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FINANCIAL INCLUSION AROUND THE WORLD: IMPLICATIONS FOR DEVELOPMENT AND THE G-20

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P R O C E E D I N G S

MR. KIMENYI: Good afternoon. My name is Mwangi Kimenyi. I'm a senior fellow and director of the African Growth Initiative and I would like to welcome you here this afternoon. We have a distinguished panel talking about Financial Inclusion Around the World: Implications for Development and the G-20.

As you all know, the G-20 Summit is just around the corner. This is an opportune time to discuss some of the issues that will be at least important in the summit. In today's forum there is a new index that is being worked on by The World Bank that tries to capture the extent of financial inclusion across up to 146 countries around the world, which provides very good data. There are many times that we are trying to figure out, you know, the extent of financial inclusion but data is always a problem. And so this work has been very important in terms of informing policy. So that will be sort of the basis for the discussion.

So I would like to then open up this forum. We have many panelists, so we would like to be very efficient in terms of time. And the way we are going to conduct this forum is that I'm going to ask two key individuals who have been involved in writing this report to start the presentation. They will give us the highlights of the index. And then I'll ask the other panelists to comment.

And with that I'm going to start by asking, sort of introducing my neighbor here, Asli, who is chief economist, Financial and Private Sector Networks of The World Bank. She is the lead author of The World Bank Policy Research Report 2007, Finance for All? Policies and Pitfalls in Expanding Access, and she holds a Ph.D. in Economics from Ohio State University. She will be joined -- she will make introductory remarks but she will be joined by Leora Klapper, who is the lead economist in the Finance and Private Sector Research Team of the Development Research Group at The World Bank. She will do a more elaborate presentation and then I will have the panel introduce the panelists as they come so that we can have enough time for discussion.

Okay, Asli.

MS. DERMIRGÜÇ-KUNT: Thank you very much. It's a pleasure to be here.

As you know, access to financial services plays a critical role in development by facilitating economic growth and reducing income and equality. Inclusive financial systems allow poor people to smooth their consumption and insure themselves against economic vulnerabilities from illnesses and accidents to theft and unemployment. Financial access enables poor people to save and to borrow, allowing them to build their assets, to invest in their education, and entrepreneurial ventures, and thus, to improve their livelihoods. Inclusive finance is especially likely to benefit disadvantaged groups, such as women, youth, rural communities, and poor in general.

The World Bank's Research Development Group has been actively supporting this financial inclusion agenda for quite a while now. We've been developing indicators and conducting related research, indicators from the providers, which we call the supply side indicators, such as bank branches and ATMs per capita and the number of deposits and loan accounts per capital which we collected from financial institutions and made available through our 2008 policy research report. These are still the indicators that are commonly used today and they have been updated by the IMF, IFC, and CGAP colleagues.

Well, to continue supporting the financial inclusion agenda, we recently, during our spring meetings, launched the Global Financial Inclusion Indicators Global Findex Database, which we are here to talk about today. So this database now collects comparable cross-country data on financial inclusion, this time through surveying individuals around the world. This was made possible by a grant that was provided by Bill and Melinda Gates Foundation, and the first round of data we collected in 2011 through the Gallup World Poll Survey in 148 economies covering more than 150,000 adults age 15 and above, covering basically 97 percent of the world's population. The questions that we added to the Gallup World Poll included questions on the use of financial services covering savings, payments, credit, and insurance. This data we will be collecting for every three years, so for two more rounds, and the headline indicators on the use of bank accounts and formal credit will be collected every year.

The country level database is already publicly available. We made it available during the spring meetings, and individual level database will also be made available as we go through and clean it in due course. The Global Findex Database really offers the most comprehensive global picture of how people save, borrow, make payments, and manage risk. This data can really motivate and track the impact of financial inclusion policies globally and develop a much deeper and nuanced understanding of how people around the world use financial services. Importantly, the Global Findex Indicators measure the use of financial services, which is different than the access to financial services. You may have access to services but you may not use these services simply because you don't need to, but also you may not be using these services because you face barriers and you are excluded. Therefore, the survey includes questions on the perceived barriers to financial inclusion to help policymakers design policies to expand inclusion, which we think is a very important part of this effort.

So the data is very rich and we have relatively limited time, so now I'm going to call on my colleague, Leora Klapper, to come and give you a presentation with the headlines of what we find with this data. Thank you.

Leora.

MS. KLAPPER: Thank you. I'm going to go very briefly through the slides. I encourage you to visit our website and look at both the presentation and additional information.

So our headline indicators are about 59 percent of adults, almost 2.5 billion people living in developing economies are unbanked compared to just 11 percent in high income economies. Let me just highlight for half a moment what's very unique about our data.

So first of all, we have comparable harmonized data across 148 countries. The data was executed by adding questions onto the Gallup World Poll Survey as also mentioned.

Secondly, we interview individuals, not households, and we're very careful about ownership over assets. Do you yourself, or someone else, have access to an account that you personally can deposit into or withdraw from? And that gives us the power for really the first time to aggregate the data by individual characteristics. So, for example, we can study women's economic empowerment by looking at the percentage of women who are banked. We find that in developing economies, 37 percent of women have an account compared with 46 percent of men. We can also look at more objective measures of the poor. For example, we find that about 75 percent of adults earning less than $2 a day are unbanked.

And so this figure shows our data aggregated by region. It shows account penetration, as well as the use of debit cards and business accounts. It's higher in countries with greater economic and financial development. As I mentioned, we can also splice it by demographics. We see that the top 20 percent of earners in developing economies are more than twice as likely to have a formal account as the bottom 20 percent. The graph on the right, one of my favorite graphs, shows in developing economies only, even among the wealthiest 20 percent of earners, we still see a persistent gender gap of over nine percentage points.

