Rural Financial Inclusion & Poverty Eradication: Challenges and Gaps

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Note to the reader

This paper aims to provoke discussion and knowledge sharing at the February 2019 Expert Group Meeting on Eradicating Rural Poverty to Implement the 2030 Agenda for Sustainable Development in Addis Ababa, Ethiopia. I prepared it at the request of the United Nations Department of Economic and Social Affairs, Division for Inclusive Social Development to accompany an in-person presentation. This work provides a landscape summary of salient discourse in the topic at hand but does not constitute new research or unifying theory. The perspectives provided are my own and represent the position of no institution, unless otherwise attributed.

~A. R. Hansen, Feb 15, 2019 Hudson, New York

Introduction

"Full financial inclusion by 2020 is our generation's equivalent of putting a man on the moon. Just as space flight and research transformed science, telecommunications, transportation, and more, I believe financial inclusion has the potential to be just as transformative."

— Ajay Banga, President and CEO, MasterCard[i]

As the year 2020 enters our line of sight, the topic of financial inclusion and the commitments made to it are pertinent. Equally pertinent and perhaps more possible to achieve are the commitments made to the 2030 Agenda for Sustainable Development. This paper offers practitioner's perspective on progress toward these agendas, leveraging my personal experience working in and adjacent to the topic of financial inclusion as an international development strategist with a focus on agriculture and food security. As my expertise is derived from my work, and my work has primary taken place on the African continent, the focus of this paper is Africa, though it is hoped that some insights contained are relevant globally and to the UN ECOSOC preparations for the seventy-fourth session of the United Nations General Assembly in September 2019.

Definitions and Goals

The multiple facets of Inclusion

According to the World Bank, financial inclusion means that "individuals and businesses have access to useful and affordable financial products and services that meet their needs – transactions, payments, savings, credit and insurance – delivered in a responsible and sustainable way.[ii]"

Discussions aiming to define the universe of discourse for financial inclusion are broadening to allow for measures and classifications of inclusion that go beyond access as the determinant of a binary assessment that results in individuals and business simply being in included or not. Most recognize the need for a richer definition; such definitions generally include reference to access, usage and quality about financial services, as illustrated in below.

1. ACCESS	Availability of formal, regulated financial services: Physical proximity Affordability
2. USAGE	Actual usage of financial services and products: Regularity Frequency Duration of time used
3. QUALITY	Products are well tailored to client needs Appropriate segmentation to develop products for all income levels

While the elements of inclusion relating to access, usage and quality as well as other material considerations are certainly worth an extended debate, in the interest of brevity, let us turn our attention to stated aspirations for the realization of these characteristics in the lives of people.

BHAG: The Development Community's Big Hairy Audacious Goals for Financial Inclusion

In 2013, The World Bank and a multisectoral group of stakeholders announced ambitions "to provide universal financial access to all working-age adults by 2020.[iii]" While the Center for Financial Inclusion at Accion has led a great deal of dialogue on the importance of this goal as a unifying agent, there has long been concern among experts of the viability of the goal.

Let me state up front that it has never been my expectation that we would reach full financial inclusion by 2020.
~ Greta Bull, CEO CGAP

Whether or not the 2020 goal of full financial inclusion was a viable one at the outset, it is commonly believed to be true that financial inclusion will be a critical enabler of several the Sustainable Development Goals. It is not surprising then that, from the perspective of the international development community, financial inclusion has become a meaningful investment line item for public and private investors alike.

A 2019 CGAP report building off the results of a survey of funders of financial inclusion highlights positive trends in overall investment. CGAP analysis suggests that funders committed $42B to financial inclusion in 2017, with public funding exceeding private for the first time in five years[iv]. Two interesting examples of investment in financial inclusion by seemingly non-aligned institutions will be discussed in the presentation, namely:

- financial inclusion as the central theme of **MasterCard's corporate strategy**; the credit card giant is leading with ID programs in Nigeria and South Africa[v]
- financial inclusion as a major component of the **body of work conducted by International Livestock Research Institute** (ILRI); the publicly funded research center is innovating in index-based risk mitigation in Ethiopia[vi]

While MasterCard and ILRI might seem like odd bedfellows, their shared interest in the advancement of financial inclusion, especially for Africa's poorest and most vulnerable, is notable. Few development priorities have similar cross-sectoral appeal and this feature of financial inclusion could be one of its greatest assets.

Rural Realities in Financial Inclusion

The rural dimension of poverty heightens its intractability; tools such as technology are necessary but unfortunately insufficient to overcome it. Basic considerations such as distance from a bank is a commonly cited barrier to basic financial inclusion – measured as simply in this instance as having a deposit account – for adults living in rural areas.[vii] When it comes to inclusion in more complex credit markets, the financing gap is most acute in rural areas. It is also acute among women, who benefit from only 10% of the credit to small farmers and less than 1% of total credit to agriculture.[viii]

Most Africa's rural poor are smallholder farmers. These farmers live in a risky world. As a result, they place a high value on support that offers them flexibility, familiarity and tangibility to ensure that they can use their own preferred strategies to increase their resilience. Designing appropriate financial services for clients with these types of priorities coupled with a low ability to pay can make sustainable business models illusive.

