

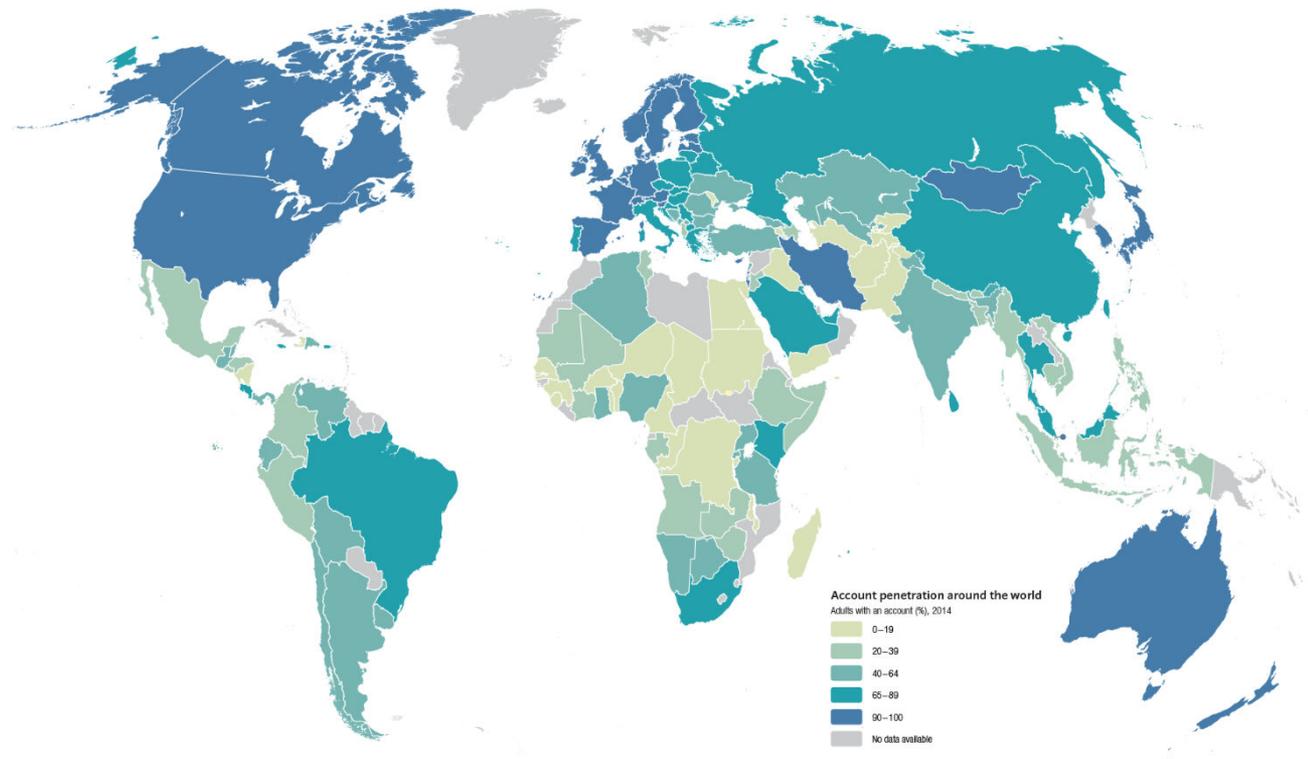
# The Role of Financial Inclusion and Financial Literacy for Development

Leora Klapper

Lead Economist  
Development Economics Research Group  
The World Bank

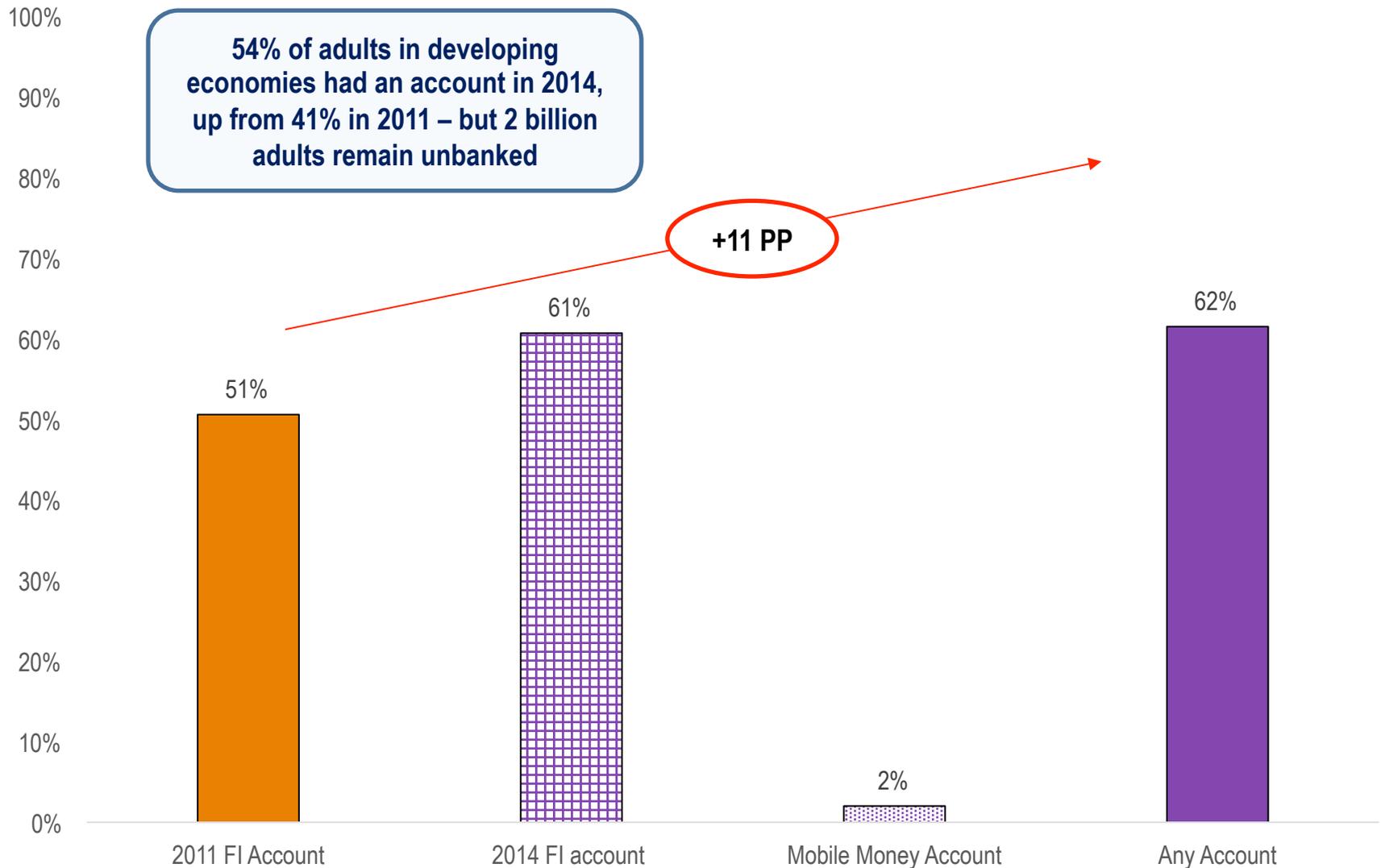


# The World Bank's Global Findex Database



*In 2014, the World Bank – with funding from the Bill & Melinda Gates Foundation and in partnership with Gallup, Inc. – updated and expanded the Global Findex dataset, an unprecedented study of financial inclusion based on interviews with almost 150,000 adults in over 140 economies worldwide.*

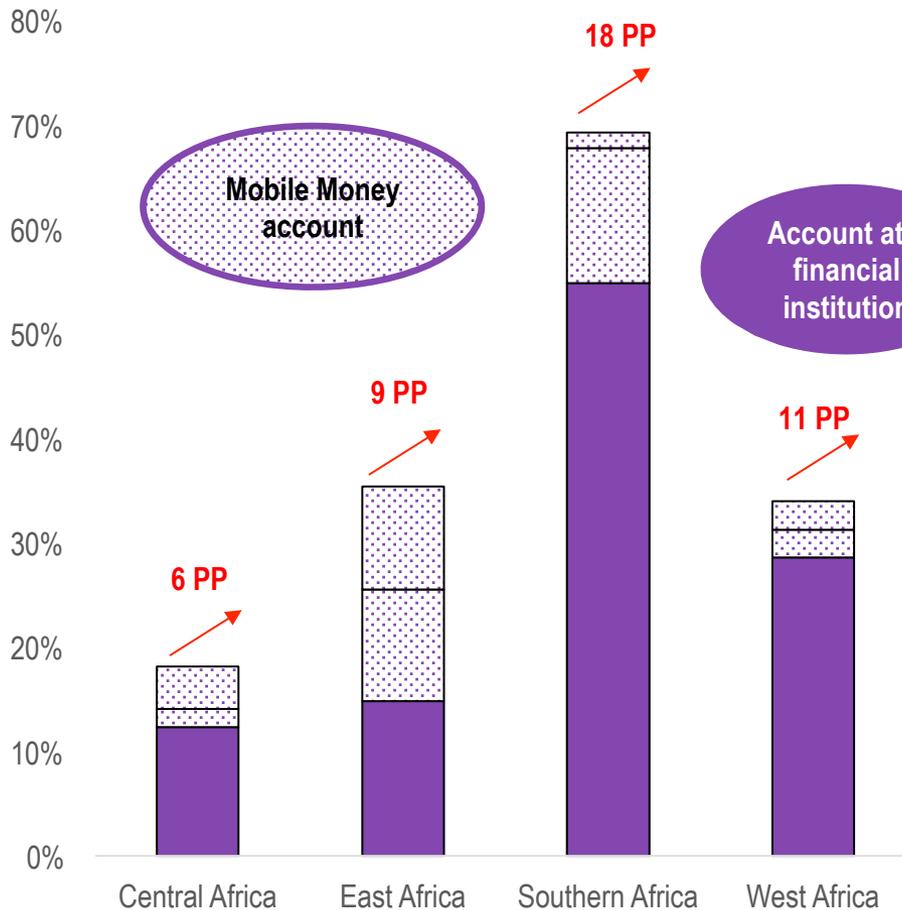
# Financial Inclusion is Increasing Globally



# Account Ownership in SSA

## Financial Inclusion

Total Percentage of Adults



In Sub-Saharan Africa, 12% of adults (64 million adults) have mobile accounts (compared to just 2% worldwide); 45% of them (28 million) have only a mobile account

While just one percent of adults globally say they use a mobile account and nothing else, an estimated 10 percent of adults in East Africa report using only a mobile account