So next, we also ask the question of the unbanked, why don't you have an account? And we find strong regional differences. So, for example, compared to the unbanked in other regions, respondents in Europe and Central Asia are most likely to cite the lack of trust in banks which might be due to past episodes of government expropriation. We find respondents in Latin America and the Caribbean are most likely to cite the cost of opening and maintaining an account, about 40 percent. As well as the respondents in Sub-Saharan Africa are most likely to cite distance as the greatest barrier.

And so these barriers suggest that a key policy to increasing the percentage of banks is introduction of new products, processes, and technology, such as mobile banking, banking agents that can overcome these barriers of cost and distance. In addition, let me mention that the most commonly cited reason among women, particularly in the Middle East and Northern Africa, is that a family member already has an account, which highlights the lack of ownership over assets particularly by women in some parts of the world.

So we also ask questions on the frequency and modes of access and deposit into and from an account. Interestingly, I just mentioned that, I'm sorry, that over half of adults in developing economies report withdrawing from their account exactly two times, suggesting these accounts are being used more for transactional than for financial purposes.

So we also ask the question of why do you use an account? So, for example, 38 percent of accountholders in Sub-Saharan African report using their account to receive money from somebody living elsewhere. We're also interested in use of accounts to receive government payments, as well as receive money from wages.

And so next we look at the use of mobile technology. Sixteen percent of adults in Sub-Saharan Africa use a mobile phone to pay bills or send and receive money in the past year. Importantly, 52 percent of adults in Sub-Saharan Africa who use mobile technology are otherwise unbanked, suggesting that this technology is still more of a substitute than a complement for formal financial services. And also, it should be highlighted that the average outside of Kenya of the use of mobile technology in developing economies is only 5 percent, suggesting there still exists regulatory and other barriers to introduction of this new technology.

We also ask if the individual has put aside or saved any money in the past year. And this is interesting. So it's not only the question of did your employer, did the government require you to open an account, but are you voluntarily trusting the bank, trusting the government, to put your money to use your account for savings? And/or is it cost efficient? Is it close enough for you to use it for its financial purposes that are more for cash management purposes? And so we find that globally 31 percent of adults in developing economies saved in the past year, compared to 58 percent in high income economies. And 56 percent of savers in developing economies saved using a form of financial institution within the past year.

Adults frequently cite alternative savings products, such as raskas, community saving bank programs where you put in money and receive money on a rotating basis. And whereas this popularity speaks to its attractive use in these countries, there's also a very high risk of fraud and abuse. And so, for example, we find Sub-Saharan Africa 48 percent of savers uses a community savings club or person outside the family to save.

In Sub-Saharan Africa, we also find that 53 percent of women who save use one of these community savings plans compared to 43 percent of women who save, again highlighting perhaps the need for a safe place for women to keep their savings. And it also, I think, highlights potentially a missed market opportunity to provide safe, affordable financial products to people who are able to make regular commitments to save. We also find a high use of informal savings using other methods, which include livestock, gold, or simply under the mattress, and indeed, we find that those who save informally report the physical bureaucratic and cost barriers to opening a formal account to be especially prohibitive.

To splice the data a different way, we look at savings among accountholders. And so, for example, only 40 percent of accountholders in developing economies saved formally in the past year. In addition, we find about 12 percent of accountholders in developing economies save using only other informal types of savings products.

And so finally, we examine the use of credit and risk a management tools. First, we find that about 50 percent of adults in high income economies have a credit card, which might be a substitute for short-term loans in these countries, compared to only 7 percent in developing economies. Excluding credit card use, we find that 8 percent of adults in developing economies borrowed money from a formal lender in the past year, compared to 14 percent of adults in high income economies.

In all regions, with the exception of high income economies, borrowing from friends and family is the most commonly used source of financing. Only 3 percent of adults in developing economies report having a mortgage outstanding compared to 24 percent of adults in high income economies. However, the percentage who borrow for renovations is much, much higher, perhaps suggesting an inefficient way of building a house one room at a time. Among the reasons listed for using credit, the most commonly reported reason for an outstanding loan in the developing world is for emergency or health purposes. And so whereas more than 11 percent of adults in developing economies have an outstanding loan for emergencies or health care needs, more than 80 percent of them use only informal sources of credit. And we find outstanding loans for funerals and weddings primarily from informal sources are significantly more common in fragile states, like Afghanistan, Iraq, and Somalia, where perhaps family structures and dependence on family financing has deteriorated.

Finally, we find that 17 percent of adults personally purchase health insurance in developing economies and adults in developing economies working in farming, forestry, or fishing, only 6 of them have any form of formal crop, rainfall, or livestock insurance.

So to conclude, this data can be important for policymakers, researchers, and practitioners interested in a more holistic understanding of the use of financial products, both formal and informal around the world. The data is available on our website. There are a variety of products, and our first summary paper is available online and additional, more rigorous research papers on the use of accountants in formal savings, on remittance, on Islamic finance, on housing finance, will be available coming soon. Thank you.

(Applause)

MR. KIMENYI: Thank you. I will now invite the other discussants and I will introduce them all so that when they start commenting we will just go straight. And the first one, on my left, is Lewis B. Kaden, who serves as Vice Chairman of Citigroup, Inc. Mr. Kaden is also Chairman of the Institutional Clients Group's Public Sector Group and the Citi Foundation. [Ed note: chief administrative officer at Citigroup and Citigroup Finance Canada, and interim chairman and chief executive officer at Citigroup Alternative Investments.] He will be the first one to discuss.

But I would like to introduce Debra Dean, who is next. She is the director of the Microsavings Initiative of the Grameen Foundation. They have a lot of experience so we agree that I'm going to only cut one light. So I am not leading the entire bale. Her work has led to the development of savings programs with microfinance institutions in Ethiopia, India, and the Philippines.

Next will be Peer Stein. He is a senior investment officer at the International Finance Corporation. He has also led the IFC's Finance Initiative of Financial Intermediaries and he will be talking more also on the G-20 issues.

