

Rural Financial Inclusion & Poverty Eradication: Challenges and Gaps

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What do you see?

- The Cold War?
- US grain embargo on USSR?
- Oil price crisis?
- 32 ha of record production still failing?



Financial inclusion is a building block for resilient households.

- Financial inclusion means that individuals and businesses have access to useful and affordable financial products and services that meet their needs:
 - Payments
 - Transactions
 - Savings
 - Credit
 - Insurance
- All delivered in a responsible and sustainable way.

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

The development community has ambitious goals for financial inclusion.

Aspirations

2013: World Bank President announces aim to work with stakeholders to provide universal financial access to all working-age adults by 2020.

Reality

2019: Two billion adults - more than half of the world's working adults - are still excluded from formal financial services.

Public and private investors are getting behind the inclusion agenda.

- FI is the central theme of MasterCard's corporate strategy; consider national programs in Nigeria and South Africa
- On the other side of the organizational spectrum, FI also a component of the body of work at International Livestock Research Institute (ILRI)



Photo by Thang Nguyen Duc, CGAP Photo Contest

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2017 Trends in International Funding for Financial Inclusion

One of the key takeaways from the latest CGAP Funder Survey is that international funders committed US\$42 billion to financial inclusion in 2017—a double-digit percentage increase from the prior year. For the first time in five years, public funding has grown faster than private funding.

Achieving financial inclusion is difficult in rural areas but benefits are high.

What holds it back:

- Proximity
- Financial Literacy
- Mistrust
- Peer Penetration
- Collateral
- Smallholder Farming = #1 Rural Job

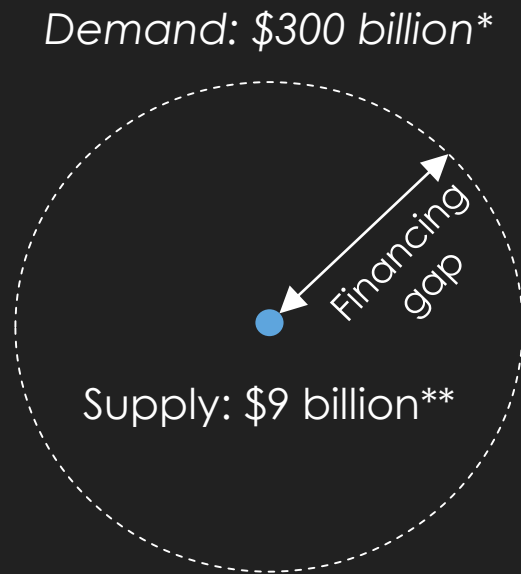
When it works:

Kenya: women-headed rural households with access to mobile money services increased their savings by more than 20%.

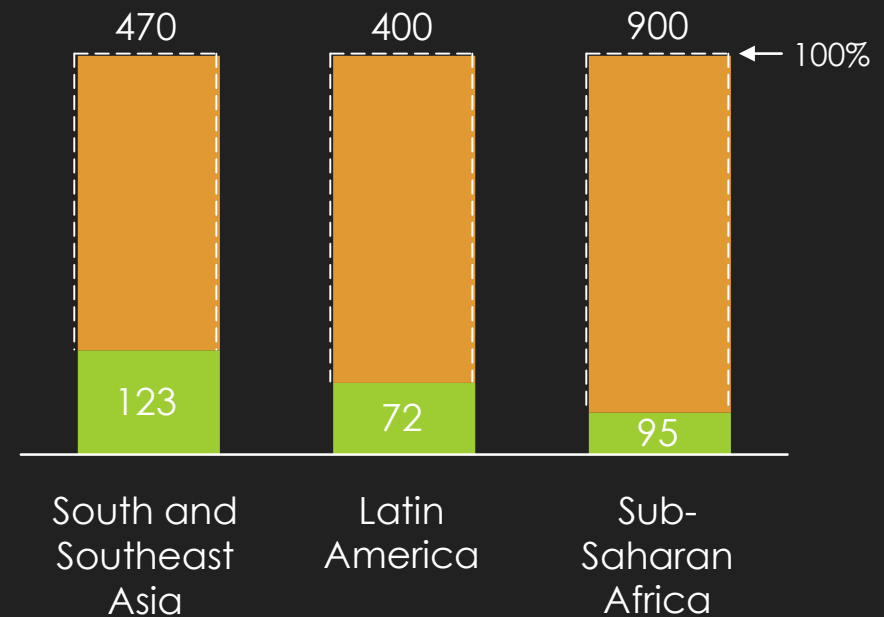
Malawi: farmers with savings accounts spent 13% more on farm equipment and their crop values rose by 15%.

Full demand for smallholder finance greatly exceeds supply.

Banks meet an estimated 3% of full demand



About 15% of banks lend to SHFs



Note: Excludes China

* "Catalyzing Smallholder Agriculture Finance", Dalberg, 2013.

** Dalberg smallholder financing bank database.

Other Banks
Smallholder Banks

Supply side constraints also limit banks' participation.

Profitability

"Cost of administration is high, so we ask, 'Why invest so much money when it takes so much time?'"

- First National Bank in Zambia

Investment

"It's easier to turn an agriculturalist into a banker than a banker into an agriculturalist."