While this may present a challenge to financial services providers, a growing body of research proves that it is worth it, at least to the those that are newly included in the financial system.

Evidence suggests that when poor people – even those in rural areas - have better tools to manage their money, their income and consumption improve. The following two vignettes from CGAP are offered for consideration in this regard.

- **Kenya:** women-headed households with access to mobile money services increased their savings by more than 20 percent.
- **Malawi:** farmers with earnings deposited into a savings account spent 13 percent more on farm equipment and their crop values rose by 15 percent.

Financial inclusion is a key enabler for reducing poverty and for achieving the rest of the United Nations' Sustainable Development Goals including improved education, better health, food security, access to clean water in rural areas.

Recent Perspectives

In the 2013 book *Financial Inclusion in Africa*, published by the African Development Bank, I contributed a chapter taking stock of financial inclusion for rural areas and agriculture in Africa. My contributions included predictions that new models based on value chain funding and technology would have a transformative role in expanding financial inclusion for agriculture and rural areas in Africa. These predictions, though by no means prophetic, seem to be coming to pass. A favorite example of value chain funding is the Farm to Market Alliance (FtMA), highlighted blow.

> ***FtMA is a public-private sector consortium*** *of eight Agri-focused organizations formed to make markets work better for farmers. FtMA empowers smallholders to become reliable market players through access to four integrated pathways: (p)redictable markets, (a)ffordable finance, (t)echnologies and quality inputs, and (h)andling and storage solutions. Source: World Food Programme*

Additionally, there is a great deal of interest and enthusiasm for technology enabled financial services (now loosely referred to in the industry as fintech), however there are also a great number of concerns for how the realities of rural life will interact with the expectations of a radical fintech-driven transformation. More on this topic will follow.

My 2013 policy recommendations and proposed actions included the need to institute protection for farmers by securing their land tenure, develop pilot buyer and food company-led value chain efforts, build transparent pricing platforms, and strengthen large-scale cooperatives. The above mentioned FtMA is also a fine example of these efforts, and the Land Policy Initiative, called out below, rounds out the notable action in this area.

***The Land Policy Initiative** is a joint programme of the tripartite consortium consisting of the African Union Commission (AUC), the African Development Bank (AfDB) and United Nations Economic Commission for Africa (ECA). Its purpose is to enable the use of land to lend impetus to the process of African development.*

Present and Forward-Looking Perspectives

As previously mentioned, there is a great deal of interest in the potential of fintech to "solve the problem" of financial inclusion. The reality is, most of the world's poor still depend on cash. Fintech has yet to provide a transparent, scalable and resilient bridge to connect the digital world with its cash analog. In a recent essay, CGAP's CEO warned "Beware the hype of the fintech revolution; it could lead us to forget about the needs of the poor in pursuit of innovation or shiny technology.[ix]"

Complex challenges such as those facing the rural poor cannot be addressed by a single technology, actor or coalition. A critical mass of decision makers across the financial system as well as in adjacent systems such as the food system need to skill-up on and utilize more collaborative approaches to problem solving. Two such approaches are proposed for further consideration and elaborated upon in the presentation:

- **Futures Foresight:** This brand of research "applies scientific rigor, artful skill, and practical imagination to predict, forecast or anticipate possible futures.x" Foresight methods include economic projections, complex systems modeling, scenario building exercises, participatory workshops, and other approaches.
- **Systems Thinking:** This approach focuses on identifying and strategizing around sets of elements that are coherently organized and interconnected in a structure that produces a characteristic set of behaviors, often classified as a function or a purpose.[xi]

[i] Source: https://www.linkedin.com/pulse/20131112154659-283931055-financial-inclusion-by-2020-our-generation-s-equivalent-of-putting-a-man-on-the-moon/ accessed February 2019.

[ii] Source: http://www.worldbank.org/en/topic/financialinclusion/overview accessed February 14, 2019.

[iii] Source: http://www.worldbank.org/en/news/speech/2013/10/11/world-bank-group-president-jim-yong-kim-speech-annual-meetings-plenary accessed February 2019.

[iv] Source: https://www.cgap.org/research/publication/2017-trends-international-funding-financial-inclusion accessed February 2019

[v] Gupta, Sunil, Rajiv Lal, and Natalie Kindred. "MasterCard: Driving Financial Inclusion." Harvard Business School Case 515-035, October 2014. (Revised June 2016.)

[vi] Source: https://ibli.ilri.org/2018/07/24/its-all-systems-go-for-the-scaling-up-of-index-based-livestock-insurance-in-ethiopia/ accessed February 2019

[viivii] Triki, T., & Faye, I. (2013). Financial inclusion in Africa. Tunisia: African Development Bank.

[viii] Ibid.

[ix] Source: https://www.cgap.org/blog/great-expectations-fintech-and-poor accessed Feb 2019.

[x] Source: http://www.bioethicsinstitute.org/globalfoodethics/ethics-politics-knowledge-and-our-planets-food-futures accessed Feb 2019.

[xi] Meadows, Donella H. (2009). Thinking in systems: a primer. London; Sterling, VA: Earthscan.