And we have Mr. Morris from the U.S. Treasury, who is also involved with the financially-crucial issues at the Treasury. And he will also talk a little bit about the G-20.

So, Mr. Lewis, could you start?

MR. KADEN: Thank you.

MR. KIMENYI: Thank you.

MR. KADEN: First, let me congratulate Leora and Asli on the Global Findex project that they just described to you. Having that data available is going to be an invaluable aid to anybody engaged in thinking about financial inclusion or public policies affecting it. And the fact that they've done this work and that The World Bank, with the help of the Gates Foundation, plans to update it, adds to its value. I would urge all of you to take a look at it. It's really an impressive piece of work.

Second, financial inclusion is an extraordinary opportunity for private sector participants. There are few occasions when, whether it's financial institutions or other participants in the private sector economy have the opportunity at one in the same time to exploit a business opportunity of substantial dimension. Most of the estimates describe the financial inclusion opportunity as providing the basis for $300 billion of incremental revenue to financial institutions by the end of this decade, by 2010. But to have that opportunity provided together with the chance to serve the values and aspirations of corporate citizenship and contribute to economic and social development around the world is a very rare combination. That's part of the reason that Citi has embraced this. About a year ago our participation in financial inclusion was described as one of the three or four principle priorities that our board and chief executive officer set for the company.

And for us it was driven by three principal reasons. One, as I suggested, it puts meaning behind the commitment to responsible finance that we've been articulating since a near-death experience in the financial crisis. And while we have that commitment to responsible finance across all the different customer and client segments, it is important that there be meaning to it, that there be substance behind it that's understood by all of our stakeholders and financial inclusion is an opportunity to do that. It happens to build on the leadership role that we think Citigroup has played over the years. And both microfinance on the business side where we've incubated and supported more than 100 microfinance intermediaries, including most of those that are familiar parts of the microfinance landscape around the world, as well as the activities the Citi Foundation has engaged in on the philanthropic side of our business, especially in financial education or as it is now increasingly known, financial capability building. So the first reason for us was that it's hard to think of another activity that so clearly supports the commitment to responsible finance and the values that we expressed behind that commitment.

Second, we articulate an aspiration to be thought leaders; thought leaders in different areas of public policy and finding solutions to regulatory obstacles and to providing services that fit the particular needs of each client and sub-client, subsegment of clients and customers. And again, our activity and financial inclusion supports that very clearly.

And finally, and perhaps most importantly, we have 275,000 employees, and I can't think of another activity the company has engaged in that produces the same positive reaction from all of its employees in 110 countries and doing business in 170 countries as the work we do on financial inclusion. And every time we expand that activity we feel how much support it generates among our people. Financial services is fundamentally a talent-driven business and in those areas where you have the best talent you do the best. And that's true all around the world and building support among your own employees is about the most important stakeholder effort that you have in this business and I think is largely true in any business.

When we talk about financial inclusion, what we mean is the provision of a full range of services to people, both households and informal enterprises previously unserved or underserved. And to make those services shaped and designed for the particular needs of those customers and clients as they change over time. And that's quite different, even those efforts have their roots in microfinance and financial education and related activities over the years, it's quite different in the recent period because it is more customer-centered. It is more data driven and it is more dependent on innovation. Innovation and creativity, both in technology and in the analytics of data and in finding solutions to regulatory obstacles, all of that is required in order to do it right.

And finally, it has to be integrated closely with capability building. But over time I think what we've learned is financial capability building is not a classroom exercise. It needs to be integrated into the product design and integrated into the delivery of products and services to those customers. It's true at all points in the client and customer segment chain but it's particularly true in circumstances of clients and customers who have previously not had any exposure to organized or lawful financial services. We know from our own experience in this country, as well as that in other countries, there are lots of financial services delivered in the gray or black market. There are many services delivered contrary to the rule of law. But frequently, those services are abusive and their costs far exceed their value. And the objective in the financial inclusion initiatives -- not just for us but for all institutions and all groups involved in the discussions we're engaged in today -- is to provide a full range of services. As I say, designed particularly for the client segments they're delivered to and delivered at reasonable cost and effectively.

All of that I think makes this an especially exciting time for anyone interested in this subject. This is an important week to focus on financial inclusion because all of us owe gratitude to President Calderon of Mexico for putting it front and center on the G-20 agenda when he first became responsible for organizing the G-20 meeting that will take place beginning this weekend in Los Cabos. There has been a great deal of effort, including by many people in this room, in the run-up and preparation for the G-20 part of that agenda, and all of us should watch closely to see the extent to which the subjects get into the discussion when the heads of state gather on Sunday and when the public statements and communiqués are issued shortly after the weekend.

So I would say again that this is a subject that is important to us at Citi and serves what we believe are the values that bring us to work every day. And the data collected by the Global Findex project is going to be invaluable to us and I suspect to everybody else involved in this. And the opportunity exists not principally for the largest multinational companies. I think, as I said, our objective is to be a thought leader and an incubator and an orchestrator but to help local institutions ultimately in each of the hundred-some countries in which we are physically present so that they become a force for expanded delivery of services across their population in their home country. Thank you.

MR. KIMENYI: Thank you very much. We have gone a little bit overtime so now I will try to be a bit short of time.

Now, after having had the private sector perspective, I turn to Dean (sic) to talk about the NGO perspective and particularly on the role of women and financial inclusion. Dean.

MS. DEAN: Thank you.

MR. KIMENYI: Five minutes, please.

MS. DEAN: Thank you. So I'm here today to talk a little bit about -- the Grameen Foundation actually works with the poor. And while there are many issues that the poor face every single day, the Grameen Foundation is focused on two key issues. One is how the poor have access to information that allows them to make better decisions in their day-to-day lives and the livelihoods that they run within, as well as access to financial services. And we are focusing around savings programs and mobile financial services to help drive accessible, affordable and convenient programs, financial service products, to the poor.