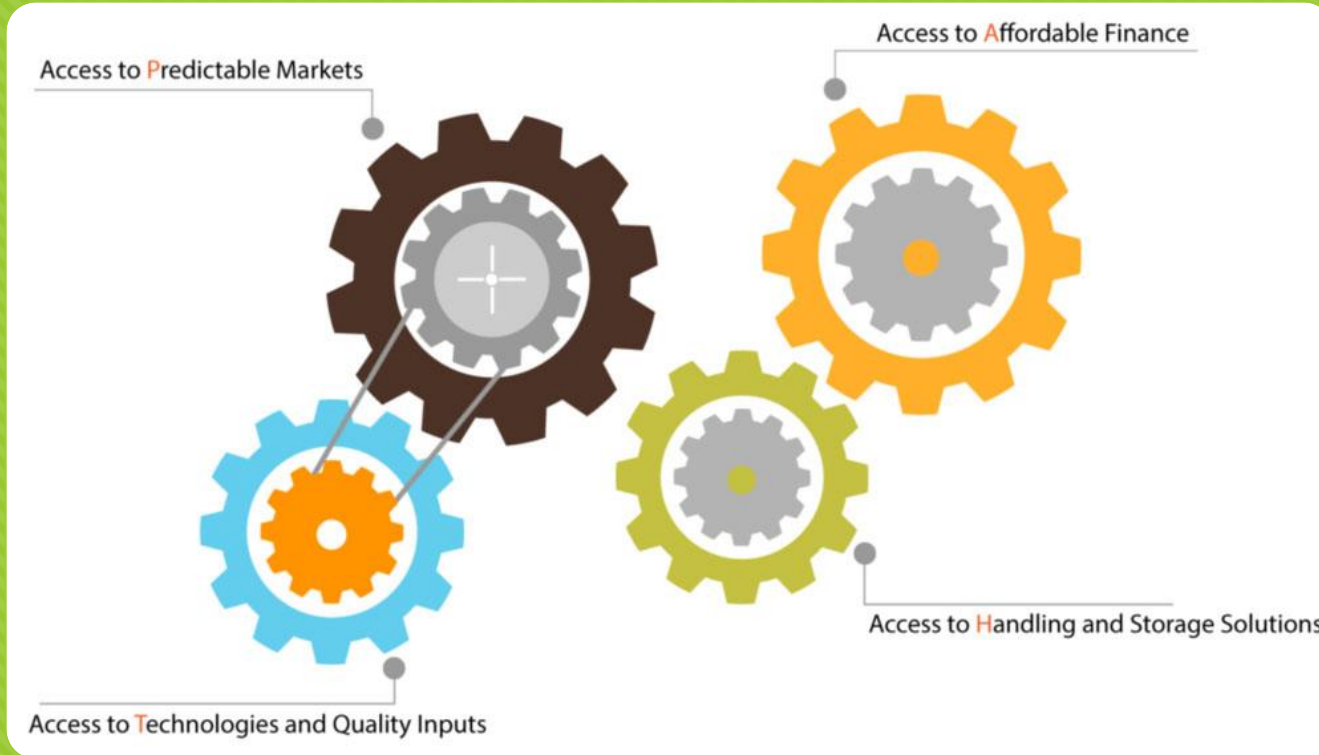
- Equity Bank in Kenya

Expertise

"We are encouraged to and interested in lending to smallholders, but we need more protection."

- Union Bank in Nigeria

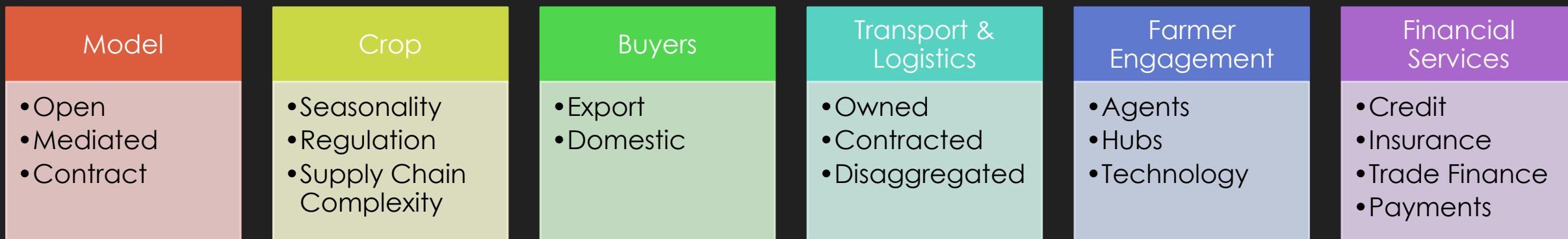
Systemic Risk



Farm to Market Alliance

Value chain financing digitized, creating “platforms” and an important lever for rural financial inclusion.

Now “super platforms” for smallholder inclusion are trending and imbed finance.



Source: MercyCorps AgriFin Accelerate

Super platforms increase access to market but few offer financial products smallholders want.

CGAP Smallholder Diaries Research

- More than 80% of smallholders in Uganda find savings products important
- 60% think insurance is important
- 50% think credit is



Super platforms leverage fintech which solicited \$58B in investments in 2018.



“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.”

~ CGAP CEO, Greta Bull

Looking ahead: systems thinking may be the biggest gap in our ability to eradicate poverty.

- For many of Africans living in poverty, financial inclusion is an outcome at the intersection of the **food system** and the **financial system**
- We need **systems thinking**, **systems tools** and **systems approaches** to crack the nut



Consider the conventional development perspective.

- Isolated, static, reductionist
- Actors make rational decisions with little bias/error
- Formal structures are paramount
- Identifiable, linear cause-effect chains



Now consider a new perspective; try on a systems mindset.

- Open, interactive non-linear systems
- Actors subject to bias/error
- Informal and formal structures are both important
- Emergent / dynamic cause-effects



My questions for you...

How Might We...

- Collaborate across disciplines to see systems more clearly?
- Illuminate the hidden causes of financial exclusion?
- Incentivize food and financial systems change?
- Demonstrate systems leadership in support of the SDGs?

Thank You!

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