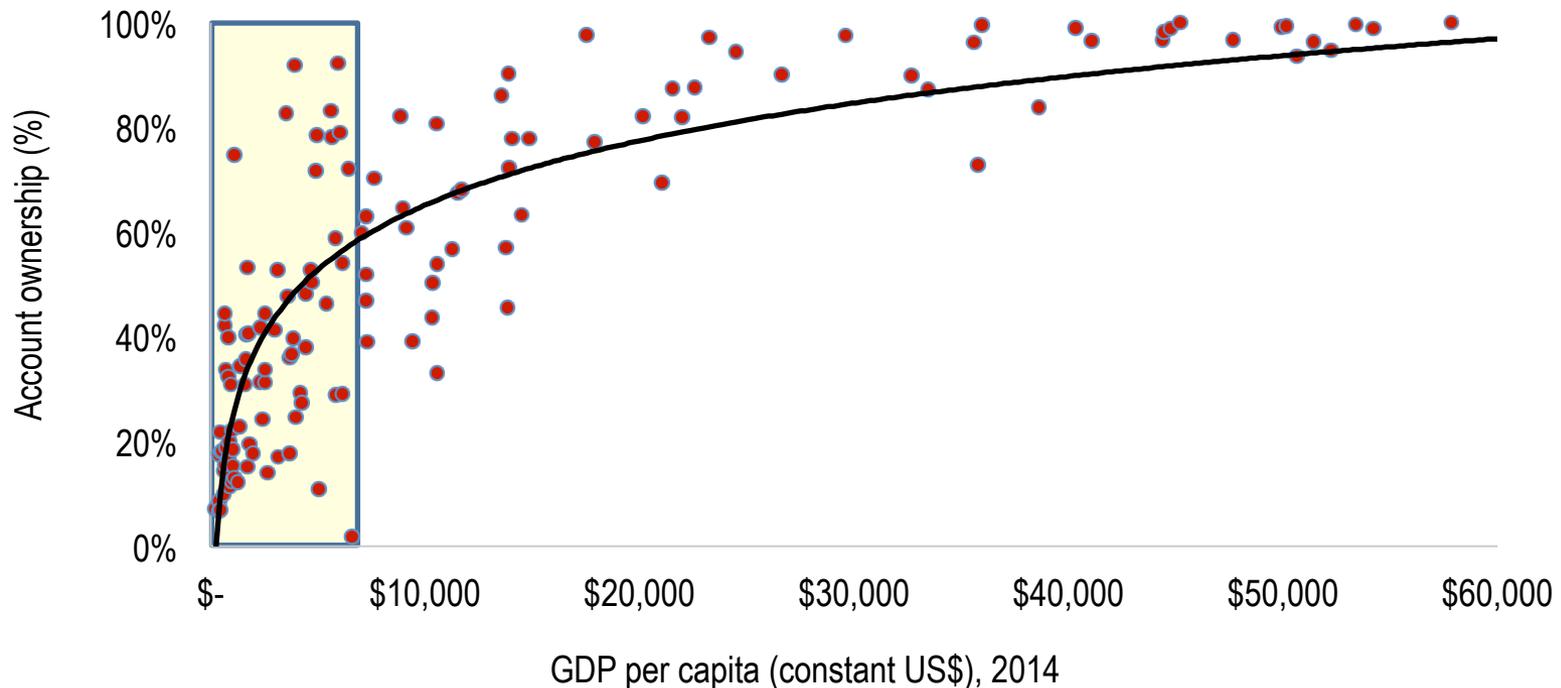
\*Note: The change in account ownership from 2011 to 2014 is shown in red above each bar.

# How Can Financial Inclusion Raise Income?

- Financial inclusion means that households have access and can effectively use appropriate financial services. Such services must be provided responsibly and sustainably in a well regulated environment
- Financial inclusion can help reduce poverty in two ways:
  - Helping poor people climb out of poverty by making it possible to invest in education and business—and small enterprises pursue promising growth opportunities
  - Providing ways to survive economic disasters like unemployment, drought/floods, or the loss of a breadwinner, financial inclusion also prevents people from falling into poverty in the first place
- *For example,*
  - *In India, an effort to set up accounts for rural farmers reduced the rate of rural poverty between 14-17 percentage points* (Burgess and Pande, 2005)
  - *In Niger, digital payments for agricultural wages resulted in time savings that were equivalent to a cash amount large enough to feed a family of five for a day* (Aker, et al., 2015)

# Economic Activity and Financial Inclusion

## Account Ownership and GDP Per Capita

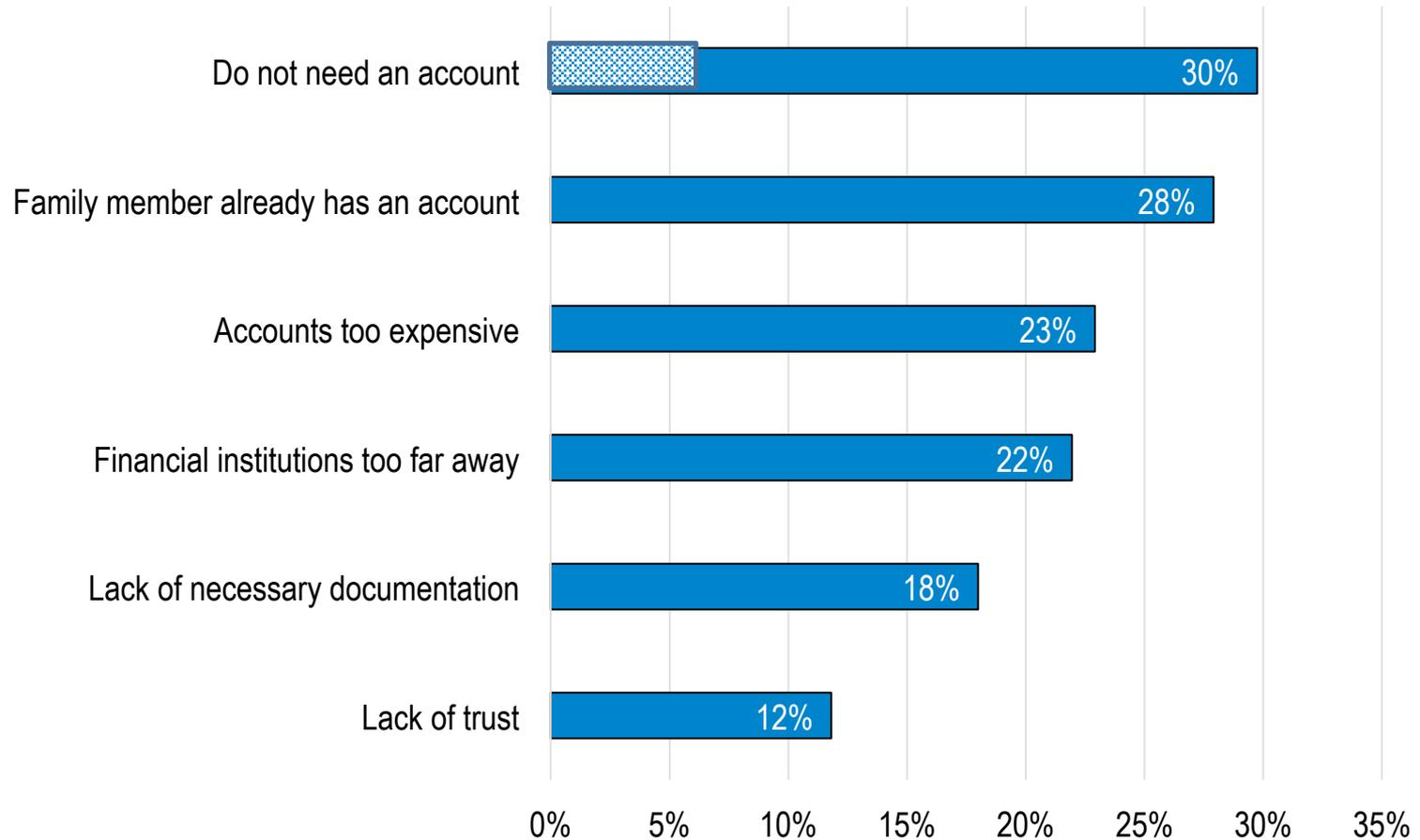


- What country-level factors explain the wide variations in account ownership across emerging economies?
  - *Differences in the legal, regulatory, and tax environment {financial & telecom}*
- Impact of reforms, such as new laws/regulations permitting agents, mobile money accounts (/technology), and tiered KYC

# Barriers to Account Ownership Around the World

## Barriers to Account Ownership

Total Percentage of Adults



# How Can Financial Inclusion Help Women?

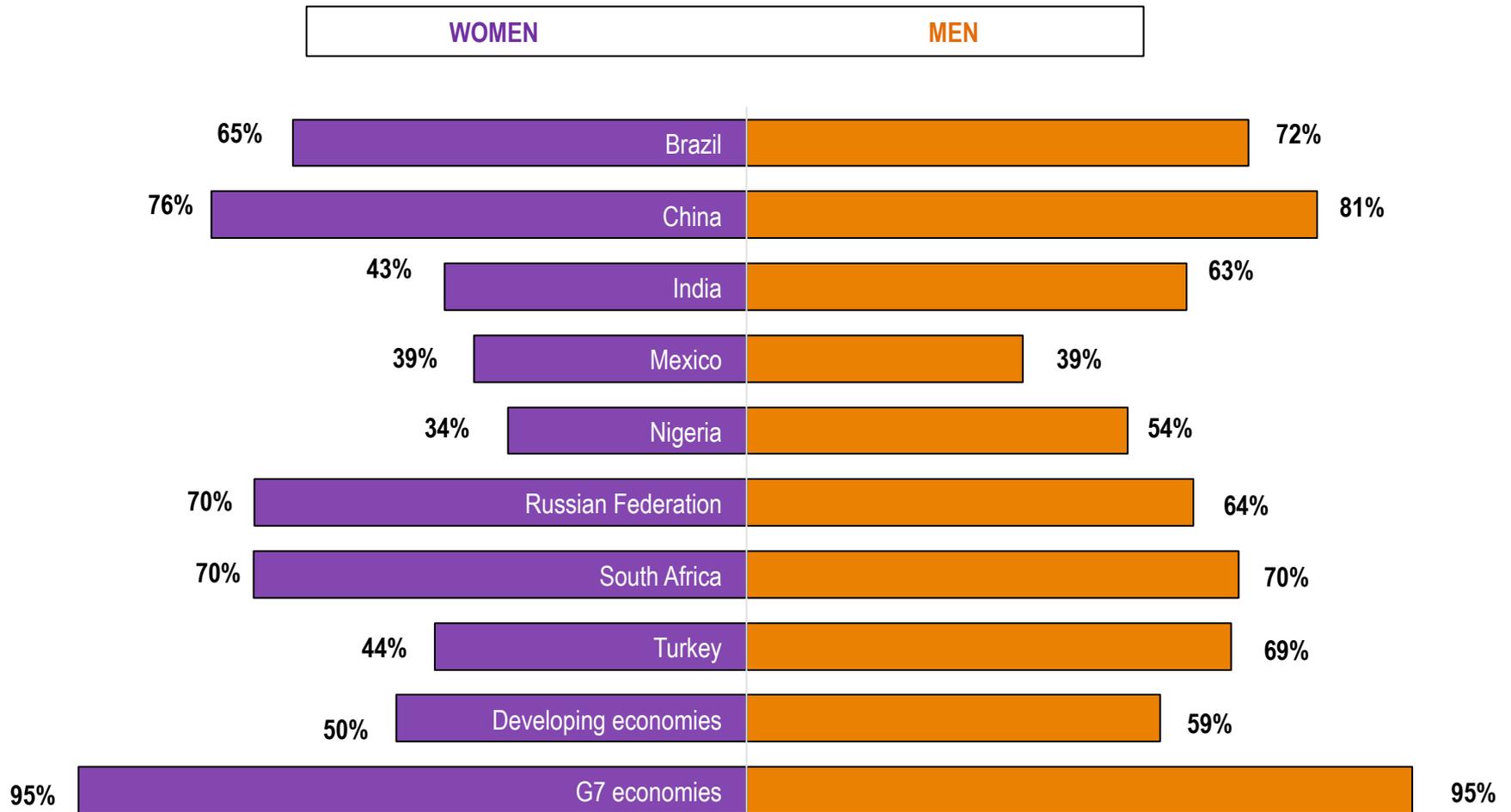
Financial services help women shape household spending decisions, make investments, and manage economic risk.