Now, Grameen Foundation has a product we call Progress out of Poverty Index tool, which is a tool that allows us to work with our partner institutions to help them understand where the poor fit within a certain poverty level. And that information is gathered through an easy 10 question survey that's based on specific country indexes. Now, we take this information and we use it with the partners that we work with in the field.

One of the programs that we're running is a microsavings initiative, which is funded by the Bill and Melinda Gates Foundation. It's been in place for the last two and a half years. We're working with three microfinance institutions. One is in the Philippines, which is CARD Bank. One is in Ethiopia, which is the Empower Credit and Savings Institution. And the third is Cash Poor Microcredit in India. These three microfinance institutions are all building savings programs for their customers.

Since we're talking about data today and we're talking about the Global Findex, what I thought would be really relevant is to talk about some interesting statistics and data that we've been gathering and some of the analysis that we've been doing in a microlevel and what we're experiencing with these particular institutions about building innovative products that allows us to actually segment the poor and reach financial inclusion with that poor population.

So for example: a couple of insights. With CARD Bank in the Philippines, they currently reach -- on average about 50 percent of their customer base lives below 2.50 a day, and about 20 percent of their customers live below $1.25 a day. Now, as we developed a new product for them, one of the things that we found during market research was that a low opening balance was required. But as many of you know who are working with financial institutions day in and day out, the challenge with servicing poor customers is creating a sustainable business model that will allow you to service them. So the bank found that creating a low opening balance to get these poor customers into the bank and have a formal account was cost prohibitive. So they randomly just increased the opening balance to a much higher level.

After about six months of piloting the product and realizing that they weren't getting the uptake that they thought they should get, they then dropped the balance back down to what the original market research said they should do. And within the first, I think, six to eight weeks there was a jump of about 300 percent in the number of accounts that were being opened. Now, in that six month period, what we realized was, and what we found when we used the Progress Out of Poverty Index Tool, which we call PPI, when we combined the data of the savings balances, the PPI data that allows us to understand where on the poverty scale they existed, we found that just by dropping that opening balance from its original balance to about $2, that the number of people -- we were able to increase the number of poor people by 6 percent, from 27 percent to 33 percent of the number of customers that live below 2.50 a day that were willing and then did open the account. A pretty interesting statistic that shows if you create the right product for the right market segment you will actually get financial inclusion and you'll actually be able to then continue to ensure that you're building the programs that will actually allow you to then ensure that they continue usage.

One other statistic, if I'm still in my time commitment here, is the idea with Cash Poor Microcredit in India. Now, what's interesting about this institution is they have been a credit-only microfinance institution since their inception which was about 15 years ago. Their mission is to only serve the poor. They only focus on those who live below 2.50 a day, so they use the PPI tool. And 96 percent of their customers actually live below 2.50 a day. They're also all women. We now have brought saving services to those clients, and in the past about 9 to 10 months, about anywhere from 150 to 200 accounts are opened per day in this community in India, and those customers, what we have found is we track the average savings balance over a course. While it may not sound like a whole lot to us, it's gone from $3.50 as an average savings balance to $8.50 to these poor people that live below $1.25 a day or 2.50 a day.

So these are some of the interesting things that we're finding at a micro level as we work on the ground as a practitioner in these fields of operation.

MR. KIMENYI: Thank you very much. Let's go to you, next, Peer.

MR. STEIN: Let me first congratulate Leora and Asli as well for this fantastic work because just about five, six years ago I think you made the first attempt to collect this kind of data and it was really eye opening just to see how large the number of households and small businesses were that did not have access to proper financial services. And as we have all learned from portfolios of the poor, we know that if you earn less than $2 a day, you don't get $2 every day. You may get $10 one day and then nothing for the rest of the week and so you have to be very good at managing cash flows. And the very essence of managing those cash flows is to have access to financial services that allow you to do that then. So the majority of the population of the poor living on less than $2 a day are obliged to use informal financial services providers and that obviously creates a number of issues with estimates that using informal savings you lose about 20 cents on the dollar doing so, and obviously, that's not sustainable in the long run.

So being able to articulate and being able to provide the data that is necessary to inform policymakers to make the right decisions of providing the right financial services is obviously quite critical and has been at the very core of the G-20 work since the very beginning. So since the launch of the financial inclusion experts group at the Pittsburgh Summit, data has been a core part of the work. And has been -- certainly the U.S. have been championing this and Princess Maxima of the Netherlands who has become the honorary patron also of the G-20 work has been very much engaged in this. And it has also been one of the core elements to engage the standard setting bodies because it makes it so much more real and tangible to talk with standard setters about some of the key challenges if you have the underlying data to show that in many of the countries that we're talking about, if you have a regulator that oversees a financial system that only caters to 1 in 20 adults, well, that may not be the most inclusive and comprehensive system and you may have to do something about it, in particular as it relates to obstacles that regulators themselves may impose. And here, I welcome in particular some of the findings that are presented about the number of documents you may need in order to open a bank account as well, positively correlated to the number of people who gain access to financial services given that it's so difficult in many countries to obtain those documents.

I just want to make one last final point just in terms of the definition of financial inclusion. This data is largely focused on households. We, in particular from IFC know, but also in the G-20 context, look at financial inclusion covering households and small businesses. There are about 400 million small businesses in the developing world, 300 million of which we estimate to be in the informal sector. And so there's no clear border between households and small businesses. Often it's very fluid so it's very important to be able to point to the data elements that really cut across and this year also there's a very important piece.

In the Los Cabos communiqué or declaration we hope that the Office of Financial Inclusion will be quite prominent. One of the elements that will indeed be signed off on by the leaders at that time will be the G-20 corset of financial inclusion indicators which will rely very heavily on the Findex data, but also other supply site data that is out there.

MR. KIMENYI: Thank you very much. I'll turn to Mr. Morris to focus on the U.S. role in terms of taking these recommendations and issues of financial inclusion to the G-20.

