICI Bank in India leveraged support to develop a new savings product and a new channel to service it.
  The result: ICICI feels confident that in the long run it can make inclusion profitable.

- State-owned bank Bansefi from Mexico found the peer exchange with other banks invaluable as their team learned how commercial banks approached inclusion.
  The result: Bansefi embraced the idea that the poor were not a homogeneous population, and that they required a suite of products to serve their different needs.

- "We've been able to see simplicity working for the banks in real life," said Gómez Álvarez after learning about other banks' strategies for reducing cost and complexity.
  The result: Bancolombia felt inspired to move ahead with its own plans to serve the unbanked market.

HOW PEOPLE IN POVERTY SAVE

Whether they save in bank accounts or informally, GAFIS research shows that the savings patterns of the poor are diverse. In spite of this, savings behavior usually falls into one of three categories:

SPEND DOWN SLOWLY. Retain balances for spending at a later point within a relatively short spending cycle (such as a month) and with a strong preference for liquidity.

ACCUMULATE. Build up savings over time in small steps, often with illiquidity built in, such as a requirement to regularly contribute and/or an inability to access funds until a defined time or goal.

PRESERVE. Hold larger balances for a longer period with the emphasis on preserving the lump sum until needed.

The banks used this and other client-based research to create new accounts built around the needs of the "unbanked." The general philosophy: bank product design must either target a specific savings behavior, or else be flexible enough to allow clients to tailor their usage of the account to meet different needs.

IMPROVE TOOLS, IMPROVE LIVES

Many low-income families around the world save by hiding money around their homes or burying it in the backyard. They also participate in unregulated, informal savings clubs or send money to relatives. But these savings methods can be unsafe, unreliable and inconvenient. The new bank accounts have been designed to address those problems.

Daryl Collins guided research into the demand side of the GAFIS project and co-authored the seminal book, *Portfolios of the Poor*. She says the poor must actively manage their money because their income is not only small but also uncertain. Improve the financial tools available to the poor, she says, and you can improve their lives.

FINANCIAL INCLUSION & MICROCREDIT

Major funders have supported micro-lending for nearly thirty years. This philanthropic support for small-scale entrepreneurs has put many people to work and helped build economic stability.

But credit is only one of four basic financial services — the others being insurance, payments and savings. The developing world's micro-entrepreneurs borrow money to buy inventory that they sell to buy the inventory to replace it. They earn money in the process which can pay for basic needs, such as housing and maybe school tuition or books. But they often lack underlying assets and convenient and secure ways of saving and making payments.

The GAFIS project supported a more holistic approach where new products reflect the multiple financial needs of low-income customers. In this sense, inclusion aims at nothing less than financial citizenship — where savings, payments and credit are seen as complementary.

People in poverty, like wealthier folk, have different financial needs at different points in life — sometimes savings, sometimes credit, sometimes both. In fact, some banks — particularly in Asia — lend first and then follow up by offering one of their savings products. This was the strategy of ICICI Bank in India.

INCREASING ACCESS TO SAVINGS

"Sonali" lives with her husband and children in Rameshwar (rural Uttar Pradesh). The family owns a small grocery shop. Sonali has the ICICI account in her name, which she opened through the bank's partner, CASHPOR, a trusted microfinance institution. It is her first bank account.

She is able to deposit and withdraw cash at weekly loan group meetings run by a loan officer who travels by motorcycle between villages. She can also access her account via her mobile phone. She has no minimum balance and can save in small increments. By making a series of deposits of around $4 each, she has saved about $50.

"Whenever you want," she says, "you can put money in, and put money out! Anytime I need to pay a loan instalment, and I am short of funds, I withdraw money from my ICICI account."

Synergies abound here. Sonali's credit and savings needs are linked conveniently. The motorcycling loan officer makes it affordable for the bank to serve poor rural clients, and the microfinance institution earns additional revenue through the partnership.

Inclusion aims at nothing less than financial citizenship – where savings, payments and credit are seen as complementary.

HOW FINANCIAL INCLUSION CAN CHANGE LIVES

When the banks test-marketed new savings accounts, they found many of their potential customers harbored *strong skepticism about ever going into a bank*. They didn't feel like they belonged in the lobby of a bank where middle- or upper-income people went, nor at teller machines where they might not have the skills (e.g., literacy) to use the facilities. There was also widespread skepticism about what banks actually do and where the money goes. After all, it's not like keeping it in the backyard where you can dig it up and see your money is still there. So there are social and cultural aspects that make financial inclusion a more challenging goal than it might seem.

However, the banks' success at creating new accounts clearly demonstrates that such difficulties can be overcome.

"Mark" in Mathare, Kenya became an aggressive saver when his new GAFIS account gave him a way to save for his children's school fees. He particularly likes the illiquidity of the Equity Bank account. He has only three free withdrawals per year before facing a significant fee for removing his money. This reinforces his goal of saving the money for specific purposes. When he saved informally at home, he did so without telling his wife for fear the money would be used on other things. Now, he saves openly and — with his wife's support — successfully.

For "Marcela" from the Kennedy Neighborhood of Bogotá Colombia, being able to use a code she received over text message to withdraw money at the ATM was exciting and new — she felt modern with her new account, and liked the fact she did not have a card that might be lost or stolen. Even better, being able to transfer funds to her sister in Santander province instantly and directly from her phone saves both Marcela and her sister time and money. Marcela shared that the Ahorro a la Mano account was helping her to save over longer periods of time: it is easy to make deposits, and like Mark, she reported that when her money is saved in the account rather than kept at home, she spends less on small, tempting purchases.