- *Access to insurance helped women farmers in Burkina Faso and Senegal **increase yields and better manage food security** (Delavallade et al., 2015)*
- *In Niger, mobile cash transfers strengthened women's bargaining power, **boosted spending on nutritious foods**, and allowed women to spend more time on productive tasks by reducing the need to travel to receive cash payments (Aker et al., 2015)*
- *Women in the Philippines who used a savings account reported **greater influence over household decisions** and increased spending on items they needed, such as washing machines and kitchen appliances (Ashraf et al., 2010)*
- *In Kenya, women merchants who received a basic account **invested more in their businesses**; they also spent 13% more on food and 38% more on private expenses (Dupas and Robinson, 2013)*
- *Women-headed households in Nepal spent 20% **more on education** and 15% more on meat and fish after receiving a savings account (Prina, 2015)*

# Challenges: Gender Gaps

## Account ownership

Total percentage of adults



# How Can Digital Payments Help Raise Income?

Digital payments can facilitate wage, transfer and remittance payments and has the potential to increase income by allowing households to smooth consumption and accumulate savings

- ***Provides a first entry point into the formal financial system; Encourages savings; Builds transaction history which can improve credit access*** (Allen et al., 2013; Li et al., 2014; Aportela, 1999; Prina, 2012; Masino and Nino-Zarazua, 2014; Batista and Vicente, 2013)
- ***Increasing the security, privacy and control over the funds received*** (Docquier, Lowell and Marfouk, 2009; Dupas and Robinson, 2009; Morawczynski and Pickens, 2009; Duflo, 2012)
- ***Increased security of payments and lower associated crime*** (McKenzie and Yang, 2014; Ashraf, et al., 2014; Wright et al., 2014)
- ***Lower cost and time to send and receive payments*** (Aker et al., 2013; CGAP, 2011b; Babatz, 2013; Lindert, et al., 2007)
- ***More transparency and thus lower leakage between sender and receiver*** (Muralidharan et al., 2014)
- ***Helps people meet unanticipated expenses*** (Jack and Suri, 2011; Blumenstock et al., 2012)

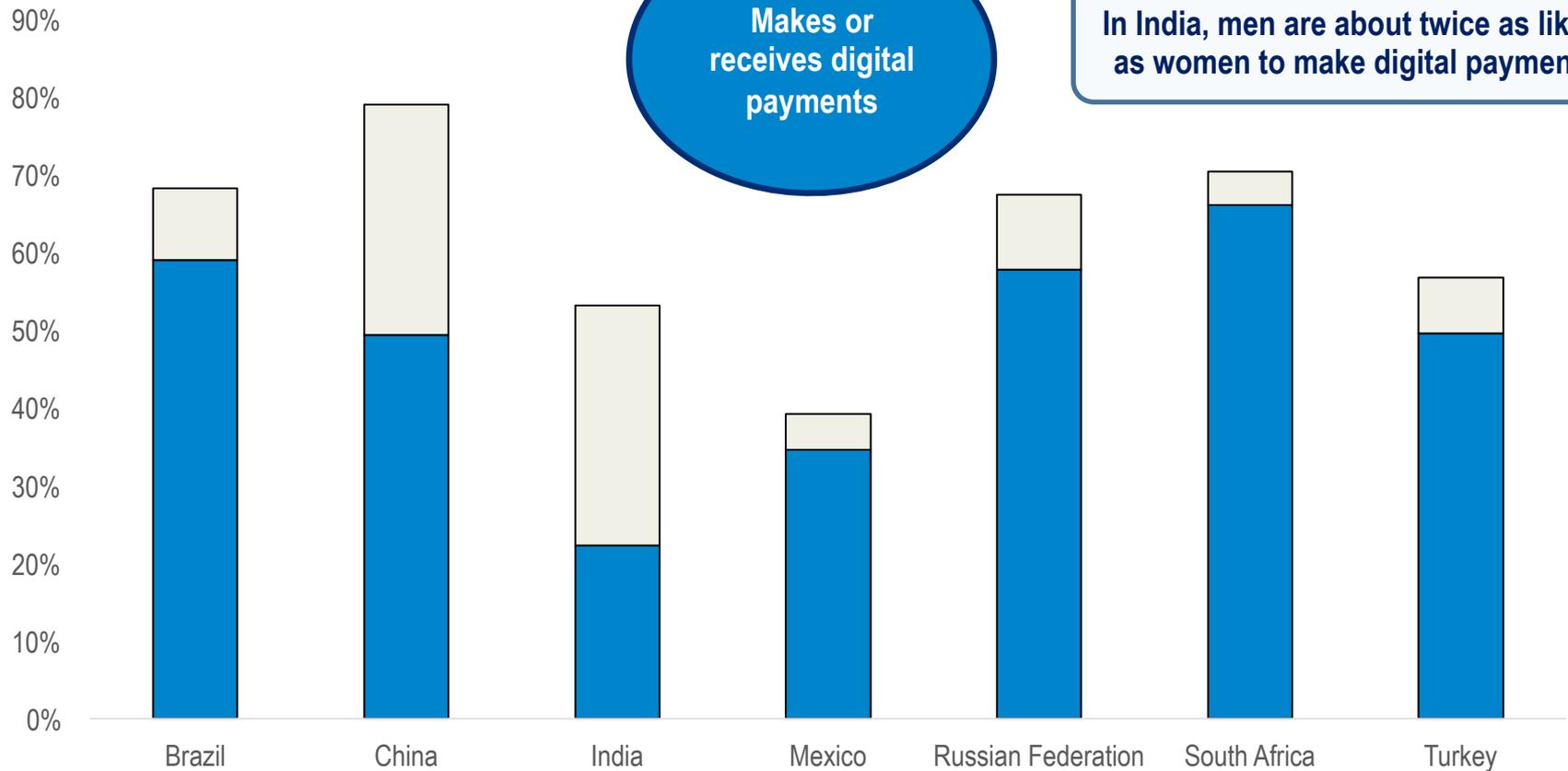
# Digital Payments via Accounts

Two-thirds of adults in South Africa use digital payments

In China and South Africa wealthier adults are more than 20 percentage points more likely than poorer adults to make digital payments

Makes or receives digital payments

In India, men are about twice as likely as women to make digital payments

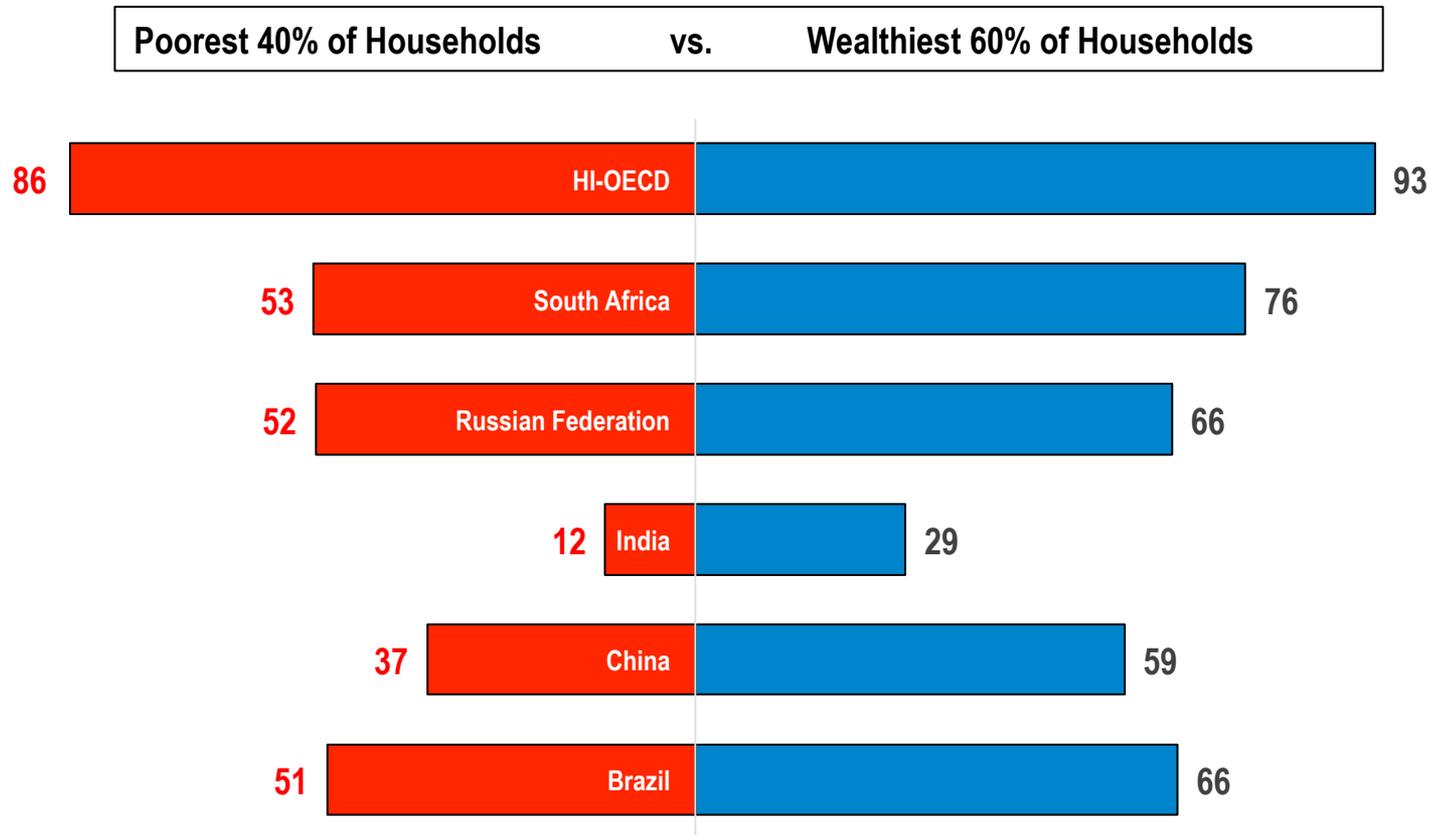


Note: The height of the bar is the percentage of adults with an account.