MR. MORRIS: Sure. Well, thank you for the invitation. And I want to establish at the outset that I don't count myself among the experts on this expert panel, but I can talk about how the Treasury Department is thinking about the financial inclusion agenda, and particularly in the context of the G-20. As you noted, it was in Pittsburgh almost three years ago that we introduced this under our chairmanship of the G-20 and agree and are particularly pleased with the way the Mexicans have carried it forward this year.

I do want to start by joining and acknowledging the work that's in this Findex database. And I have to say I spend a lot of my time, more than I care to frankly, working with our Congress to secure about $1.5 billion a year that we provide to The World Bank Group. And we make the case and measure success by the way we leverage that money through assistance on the ground, IDA grants, IBRD loans, IFC investments, but there's a whole other category of tremendously productive work that the bank does that really is represented in this and the knowledge products that the bank provides do represent a true global public good that without The World Bank Group in particular, we just wouldn't see the kind of progress we have seen on issues like this. So I don't want to lose the opportunity of a public forum to make that connection, particularly for U.S. actors, U.S. citizens in this audience and understand how those resources are used.

I don't think I need to revisit why this issue matters. It matters for us for the same reasons that we've heard. Certainly, at the household level for poor households financial inclusion is tremendously important in making economic progress. It matters that the economy -- at the country level, the economy wide level to make progress on this issue. So it is a compelling issue to us. It is why we prioritized it and introduced it three years ago in the G-20. I think it's worth nothing there are particular reasons why it seems to be compelling or has a lot of currency right now that should inform how we think about the agenda and how we're thinking about it in the G-20.

One is the technological innovation that is driving so much activity. So obviously, mobile banking, specifically, which in one large sense is making tremendous strides and progress in financial inclusion. It's also, I think, forcing us very quickly to grapple with issues of risk mitigation and also maximizing the development impact of the use of these technologies in furthering financial inclusion.

I also think, and again, thinking of the knowledge resource, there's been tremendous progress in the last few years in adding to our knowledge of this issue. Certainly the work of a database is among other sort of really landmark activities in helping us understand the financial activities of the poor in a way that we can actually bring to bear on policy and the private sector can bring to bear in its products and activities that will help us make progress.

So just very briefly in term of what our agenda looks like. So with the introduction of it in Pittsburgh and in the months and years that have followed, we have a workstream in the G-20 that relies on three subworking groups. I won't go into those in detail. I do want to say, because there are so many working groups and subworking groups across the landscape of the G-20, the financial inclusion agenda really from my perspective is one that really has gotten traction in the G-20 in a way that frankly perhaps some other areas have not. It's been my job at Treasury as well to manage the development working group agenda for Treasury in the USG participation. There are a lot of elements on that agenda, uneven progress, but financial inclusion, which has been both in that group and outside on its own track really has sort of found a good workstream and there's energy behind it I think among the G-20 members. So I think it's worth acknowledging that, that this really is a serious effort. A lot of work is going into it and I think we'll be sticking to it for quite some time.

In terms of thinking about the agenda, I don't want to go into details about what might be coming in the days ahead. That would only get me into trouble. But I think for us it's worth right now, even as we approach the summit this weekend, number one, recognizing that the Mexicans will continue to chair into the fall, so this is actually a period of time where we can be thinking about how to carry the agenda forward beyond whatever is said this weekend in terms of outcomes. And I think for us there are a couple of areas, and I'm not trying to be comprehensive here but I do want to highlight a couple that we're sort of grappling with as we think about and that's next steps and what this group can do.

First and foremost, it's worth recognizing it is a group of 20 governments and we have to think about what these governments can do when they get together on an issue like this. If you're looking at phenomena like mobile banking, you're instinct might be to say, well, the best thing they can do is get out of the way. But, you know, frankly, there's a lot more to it than that, particularly in defining government's role. As I mentioned earlier, there are risks associated with particularly the rapid expansion of these services and technologies being brought to bear for financial inclusion. And in areas like consumer protection, you know, safety and soundness issues, it's important to be serious about looking at how the regulatory regime applies and struggling with how to apply it to a new technology, these aren't easy issues. So I think it is particularly important that one of the main work areas of the U-20 is looking at the standard-setting bodies and trying to give direction to them about how they might look at this issue and come up with guidance that can be applied at the country level.

I think there's also again another kind of public good aspect to it that governments actually can play an enabling role on in helping the private sector expand, sort of basic elements of financial architecture that might be lacking in developing economies. Interoperability is one example of the kind of issue where governments themselves can play a role and I think the platform of the G-20 in providing best practice and guidance can be helpful in that regard. So those are just a few examples I think as we're thinking about the agenda going forward.

Before I stop I do want to take the opportunity to note because it so rarely happens, I had the opportunity last week on a project visit in Tanzania to look at a credit cooperative. It so rarely happens that my project visits align with an opportunity to talk about them. And you know, with the risk that you take a two hour visit and extrapolate some general principles but I'll do that anyway. So this was a rural credit cooperative. It was funded by EFAD, an international institution we give funding to. It was part of a network of cooperatives. About $20 million in funding from EFAD to establish these co-ops. And by its own standards it had done a very good job. You know, we met directly with the co-op members and heard how they had used the funds that they had accessed through the cooperative. A couple of instances of mothers sending -- paying their private school tuition, purchase of cows, purchase of a tractor. EFAD had done a good job of measuring outcomes from this project, actual demonstrated increase in incomes. But this was a co-op that on average did about a $300 loan per member. And it was sort of naturally limited in how far it could go and it was operating in a context again, a rural context, very hard to reach by the formal banking sector, didn't seem to see the introduction of these technologies yet and is in a country environment whereas I went back and looked from some of the IMF work, the financial sector is underdeveloped. So there is a lot of enabling work that needs to be done at the government-wide level.

