

# Financial Inclusion



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## Financial Inclusion



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## Foreword



**T**he second *Global Financial Development Report* seeks to contribute to the evolving debate on financial inclusion. It follows the inaugural 2013 *Global Financial Development Report*, which re-examined the state's role in finance following the global financial crisis. Both reports seek to avoid simplistic views, and instead take a nuanced approach to financial sector policy based on a synthesis of new evidence.

Financial inclusion has moved up the global reform agenda and become a topic of great interest for policy makers, regulators, researchers, market practitioners, and other stakeholders. For the World Bank Group, financial inclusion represents a core topic, given its implications for reducing poverty and boosting shared prosperity.

The increased emphasis on financial inclusion reflects a growing realization of its potentially transformative power to accelerate development gains. Inclusive financial systems provide individuals and firms with greater access to resources to meet their financial needs, such as saving for retirement, investing in education, capitalizing on business opportunities, and confronting shocks. Real-world financial systems are far from inclusive.

Indeed, half of the world's adult population lacks a bank account. Many of the world's poor would benefit from financial services but cannot access them due to market failures or inadequate public policies.

This *Global Financial Development Report* contributes new data and research that helps fill some of the gaps in knowledge about financial inclusion. It also draws on existing insights and experience to contribute to the policy discussion on this critical development issue.

The new evidence demonstrates that financial inclusion can significantly reduce poverty and boost shared prosperity, but underscores that efforts to foster inclusion must be well designed. For example, creating bank accounts that end up lying dormant has little impact, and policies that promote credit for all at any cost can actually exacerbate financial and economic instability. This year's report offers practical, evidence-based advice on policies that maximize the welfare benefits of financial inclusion. It also builds on the benchmarking of financial institutions and markets first introduced in the 2013 *Global Financial Development Report*. A rich array of new financial sector data, made publicly

available through the World Bank Group's Open Data Agenda, also accompany the new report.

Following in the footsteps of its predecessor, this year's installment of the *Global Financial Development Report* represents one component of a broader initiative to enhance the stability and inclusiveness of the global financial system. We hope that it proves useful to a wide range of stakeholders,

including governments, international financial institutions, nongovernmental organizations, think tanks, academics, private sector participants, donors, and the wider development community.

Jim Yong Kim  
President  
The World Bank Group



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## Abbreviations and Glossary



GDP	gross domestic product
IFC	International Finance Corporation
MFI	microfinance institution
SME	small and medium enterprises

*Note:* All dollar amounts are U.S. dollars (\$) unless otherwise indicated.

### GLOSSARY

Country	A territorial entity for which statistical data are maintained and provided internationally on a separate, independent basis (not necessarily a state as understood by international law and practice).
Financial development	Conceptually, financial development is a process of reducing the costs of acquiring information, enforcing contracts, and making transactions. Empirically, measuring financial development directly is challenging. This report focuses on measuring four characteristics (depth, access, efficiency, and stability) for financial institutions and markets (“4x2 framework”).
Financial inclusion	The share of individuals and firms that use financial services.
Financial services	Services provided to individuals and firms by the financial system.
Financial system	The financial system in a country is defined to include financial institutions (banks, insurance companies, and other nonbank financial institutions) and financial markets (such as those in stocks, bonds, and financial derivatives). It also encompasses the financial infrastructure (for example, credit information sharing systems and payments and settlement systems).

Formal financial institution	A commercial bank, insurance company, or any other financial institution that is regulated by the state.
State	The country's government as well as autonomous or semi-autonomous agencies such as a central bank or a financial supervision agency.
Unbanked	A person who does not use or does not have access to commercial banking services.

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## Overview

**F**inancial inclusion—typically defined as the proportion of individuals and firms that use financial services—has become a subject of considerable interest among policy makers, researchers, and other stakeholders. In international forums, such as the Group of Twenty (G-20), financial inclusion has moved up the reform agenda. At the country level, about two-thirds of regulatory and supervisory agencies are now charged with enhancing financial inclusion. In recent years, some 50 countries have set formal targets and goals for financial inclusion.

The heightened interest reflects a better understanding of the importance of financial inclusion for economic and social development. It indicates a growing recognition that access to financial services has a critical role in reducing extreme poverty, boosting shared prosperity, and supporting inclusive and sustainable development. The interest also derives from a growing recognition of the large gaps in financial inclusion. For example, half of the world's adult population—more than 2.5 billion people—do not have an account at a formal financial institution (figure O.1). Some of this nonuse demonstrates lack of demand, but barriers such as

cost, travel distance, and amount of paperwork play a key part. It is encouraging that most of these barriers can be reduced by better policies.

Indeed, some progress has been achieved. For example, in South Africa, 6 million basic bank accounts were opened in four years, significantly increasing the share of adults with a bank account. Worldwide, hundreds of millions have gained access to electronic payments through services using mobile phone platforms. In the World Bank's *Global Financial Barometer* (Čihák 2012; World Bank 2012a), 78 percent of the financial sector practitioners surveyed indicated that, in their assessment, access to finance in their countries had improved substantially in the last five years.

But boosting financial inclusion is not trivial. Creating new bank accounts does not always translate into regular use. For example, of the above-mentioned 6 million new accounts in South Africa, only 3.5 million became active, while the rest lie dormant.

Moreover, things can go—and do go—badly, especially if credit starts growing rapidly. The promotion of credit without sufficient regard for financial stability is likely