# Digital Payments via Accounts: Income Gap

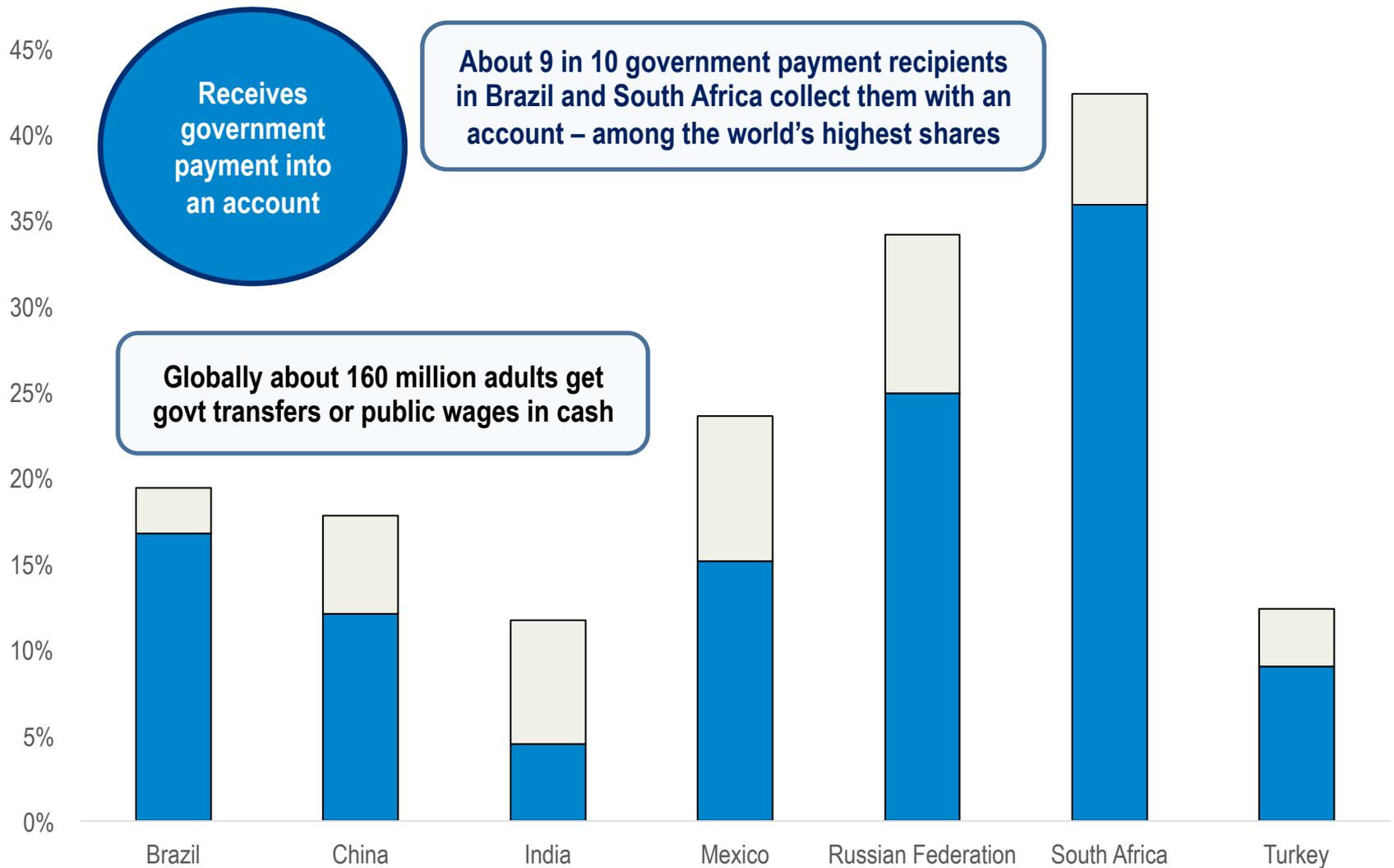
## Digital Payments, by Household Income

Total Percentage of Adults



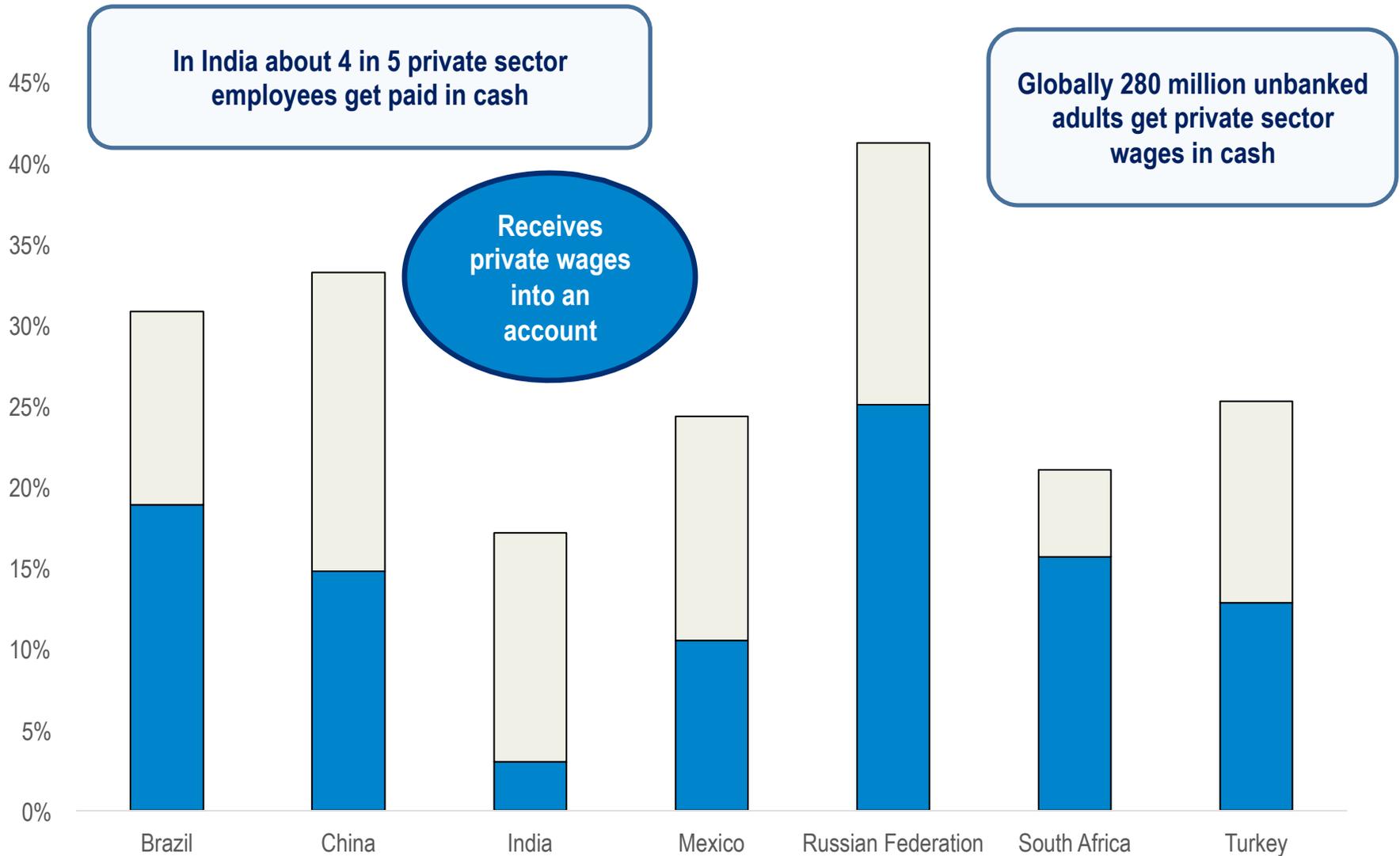
Note: Red bars show percentage of adults that use an account to make or receive a digital payment in the poorest 40% of households compared to the richest 60% of households, as measured by household income.

# Receiving Government Transfers or Public Wages



*Note: The height of the bar is the percentage of adults receiving government transfers or public wage payments.*

# Receiving Private Sector Wages



*Note: The height of the bar is the percentage of adults who receive private sector wage payments.*

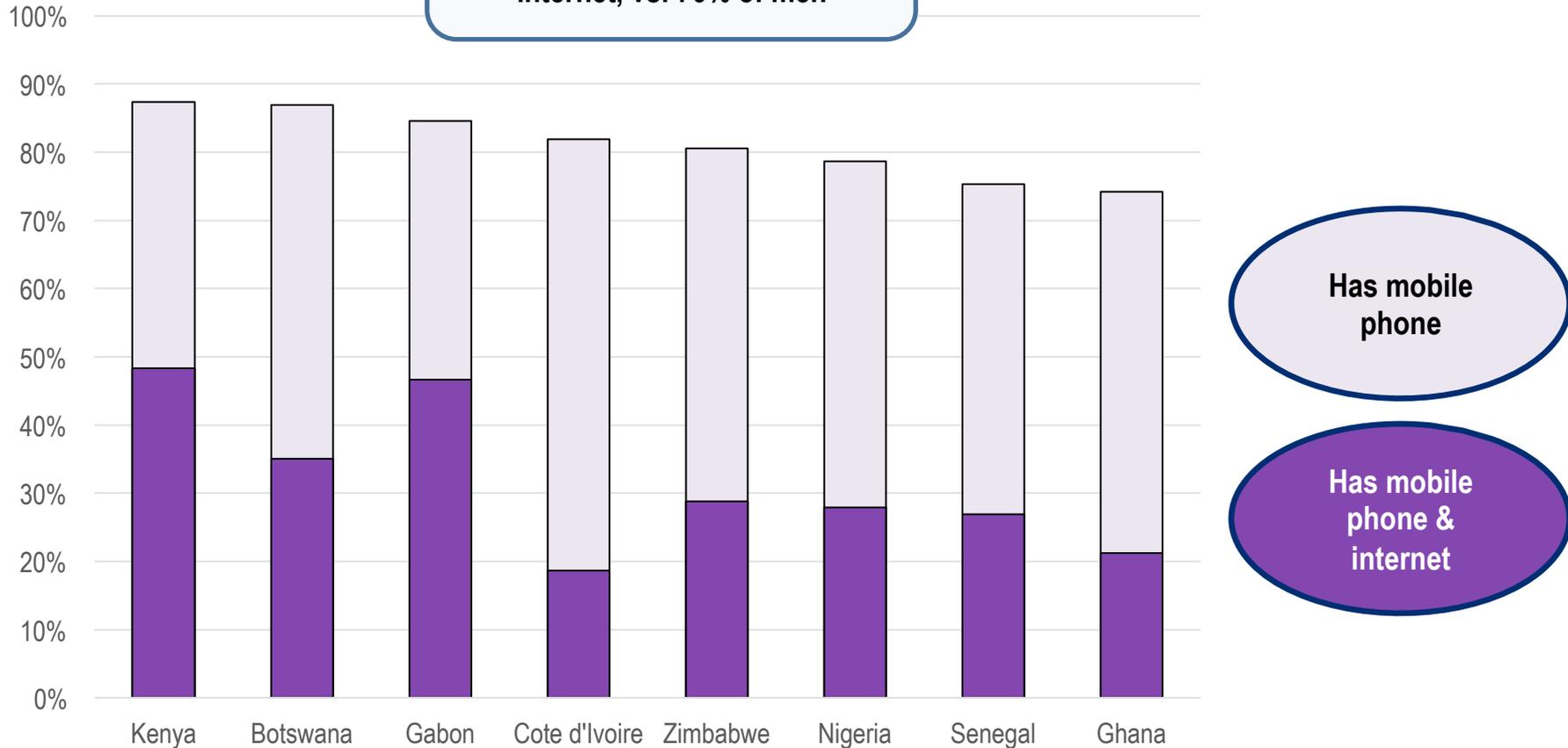
# Challenges in Usage of Digital Payments: Technology Gaps

## Technology gaps

Total percentage of adults

In Turkey 57% of women have a mobile phone as well as the internet, vs. 76% of men

In South Asia women are half as likely as men to have Internet access in their home