I think the experience of talking to those folks on the ground, what I took back as a lesson is that the G-20 actually is doing important work here. It is very satisfying to put that direct money into something like a credit co-op you see very concretely on the ground how it's being used effectively, but there is broader work to be done and if you are that gentlemen that was able to buy one tractor but wanted to buy 10 and had no scope for doing so because there were no alternatives to the cooperative, it's important that the G-20 can help with governments like that in Tanzania and really make progress on some of the more systemic issues.

MR. KIMENYI: Thank you very much. Thank you all the panelists for the very useful comments.

We are going to open this to the floor, and I would like you to be very brief and specific. If you are going to make a comment, please be clear and don't, you know, sort of be to the point. And also speak clearly because everything is being taped, so make sure that you hold the microphone close. And I will take about three questions -- maybe three or four and then -- you can direct it to any panelist here, and then we'll open it up for the responses. Raise your hand and someone will give you a mike. Yeah. And introduce yourself, please.

SPEAKER: I'm Aviva, a Ph.D. student at American University. I think this Global Findex is extremely valuable for policy analysis. So I'm curious, because a lot of developing countries have highly uneven regional economics. So how do your samples capture geographical variants? Thank you.

MR. KIMENYI: Thank you. Any other -- we'll take a couple questions. Yes, the next one.

MS. KELLY: Hi, I'm Sonya Kelly from the Center for Financial Inclusion. I have a question about that number one -- this is for Leora and Asli and others if they want to comment -- that number one reason why someone didn't have an account because they didn't think they had enough money. And I was wondering if that would mean that, you know, if we increase economic development more people would get accounts; if we increased economic development across the board or if that's perhaps a perceived lack of money? Maybe it's poor product design or poor, I guess, financial capability and not knowing exactly what they can afford. And I think the others can speak to that as well. Thank you.

MR. KIMENYI: Anyone else? Okay, we'll take the gentleman right next to you, the gentleman over there.

SPEAKER: Hello. Thank you for the presentation. I'm (inaudible) America and we're very interested in the interaction between different financial services, such as credit and savings and insurance. So my question for the designers of the Findex, did you capture any data about households who were engaged in multiple services beyond one single service? Thank you.

MR. KIMENYI: Okay. Could we get some comments on the quick ones? I think most of the questions are on the index.

MS. DERMIRGÜÇ-KUNT: Okay. I will respond to some of the questions on the index and I may turn it over to Leora for some additional comments as well.

We pretty much covered the whole world, about 97 percent of the world population is covered and individual countries these are nationally representative coverage. So we piggyback on the World Poll, Gallup World Poll. So that's how we ensure such wide coverage of the whole world's population.

To address the question on what makes individuals not use these services, I think that's a very interesting question and that's one of the most important issues that we try to also looked at with this survey because it's not only interesting to see who uses what; you want to know why people don't use it so that you could design policies to improve and include -- expand inclusion. Indeed, when you ask 70,000 people who are not using financial services, you find that only about 30 percent of those say that they don't use these financial services because of poverty only. There are also many other reasons as Leora mentioned in her presentation. It can range from distance to the bank or the high cost of the services or documentation requirements. You know, if you don't have a wage slip or if you don't live in a place where you could show your domicile, proof of domicile, you may not be able to open an account in some countries. Or lack of trust. For example, in Europe, just after the crisis, clearly people don't seem to trust the financial sector enough to engage with it on a formal basis. Then again, religion can be an issue in a number of countries, actually in regions like MENA in South Asia, where there's a large Muslim population. Some of the products that are being offered do not necessarily meet their needs.

So in many ways, also some, for example, women tend to rely on other accounts or other individuals in the household who have accounts, so they don't necessarily want to have an account for themselves, whereas that is an empowerment issue and I think financial literacy may be called for. So there are many other factors that actually require policy attention and it would lead to a better design of products or financial literacy or just even improving the extent of competition in the financial system so that the banks themselves are better incentivized to reach and serve the underserved markets by reducing the cost of opening an account or cleaning up the documentation requirements and so on and so forth. So it's much more complicated and complex and the data provides a really rich source for us to be able to study some of these aspects in looking at, you know, cross correlations with the country characteristics as well as actual factual documentation requirements and so on and so forth we see in the different countries.

And of course, going forward, as we have more and more panel data sets, we will be able to investigate some of these correlations and see if there is any causality associated and whether there could be some policy interventions that may lead to greater interventions. I mean, improvements in the inclusion.

And I think the last question had to do with multiple services. Indeed, individuals that tend to use those services are more likely to use other services as well, but maybe Leora wants to talk a little bit more about those things.

MR. KIMENYI: Quickly, Leora. Anyone else related to this?

MR. STEIN: Just one additional point on the main reason for not having a formal bank account being not enough money. I think we do have to keep in mind that everyone uses financial services. Right? So it's not just -- it's just that it's not a bank account. And so I think that goes into a number of very interesting questions as Asli pointed out. Right? Many may be about perceptions of what banks are. Some are real. If you have to pay -- hold a minimum account balance of twice the GDP per capital as you can find in many African countries, that's obviously not conducive to inviting households to join bank accounts. And as you pointed out, there's something to be said about the real cost of financial services. But then it's also about the convenience and I think here the point that Scott made about financial services transforming the availability of how you can use financial services obviously has something to do with pickup as well. If you just look at M-PESA and Kenya, no one would have thought that you can go from zero to 17 million users in just a little over three and a half years.

MR. KIMENYI: Thank you very much. Let's take another round of questions. We have the gentleman over here. This lady.

SPEAKER: Thank you. My name is Madeline Wager and I'm a senior at the University of Michigan actually. And I was wondering. You guys spoke to this improving of offering financial services to protecting the economic vulnerability of the poorest populations. But I was wondering if you could speak to the level that these populations will then become integrated into the global economy and if being exposed to that volatility actually does expose them to some vulnerability. Thank you.

MR. KIMENYI: Interesting. Coming from a senior it's very advanced.