UNBANKED IN THE USA

Government reports say eight percent of all U.S. households do not have savings or checking accounts. *That's roughly 19 million Americans.*

Many workers cash paychecks, pay the rent and put whatever they have left over in their pockets. Because they don't save, they have little cushion if they face illnesses or other unexpected expenditures. Sometimes they give up their minimum-wage jobs simply because they need their car to get to work and they can't afford car repairs. This is particularly true in rural areas.

Although one might think of financial inclusion as a philanthropic issue for the developing world, much can be done in the United States. To address the situation, U.S. Senator Elizabeth Warren has thrown her support behind the idea that post offices around the country might start offering check-cashing, bill payment and other financial services.

The GAFIS project learned that relatively small amounts of grant money (< $1 million) per bank can unlock resources from that bank to support inclusion. U.S.-focused donors, particularly those who concentrate on a particular region, might consider doing some due diligence with a medium-sized bank or credit union that already serves poor areas.

One possible question: *would the financial institution have any interest in refining its products to reach low-income people it's not currently serving?*

LESSONS LEARNED

How often do you hear about a charitable foundation giving a grant to five large banks?

That's exactly what happened in the GAFIS project.

When you stop to think about financial inclusion, it makes sense, of course. How could a philanthropist hope to achieve traction in this area without the active partnership of financial institutions, which not only have the capacity to touch millions of poor households, but in many cases already do in some way or another?

The project underscores the reciprocal relationship of risk and opportunity for donors who want to fight poverty by promoting participation in the financial system.

OPPORTUNITY

TECHNOLOGY — Advances in electronic banking mean cost-efficient opportunities can revolutionize access to financial services for the poor.

COLLABORATION — Financial inclusion offers a remarkable space for collaboration. GAFIS saw private and government-owned banks and philanthropy join forces not only to investigate new savings products, but to introduce and market them.

GOVERNMENT REGULATORY SUPPORT — Some governments in developing countries have passed legislation to actively support financial inclusion. More such legislation could follow.

CATALYZE CHANGE THROUGH LEADERS — Philanthropic money can catalyze change — even in the private sector. GAFIS helped banks to choose leaders from within the institution to champion change. These managers had the independence to push forward the project and help create structural change in the banks as well as introducing new financial inclusion products. Donors should be alert to whom these internal entrepreneurs might be and where change happens in an institution.

EDUCATION CAN LEVERAGE IMPACT — With training, shopkeepers become bank agents. With education, the "unbanked" can be savvy users of bank accounts. As people understand how financial inclusion benefits them, so they can overcome their skepticism of the new.

RISK

TECHNOLOGY — The technology may advance beyond your philanthropic strategy, rendering your plan redundant.

LESS CONTROL — Partnership requires a donor who's willing not only to take risks, but to be a full partner in the process *without driving it*. A donor must cede some control to truly support collaboration, and that can make many feel vulnerable.

UNCERTAIN REGULATORY LANDSCAPE — Telecommunication companies in many countries remain unregulated in terms of electronic financial transactions and savings. The law, to put it bluntly, has not kept pace with technology. This uncertainty could pose significant risk to philanthropic investment.

LEADERS SOMETIMES BECOME LEAVERS — Turnover at the banks has been high, meaning that only one of these champions lasted the full four years of the project. In fact, for reasons that had nothing to do with the project (restructuring, competition for staff in the financial sector), only two of the five banks had the same CEO in 2009 as 2013. The risk here is that a wonderful person, steeped in change and able to lead it, may simply move on.

EDUCATION IS EXPENSIVE AND CHALLENGING — Turning early adapters into evangelists is a cost-effective way to spread change. But it is hardly fail-safe. The expertise of banks is not necessarily in developing human capital. And effective education depends largely on the motivation of the new account holders, a variable that can be hard to control. Ignoring education could cost a philanthropist dearly. Paying attention to education could also cost a philanthropist dearly.

"Isabelle" is very proud of the new bank debit card that came with her GAFIS-linked account from Standard Bank. She was able to choose her favorite color — pink. For the first time in her life, she can keep her money in a secure place and make withdrawals and deposits as she pleases. But when a visitor asked her if she also liked the bank agent that had opened in a shop around the corner from her home, she said, "Oh, I never go there. If people see me coming or going they will know I am bringing money to the bank or taking it away. It would be dangerous." Instead she takes the bus across town to go to the branch office where no one knows her. She loves her new account, but her story is one all donors should heed. The moral: *Even the best philanthropic strategies have unintended consequences.* In this case, the new convenience was overshadowed by unforeseen safety considerations. Fortunately, "Isabelle" has found a solution that works for her.

For the first time in her life, she can keep her money in a secure place and make withdrawals and deposits as she pleases.

MOVING FORWARD

Fighting economic inequality with innovation.

It's a wonderful concept. And perhaps only philanthropy has the capacity, the fortitude and sense of mission to see if it's truly achievable.

Part of the project was about institutional change and seeking to serve a new market of "unbanked" people with appropriate savings accounts.

The other part asks a pointed question — can we harness information technology and traditional institutional resources in such a way that we impact the widening gap between haves and have-nots?

GAFIS is a pioneering first step towards an answer. Early data shows not only that hundreds of thousands of new accounts have been opened, but that they are being used regularly. If this trend continues, it would suggest the innovations have the capacity to take root.

The potential is huge. Philanthropic efforts to support financial inclusion can create more than bank accounts. Collaborations in this field can develop what should be a common right of humanity: the ability to participate in the economy using all financial tools available, to do what most people do on a daily basis — manage their money for a better life.

RESOURCES

THE BILL AND MELINDA GATES FOUNDATION
http://www.gatesfoundation.org/What-We-Do/Global-Development/Financial-Services-for-the-Poor

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