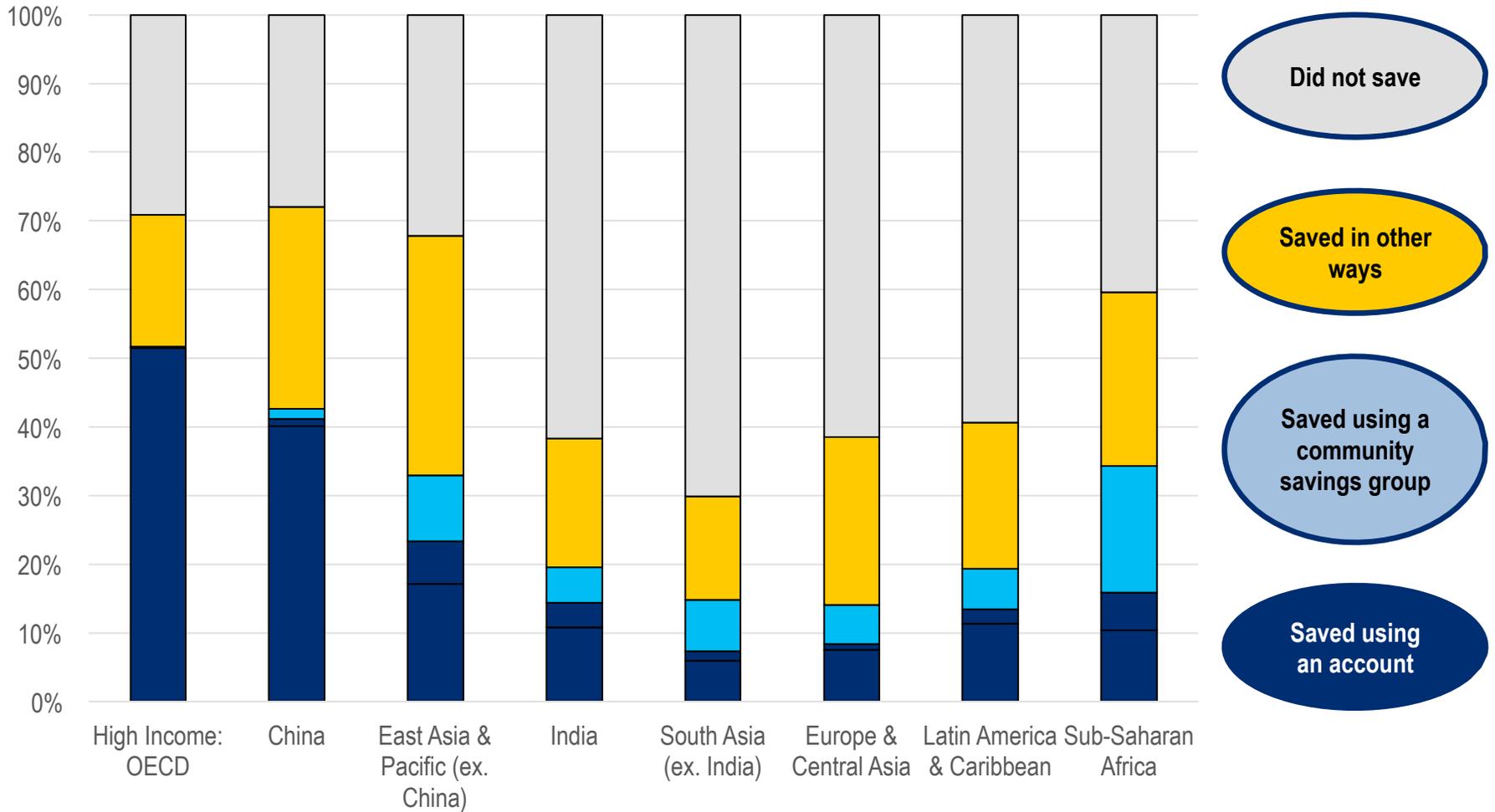
Source: Gallup World Poll 2016.

Note: The height of the bar is the share of adults who have their own mobile phone.

# Savings

## Savings behavior

Total Percentage of Adults

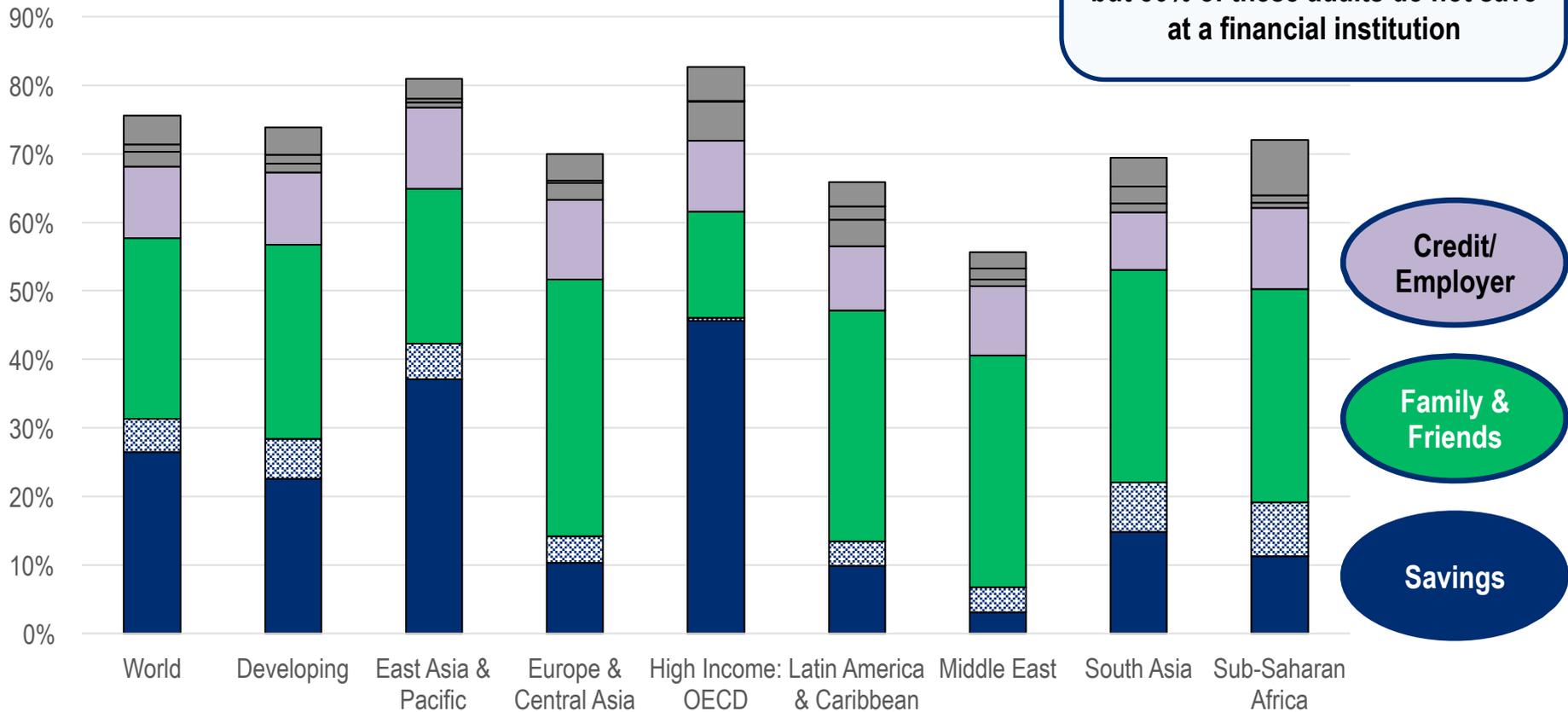


# Financial Resilience

## Financial Resilience: Source of emergency funds

Total Percentage of Adults

1.2 billion adults in developing countries say they would use savings in case of an emergency—but 56% of these adults do not save at a financial institution



Note: the height of the bar is the percentage of adults that report being able to come up the equivalent of 1/20<sup>th</sup> of GNI in a month.

# New Data on Financial Literacy Around the World

The S&P Global Financial Literacy Survey was initiated to create and maintain a public, demand-side database that measures financial literacy in a consistent manner over a broad range of countries over time.

- ***Why a global, demand-side database on financial literacy?***
  - Informs academics, regulators, policymakers, and business associations and facilitates a better understanding of how adults around the world understand a range of financial concepts
  - Measures the degree to which certain subgroups – such as the poor, women, and younger/older adults- are less financially literate
  - Can be used to examine relationship between financial literacy and other development outcomes (on individual or country level), such as well being (GWP), food insecurity (VoH), and Financial Inclusion (Global Findex).

# Measuring Financial Literacy Globally

## Five questions and four topics

1. Numeracy/simple interest
2. Interest compounding
  - Asked in two questions
3. Inflation
4. Risk diversification

### *Being financially literate:*

- How many can answer 3 out of these 4 topics correctly

# Measuring Financial Literacy Globally

## Numeracy/ simple Interest

Suppose you need to borrow \$100. Which is the lower amount to pay back: \$105 or \$100 plus three percent? *[105 US dollars; 100 US dollars plus three percent; don't know; refuse]*

## Interest Compounding

Suppose you put money in the bank for two years and the bank agrees to add 15 percent per year to your account. Will the bank add more money to your account in the second year than it did in the first year, or will it add the same amount of money in both years? *[more; the same; don't know; refuse]*

Suppose you had \$100 in a savings account and the bank adds 10 percent per year to the account. How much money would you have in the account after five years if you did not remove any money from the account? *[more than 150 US dollars; exactly 150 US dollars; less than 150 US dollars; don't know; refused]*

# Measuring Financial Literacy Globally

## Inflation

Suppose over the next 10 years the prices of things you buy double. If your income also doubles, will you be able to buy less than you buy today, the same as you can buy today, or more than you can buy today? [*less; the same; more; don't know; refuse*]