SPEAKER: It's very intimidating. (Inaudible) Citigroup.

I wonder to the two gentlemen in the middle of you could talk about the continuity and the passing of the baton from the chairmanship of the G-20 from one year to the next. And we know Russia is going to be taking it on and then, I think, beyond that I can't remember the list of countries. But how do we ensure what all this tremendous progress that's been made that was started in Pittsburgh that's being made again in Mexico continues two to three to four years from now? The Findex is wonderful now but it's going to be wonderful for several years from now.

MR. KIMENYI: Excellent. Gentleman in the back, please.

SPEAKER: I'm (inaudible) student at George Mason.

I was wondering given the mistrust in the banking sector, do you see a role for post offices in plugging in the gap in the developing countries particularly? Thank you.

MR. KIMENYI: Could you repeat? Role for post offices?

SPEAKER: Post offices. Yeah, in terms of (inaudible).

MR. KIMENYI: Very good. One more question? Okay, why don't we -- do you want to take those? Anyone? Let's start from the end.

MS. DEAN: Maybe I can touch on yours just briefly. Not that I'm an expert in this at all, but I think India is a perfect example of how vulnerable things become when you have too much money in a country and too much lending that occurs. And then the downside to what happens when over-indebtedness causes a ripple effect in these individuals' lives. And then the regulatory environment that gets overlaid on top of that to try to stop the work or some of the stuff that's happened in the microfinance industry in India context. So what ended up happening there is you had people that were over-indebted because there was too much funds to be available. Regulatory agents came in and stopped funding all together and would not allow banks to fund the microfinance institutions. So the microfinance institutions that were actually doing well in servicing their clients properly and focused on how they were working with their clients also suffered because they, too, couldn't get access to capital.

So you're right in that it actually -- we have to be very careful when you're working with the vulnerable poor and the impact that it can have when you end up bringing them into a global economy like this and some of the devastation that's happened in India I think is a perfect example. So you have to make sure you can weigh the two.

MR. KIMENYI: Great. I'd like to hear about this continuity issue. Will the agenda die when (inaudible) takes it over?

MR. MORRIS: Well, I'm not going to answer that question.

You know, I guess the glib answer is there's a paper trail on all of this so it's not like you start with a clean slate with each chair. And you have the same actors showing up every time and each of these issues has its own advocate or set of advocates within the G-20. I guess I would say by way of U.S. commitment here, there's a very important agenda item to us and we will work hard to make sure that it stays on the agenda. But frankly, I don't worry about it falling off.

In the larger sense of, again, the G-20's development agenda, frankly, there's more of the challenge of too many items staying on the agenda, which gets in the way of focusing on the issues where there clearly is a consensus as in financial inclusion that it's a priority. I think it's also the case that the work that's been done in three years, as I said, has gotten real traction. I think there are different models for what the G-20 can do in the development sphere. One thing that it was not going to do primarily or even secondarily was to be a pledging forum. There's a little bit of that in very narrow areas but that's not the approach generally on development. As a result, you have to shift to more difficult kinds of activities, policy dialogue. But one of the things that the G-20 can do, I think effectively, that's being demonstrated with financial inclusion, is recognize that this group of countries is a powerful voice in various other international bodies and use this forum to help drive agendas again with whether it's standard setting bodies, whether it's with The World Bank in its programming, the regional development banks. And I think that's what we're seeing with financial inclusion. I think this agenda is secure and we'll continue to work on a very actively.

MR. KIMENYI: Stein.

MR. STEIN: I would echo this as well. I think having worked before engaging with the G-20 on this topic with the G-8 on the remittances agenda, I felt that the level of commitment and continuity from the start of the Pittsburgh Summit and carrying this through from summit to summit has been a lot more intense and genuine than not just making a statement and moving onto the next agenda. And I think with the launch of the global partnership for financial inclusion that was put out there in Seoul, I think that was also a commitment to making that a premier forum to carry this through. Obviously, each chair of the G-20 has to find their respective ways of what they want to put on the agenda, but Russia were the ones who put financial education first on the G-8 agenda, very engaged in this, so I think there's some interest. And then Australia, which will be taking this on in 2014, has historically been quite engaged in this topic as well. So I'm not too concerned, but obviously I don't know whether (inaudible). You never know how things go and how the world develops.

MR. KADER: I think part of the answer, part of the response to your question about whether financial inclusion and including lower income households and informal enterprises and access to formal financial services also brings with it vulnerability to the weaknesses in the financial system. I think part of the response is that technology and access and lowered cost and the other factors that go into the inclusion agenda are not a substitute for effective oversight and regulation and sound practices, both by participants and by policymakers and regulators. And one simple example of that that everyone is wrestling with today is the absence in much of the world of deposit insurance, including in Western Europe, which is by all measures, at least traditionally, a developed part of the global economy. Because deposit insurance -- we learned this in the U.S. financial crisis a few years ago when the levels of deposit insurance had to be increased -- deposit insurance is there for emergencies but it’s also there to give people confidence that their deposits will be secure even if the probability of ever having to rely on it is low. Because in the absence of that confidence, it doesn’t take much to raise anxiety and therefore, raise classic runs on the bank when people line up to take their deposits out. You see a little of that risk -- you see some of that risk in Europe now. You could easily see more and that’s why increasingly in recent weeks there have been discussions of plans at the European level to introduce some form of deposit insurance. And to me that’s just one example of the kind of effective and sound policies and regulatory initiatives that every country in the world as they go through seeking the advantages of financial inclusion are going to have to wrestle with these policy and regulatory challenges as well.

MR. KIMENYI: Leora.

MS. KLAPPER: Thank you. So the questions actually raised three really interesting findings in the data. So first, in regard to the question of whether financial inclusion is just organic with financial development, they just seem to suggest that that’s not the case. So on the one hand we do certainly find that financial inclusion is higher in countries with higher economic and financial development, but we also find that among middle income and low income countries the relationship breaks down. So to give an example of about $2,000 USD per capital income, we see range from 4 percent financial inclusion to over 60 percent financial inclusion. And that's really where the policies that (inaudible) refer to kick in. And so there very much is a role for policy, particularly in regard to costs and documentation.

Second, you asked about multiple products. Interestingly, we find that although the percentage of banks is up, in fact, 50 percent of the world formally banked. We find the use of other products much smaller. So, for example, as I showed, less than half of those with an account in developing countries use their account to save. And not only that, we find a sizeable percentage -- I think it was 12 percent -- actually save only in other informal ways. And we refer to this as the under-banked. So those that have an account but choose to save only in formally and riskier ways. And this is again a market segment to better understand why they're making these choices.

Third, the post office. So we actually, The World Bank has done a lot of work on this topic, particularly in South Asia. Our first question actually is explicitly part A, do you have an account with a bank, credit cooperative, credit union, et cetera? B, a post office? And so in any country that has a post office savings bank, we actually split the question and that data will be made publicly available with the micro data in the fall. Interestingly, we do find on average there are about 2 percent of adults around the world only have an account with a post office but that number is much higher in some developing countries. It is also the case that it appears that the post office is hooking in the poorer and those in more rural areas.

I think this suggests the interesting challenge going forward is how to encourage the post office to partner as agents with formal banks, insurance companies, saving institutions, and not try to take on the risk management themselves. Thanks.

MR. KIMENYI: Thank you very much. We can take like two more questions. Three. Then I'll have the panelists make final comments. Maybe two or three questions. In the bank, then in front here, and another one. The gentleman. Yeah.

SPEAKER: (Inaudible) from Innovations for Poverty Action.

It was actually a question for the Findex team. If you had 10 more questions, what would you have focused on?

MR. KIMENYI: Right at the back.

MR. COWAN: Hi. My name is Nicholas Cowan. I'm a recent college graduate.

The question I have that I guess immediately comes to mind is that when -- if we were trying to include poor people and give poor people access to financial inclusion, is there a risk for sort of oversaturation of certain markets and that when a poor person takes out a loan the loan is very small itself so there might be a lot of this similar kind of business or types of businesses that poor people are investing in? Could that perhaps be detrimental?

And also, how does that work when not everyone taking a loan might be entrepreneurial or might have an entrepreneurial adventure in mind?

MR. KIMENYI: Okay. One more question. Anyone? Okay. All right. So I'll have the entire team make comments and I'll start with Asli and then Leora.

SPEAKER: Start by asking that the whole panel answer the first question could be quite helpful going forward.

MR. KIMENYI: What's that?

SPEAKER: I invite the whole panel to respond to the first question.

MR. KIMENYI: To get your 10 additional questions. Okay.

MS. DERMIRGÜÇ-KUNT: All right. Let me first take the question at the back. Basically, when we talk about access and expanding financial inclusion, often we get this question, well, what about stability? So it's very important to stress that we're talking about expanding inclusion in a sustainable way. And it's also important to sort of understand that we're not only thinking about use of credit, which is where most of the time this instability issue comes in. We're talking about many other instruments, you know, having account, savings, and payments, which is a very important way for individuals to feel part of the financial system. It's the first sort of point of entry. And having a secure place for savings is very important and these things have relatively little sort of risk associated with the volatilabilities and leading to instability. Of course, you know, consumer protection and other issues are incredibly important, but somehow I think focusing on the stability issues almost immediately when we talk about inclusion distorts the picture a little bit.

In terms of what we would have liked to ask if we had more questions, I think one of the things, the discussions we had with the Gates Foundation and Gallup World Poll is we, of course, wanted to understand much better why individuals are not using financial services and which groups are not using financial services, and how we could expand inclusion if we understood better the reasons. So we managed to put in one question, but we would like to sort of -- I certainly would like to drill down much more in those questions to be able to understand ways of explaining inclusion. Thank you.

MR. KIMENYI: Thank you. Mr. Morris.

MR. MORRIS: Just briefly to the question on oversaturation on financial service and then I will add one question also on my list. So clearly that's a risk when it comes to loans. I mean, we've seen over-indebtedness and crisis in Andhra Pradesh, Bosnia, Bolivia, Morocco, and the list goes on. And obviously, that is something that's very much on the mind of the industry and not just of the microfinance industry but also of mainstream financial services. And as Lou pointed out, the provision of financial services in a responsible manner is clearly something that's not just on the minds of financial institutions in developing countries but also in developed countries. And that does not only relate to loans, what is very obvious, but if you look, for example, at international remittances where we focused for some time to bring the cost down, but the average cost to send international remittances is still around 9 percent. Well, 9 percent of $200, you know, for someone will realize this is a lot of money. But the outliers are particularly scary. So the highest parts are 40 cents on every dollar sent that is being charged as a fee and that obviously goes a little bit -- that's a little bit excessive as well and it comes to responsible financial services.

Now, when it comes to the additional question that I would ask, I hope I don't identify myself as not having read all the questions, but I would be particularly interested to see whether any household is using financials services for business needs. So, to be able to see what is this link between household finance and small business finance in particular.

MR. KIMENYI: Thank you. Debra.

MS. DEAN: It's not fair because he took my question so I've got to think of a second one here. But I think one of the things that we know, and Leora talked about it, is the 38 or 37 percent of women that have accounts versus men. And so we know that women are typically not financially, you know, are not as likely to be financially included. And so I would really want to understand a lot more in-depth understanding of why, you know, what are some of the barriers to women specifically. Is it education? Is it, you know, so is it therefore then literacy? Is it culture? What is it that's driving the behaviors of individual women to make decisions about whether they open an account or whether they prefer their husband, if they're married, to open an account?

MR. KIMENYI: Lewis? Okay. Leora? Do you want to conclude? Okay. Thank you very much. I think this has been very lively. Let's give our panelists a hand. Thank you very much.

(Applause)

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