## Risk Diversification

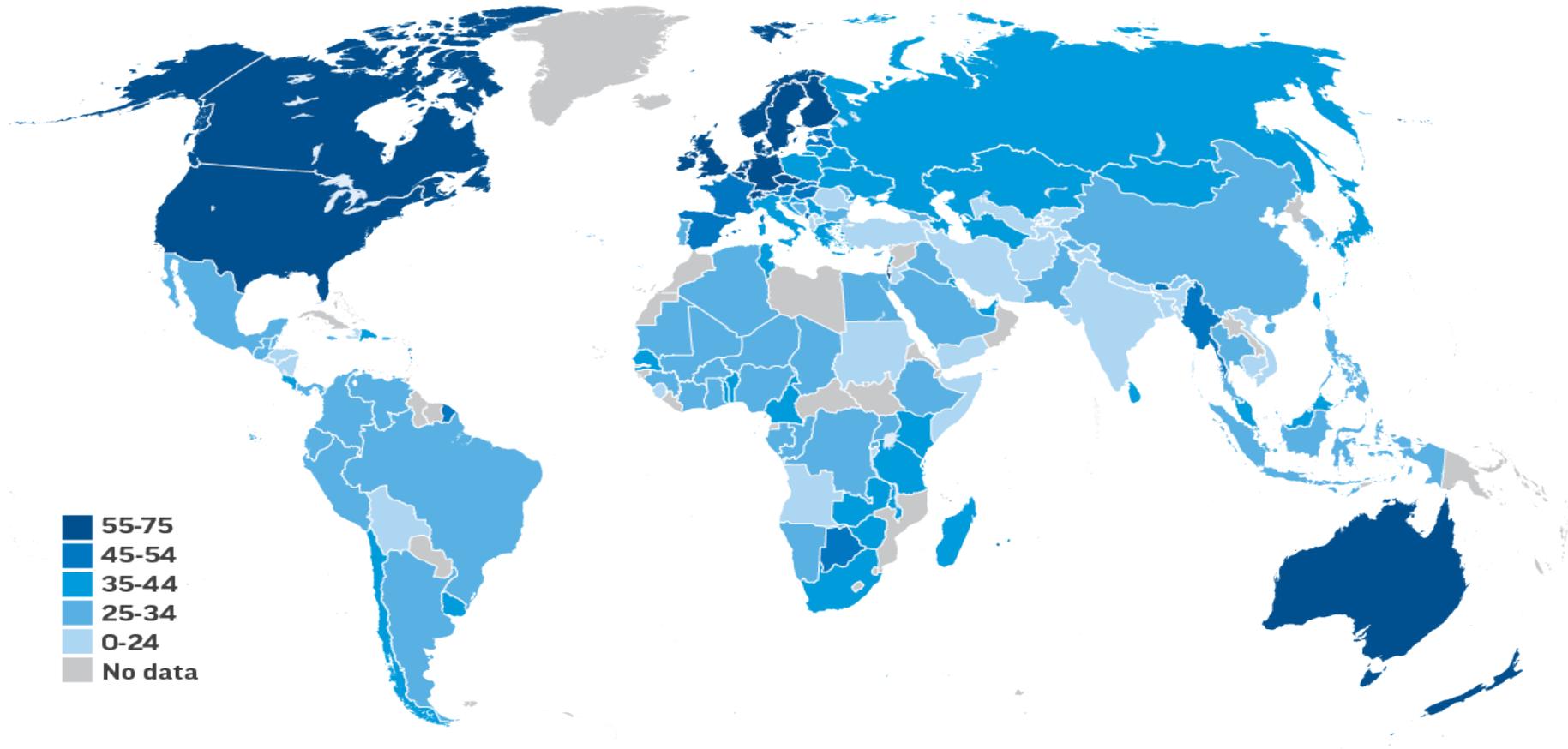
Suppose you have some money. Is it safer to put your money into one business or investment, or to put your money into multiple businesses or investments? [*one business or investment; multiple businesses or investments; don't know; refuse to answer*]

# Measuring Financial Literacy Globally

## Financial Literacy

Total Percentage of Adults

Only 1 in 3 adults worldwide  
responded correctly to three out of  
four topics



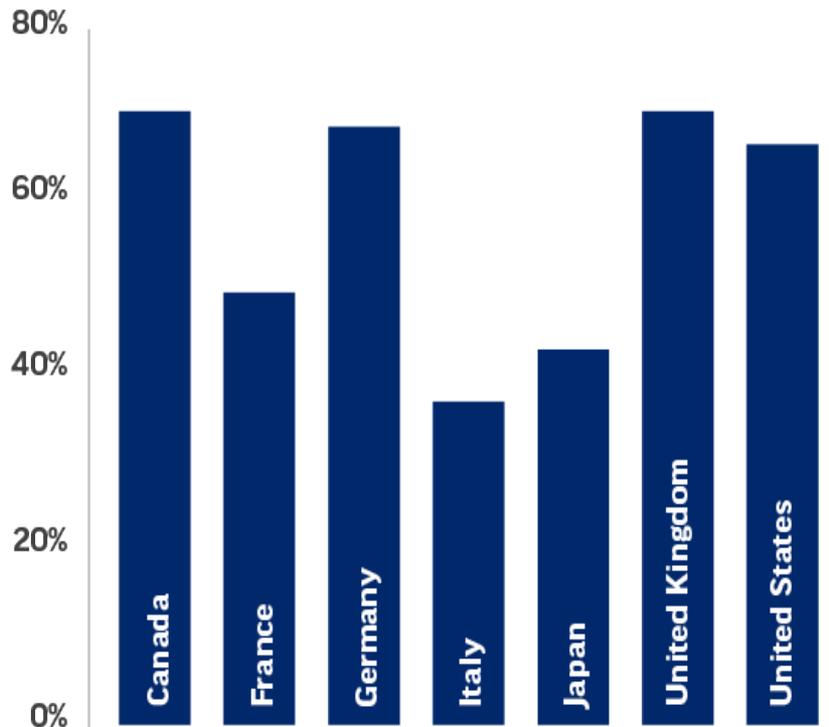
# Financial Literacy in Advanced and Emerging Economies

## Financial Literacy

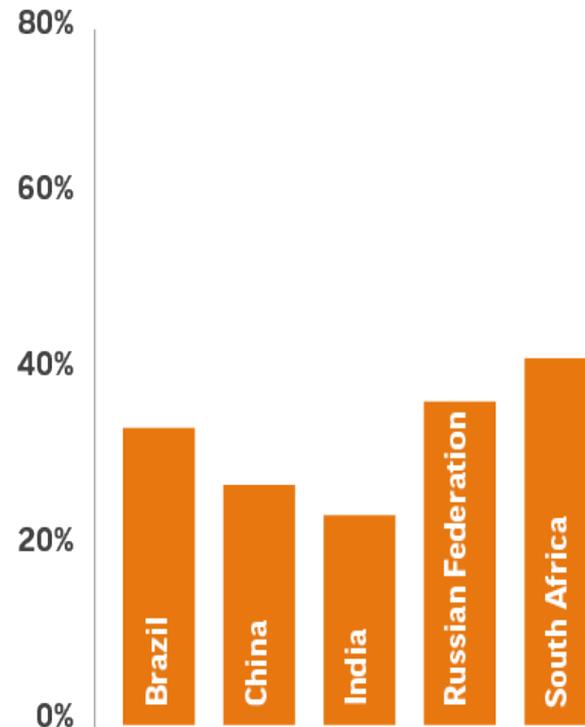
Total Percentage of Adults

Financial literacy is low even in advanced countries (e.g. Italy)

Financial literacy is low in most BRICS countries



Major advanced economies



Major emerging economies

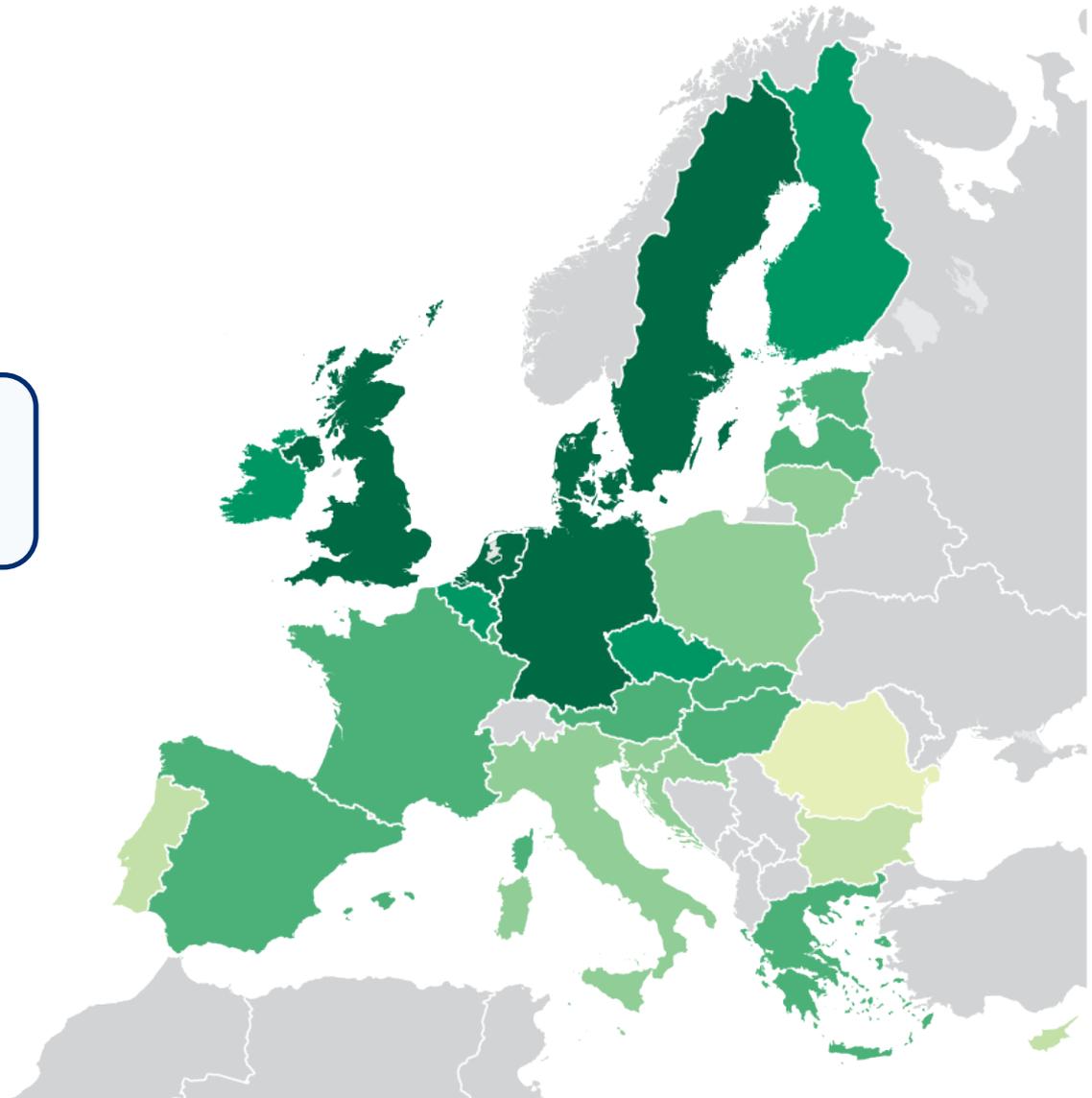
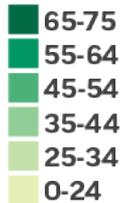
# Financial Literacy in Northern and Southern Europe

## Financial Literacy

Total Percentage of Adults

Financial literacy varies a lot  
between Northern and  
Southern Europe

Spain is at 49%, Portugal at  
26% versus Germany (66%)  
and UK (67%)

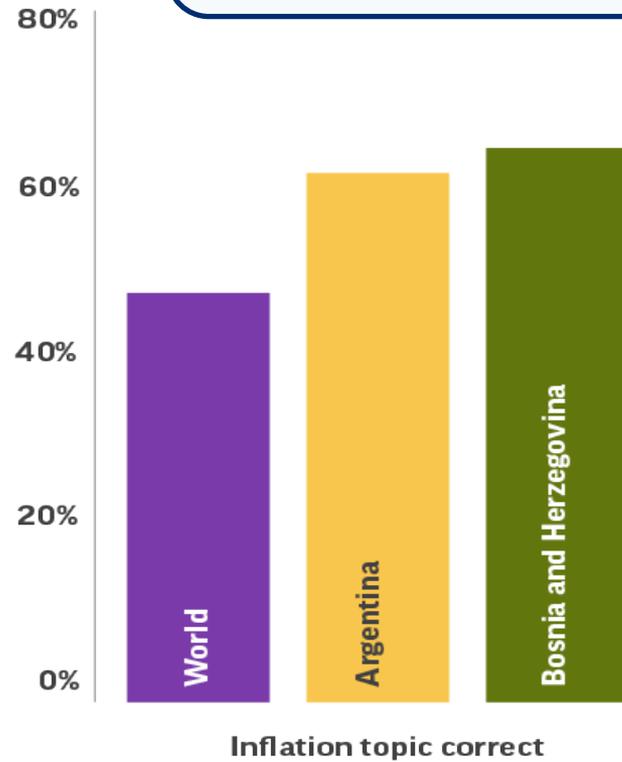
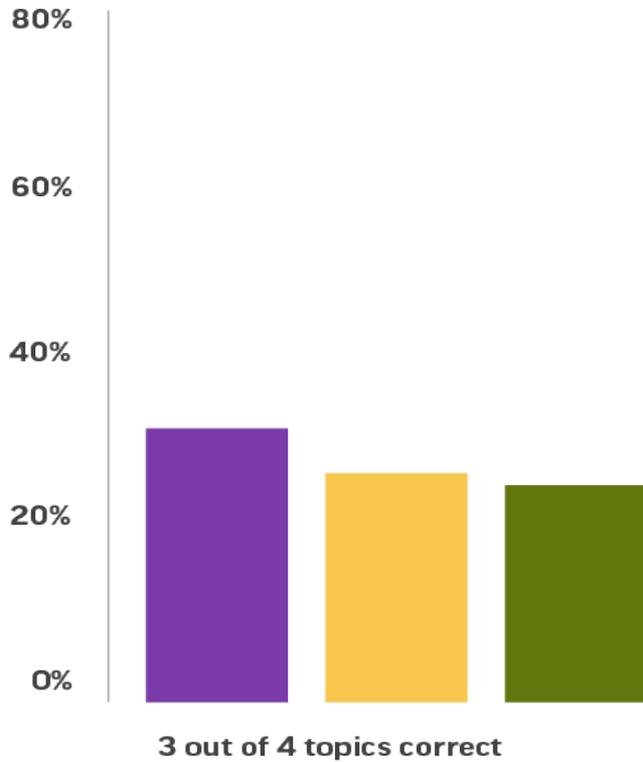


# Financial Literacy: Knowledge of Inflation

## Financial Literacy

Total Percentage of Adults

Respondents in countries that experienced high inflation are more likely to know about it



# Financial Literacy and Income Equality

## Financial Literacy

Total Percentage of Adults

Of adults living in the richest 60% of households in the major emerging economies, 31% are financially literate, against 23% of adults who live in the poorest 40% of households.



# The Gender Gap in Financial Literacy

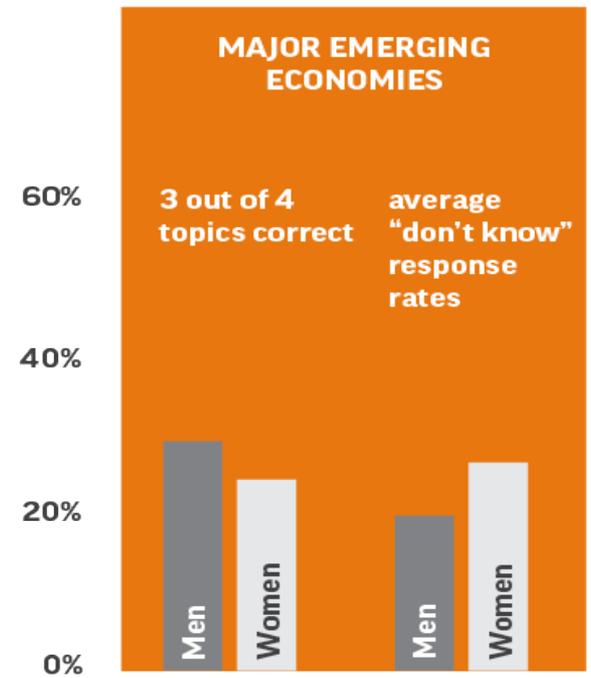
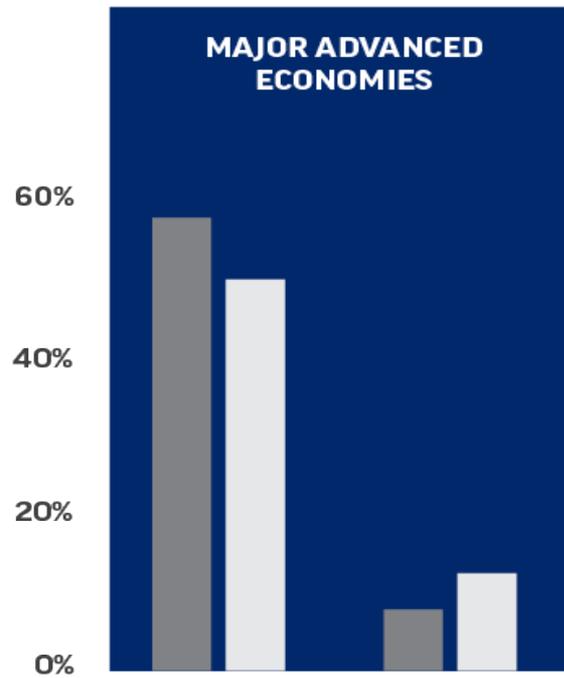
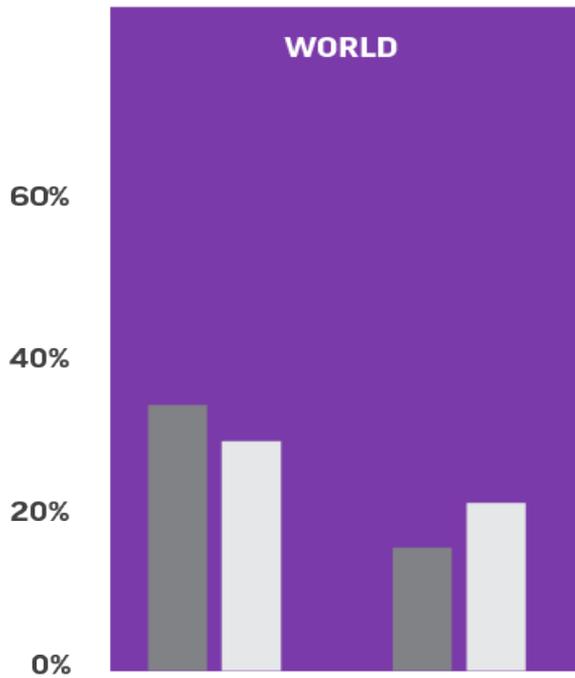
## Financial Literacy

Total Percentage of Adults

The average gender gap in financial literacy is 5pps

The gender gap in financial literacy is present in most countries

Women are more likely to answer "I do not know"



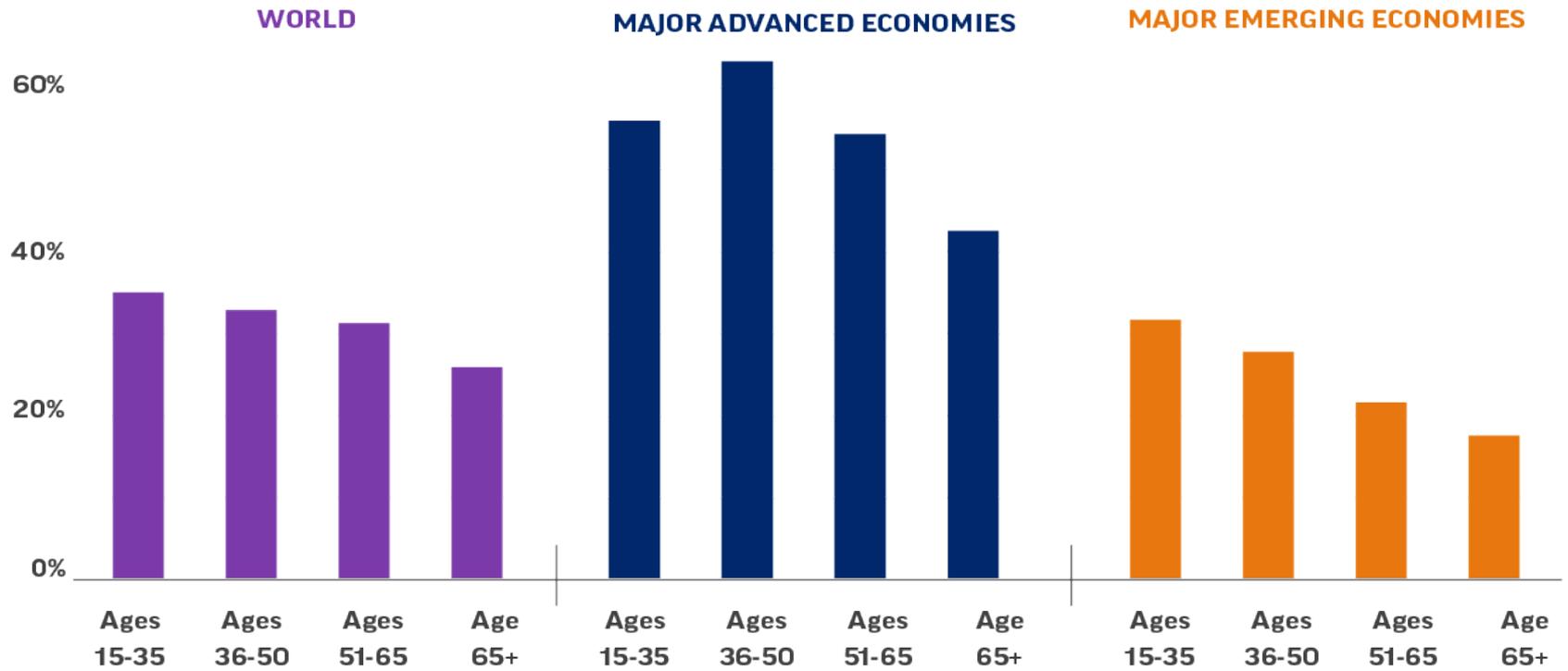
# Financial Literacy Over the Life Cycle

## Financial Literacy

Total Percentage of Adults

Different life cycle profiles of financial literacy across countries

Young adults in major emerging countries are more financially literate than older respondents



# Financial Literacy and Financial Inclusion

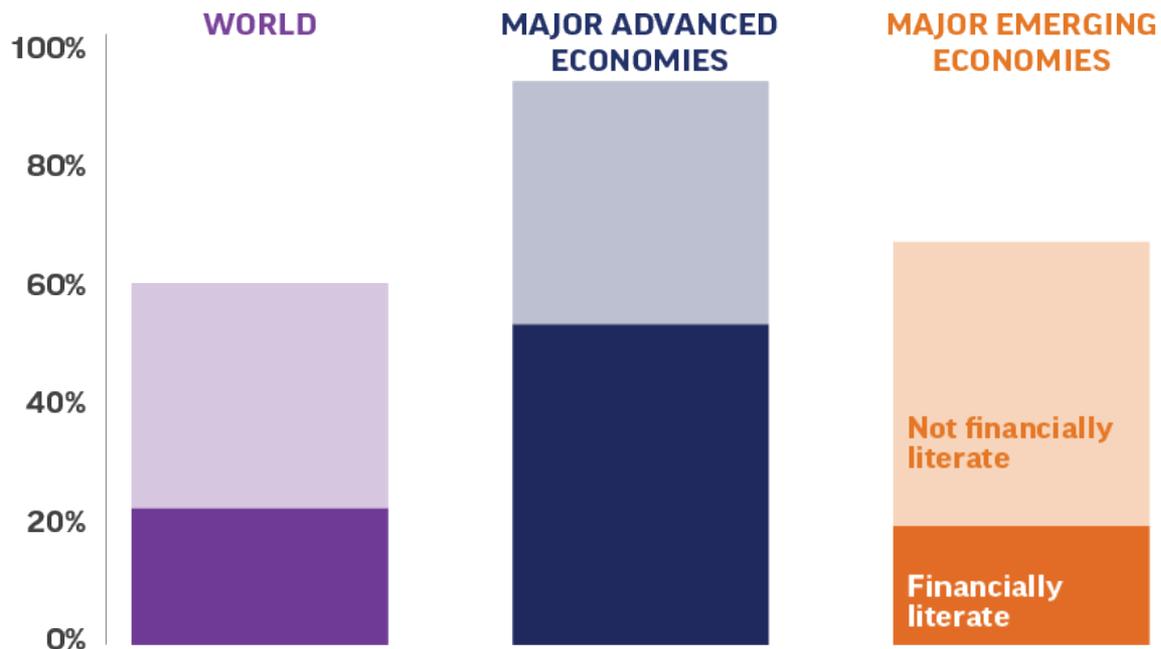
## Exploring the link between financial literacy and financial inclusion

- People who use financial services are generally more literate than those who do not use financial services *[behavioral?]*
- But the data can't tell us why: whether higher financial literacy may lead adults to use more financial services OR if using financial services increases financial literacy.
- The simplest explanation is that people who use financial services are generally wealthy and well-educated *[but what if they're not?]*

# Financial Literacy and Financial Inclusion

## Financial Literacy

*Total Percentage of Adults with an account*



In India, 26% of account owners are financially literate (compared to 31% in the developing world)

... and financial literacy rates are the same among unbanked adults and those who have a dormant account (21%)

Source: S&P Global FinLit Survey

Note:

The height of the bars is the percentage of adults with an account

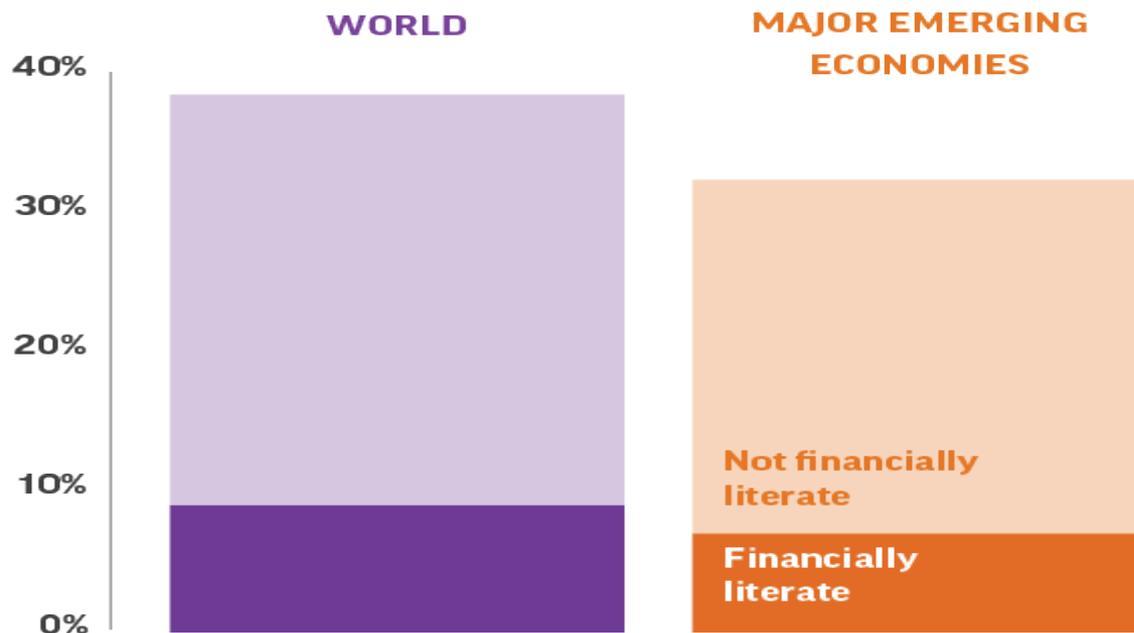
Major advanced economies include: Canada, France, Germany, Italy, Japan, United Kingdom, United States

Major emerging economies include: Brazil, China, India, Russian Federation, South Africa

# Financial Literacy and Financial Inclusion

## Financial Literacy

*Total Percentage of Adults without an account*



In Russia, 27% of unbanked adults are financially literate

Source: S&P Global FinLit Survey

Note:

The height of the bars is the percentage of adults without an account

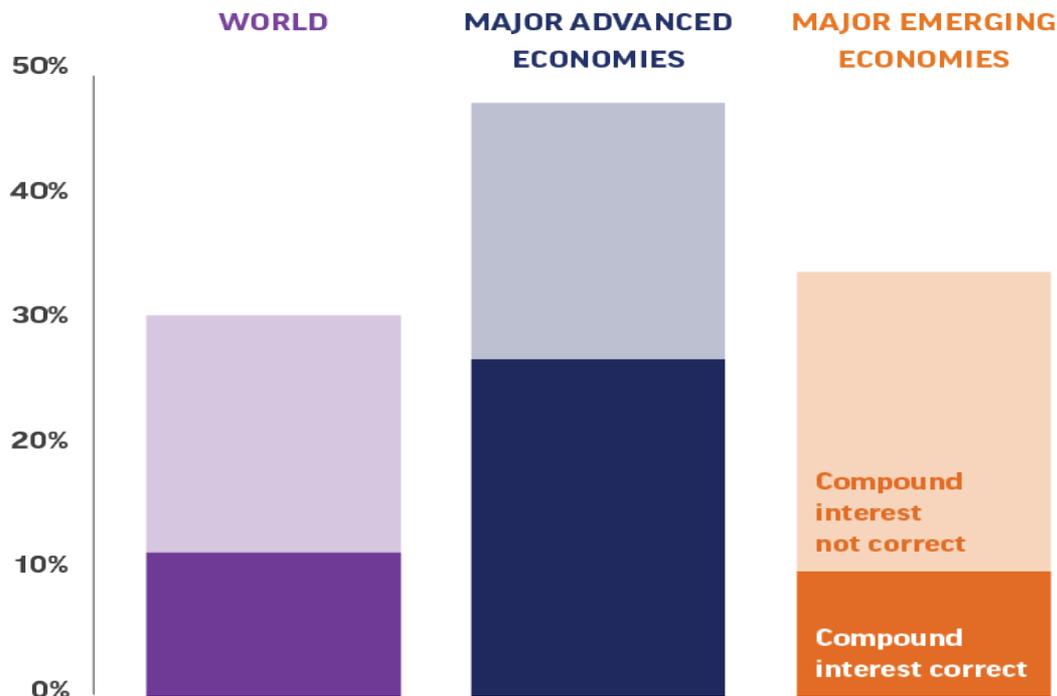
Major advanced economies include: Canada, France, Germany, Italy, Japan, United Kingdom, United States

Major emerging economies include: Brazil, China, India, Russian Federation, South Africa

# Financial Literacy and Financial Inclusion

## Financial Literacy

*Total Percentage of Adults who used a credit card or borrowed from a financial institution in the past year*



**Credit card ownership has doubled in China since 2011 – to 16%. Yet only 58% percent of credit card owners understand interest compounding.**

Source: S&P Global FinLit Survey and Global Findex database

Note:

The height of the bars is the percentage of adults that used a credit card or borrowed from a bank

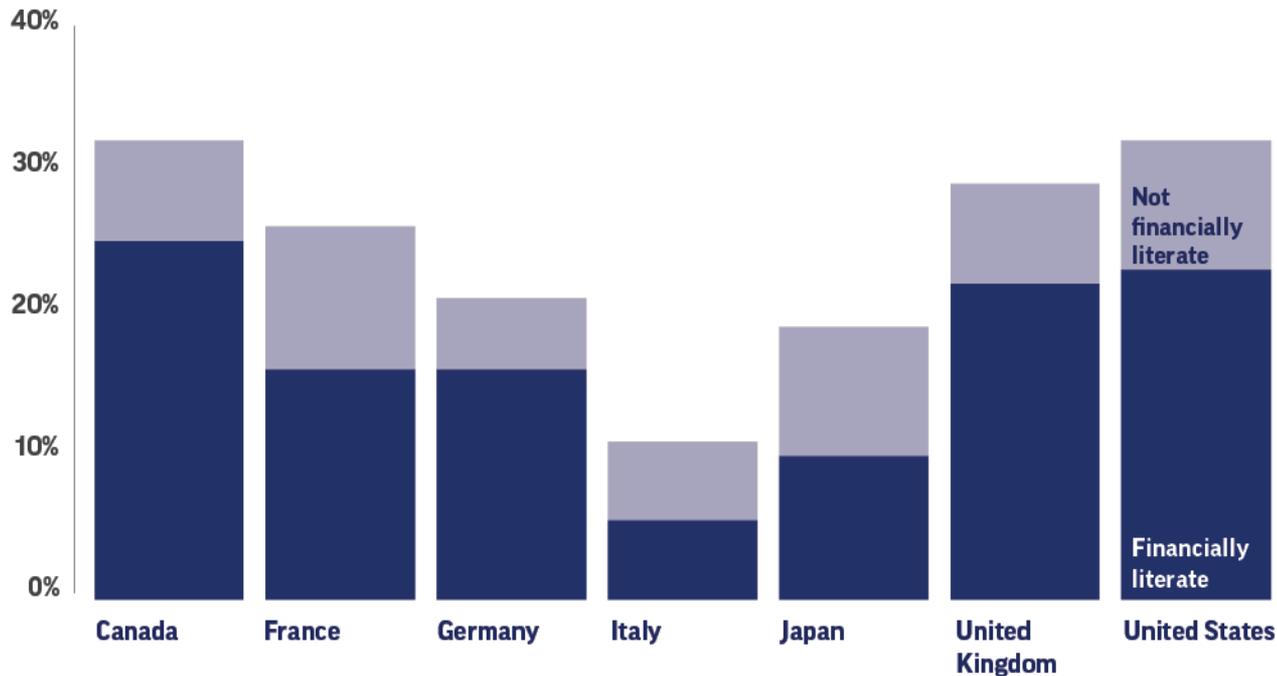
Major advanced economies include: Canada, France, Germany, Italy, Japan, United Kingdom, United States

Major emerging economies include: Brazil, China, India, Russian Federation, South Africa

# Financial Literacy and Financial Inclusion

## Financial Literacy

*Total Percentage of Adults who have a housing loan outstanding*



Three-in-10 US adults with a housing loan are unable to perform basic interest calculations on their loan payments.

Source: S&P Global FinLit Survey and Global Findex database

Note:

The height of the bar is the percentage of adults that have a housing loan

# “Teachable Moments”





[www.worldbank.org/globalindex](http://www.worldbank.org/globalindex)

@GlobalIndex