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FINANCIAL INCLUSION
Contept Note

This concept note is the result of a team effort to understand and develop innovative solutions for unbanked, underbanked and women who work in the informal economy. In order to achieve this, we first defined the problem as "Access and Usage Gap". Then, we addressed the barriers, which exclude women from the financial world, such as: earning power, collateral, mobility, lack of ID, lack of gender disaggregated data, lower level of financial knowledge, low female representation in the financial industry and in the investors market, and the role of women in the informal economy. Finally, we established some areas to explore that might help achieve the main statement.

Main Statement (Purpose)

Closing the gender gap in financial inclusion is not only a desirable outcome for the countries` development, but also for **economic growth,** inequality reduction and **businesses evolution.** Women, on a large scale, entering labor markets, becoming successful entrepreneurs and valuable and profitable customers could allow countries to grow more, and to open new profitable units of businesses. **Unlocking the potential of female entrepreneurship** would significantly contribute towards achieving the G20 growth goals. Also, women at a micro-scale, when having disposable money spend it wisely in the education and health of their children and in the sustainability of their homes. This potential can be achieved by **designing and implementing business with a gender lens,** but also through policies and programs that **remove barriers** and allow more women to be seen as providers, leaders and customers.

 # Access and Usage Gap (The problem)

Despite the progress made in terms of financial inclusion, women still remain at a disadvantage when compared to their male counterparts. Globally, they represent 55% of unbanked people (World Bank Group, 2014). In developed countries, the gender gap in bank account ownership reaches 7%, rising to 9% in developing countries (Alliance for Financial Inclusion, 2017).

Besides closing the gender gap in account ownership, we also need to increase women's **access and use** of financial services. Within the unbanked segment, many women who are potential good customers do not have access to the range of services offered by financial institutions. For example, 66% of wage-earning women report not receiving their salaries via bank deposit; this is a highly missed opportunity for financial inclusion. Although many of these women are low income-women, they are salary workers who have stable sources of income. It is also worth mentioning that globally, over 70% of women-led SMEs are estimated to be financially unserved or underserved (IFC 2013). Women owners of small and medium enterprises operating in the formal market have a credit gap of $2878 billion in relation to men, which represents 30% of the total credit gap for that sector (IFC, 2014).

Getting an account is a vital first step toward financial inclusion, but the benefits really come from frequent use of that account. Shifting from cash to accounts would make utility bills or school fees payments more efficient, and allow those who have an account to benefit more fully from financial inclusion. Many of the beneficiaries of a shift to digital payments would be women: In developing economies, about 570 million women who have an account still pay utility bills in cash, while roughly 250 million pay school fees this way (Global Findex - Account Ownership and Usage). Another opportunity for increasing account use is to encourage people who have an account but send or receive domestic remittances exclusively in cash or through a money transfer operator to use their account instead. In developing economies, 355 million adults with an account send or receive domestic remittances.

#Main Barriers

It is necessary to address the barriers, which exclude women from the financial world.

Earning power: Women usually earn less than men, given that they work in lower-income economic sectors such as education, health, trade and housekeeping, and have less available funds to cover the costs of opening a bank account and maintenance fees.

Collateral: Women tend to have worse credit records and lack collateral as a very few women are landowners. Limited land ownership worldwide limits women possibilities to access loans and other services; they are less likely to receive loans and more likely to pay higher interest rates.

Mobility: Women have more mobility constraints; they are less likely to move around as they experience more time-poverty for being responsible for productive and reproductive activities. The case of rural women is worth considering since they live in more isolated areas, further away from financial institutions and experience lower levels of literacy. Distance to finance facilities is a key barrier to gain access to financial institutions.

Lack of ID: Women are less likely than men to have formal identification.

Lack of of gender-disaggregated data: it prevents an adequate or complete diagnosis of the constraints affecting women (IADB, 2018), while it also limits the design of policies and reforms, the evaluation of public interventions and the possibility to measure results.

Gender gaps in financial education are related both to a **lower level of financial knowledge and less confidence** of women. In general, women have greater aversion to risk and loss; they are less likely to actively save and choose appropriate financial products that fit their needs. Besides, women know less about financial issues than men but know more than they think they know[1].

[1] https://w20argentina.mangoapps.com/tu/XwmzGu

Low female representation in the financial industry: Financial providers and regulators need to diversify their directive and managerial gender composition to be consistent with women financial inclusion. According to the IMF, less than 20% of board seats in more than 800 reviewed banks in 72 countries are held by woman, and less than 2% of CEOs are women. Women are highly underrepresented in directive positions in the financial regulators as well. Having more women in directive positions in the banking industry has positive effects in the institutions and helps to increase financial stability.

Low female representation in the investors market: In terms of investors, to provide an example, in the US only 7% of top venture capital company partners are women. If business proposals put forward by women are mainly assessed by male investors, it is almost inevitable for investment decisions to be gender-biased (Techcrunch, 2016). In the U.S., men-led enterprises received 16 times more venture capital funds than women-led enterprises. In fact, venture capital funding for women has dropped from 15% to 2% since 2015 (Forbes, 2017).

Women entrepreneurs also face greater difficulties in order to receive funding from banks, in comparison with their male counterparts. The average loan size for women is smaller and the related interest rates are higher, which makes credit more expensive for women entrepreneurs than for men (IFC, 2013), despite offering higher repayment rates. A sizeable proportion of Micro, Small and Medium-Sized Enterprises (MSMEs) are owned by women worldwide. In the G20 countries, women own 30% of MSMEs and receive less than 10% of bank loans[2].

Women in the informal economy. A very important target group is the informal sector. From street vendors and domestic workers to subsistence farmers and seasonal agricultural workers, women represent the main work force in the informal sector. In South Asia, over 80% of women in non-agricultural jobs are in informal employment; in sub-Saharan Africa, 74% and in Latin America and the Caribbean, 54%[3]. In short, in developing markets around the world, the informal economies serve as the quiet humming engines of growth. These women generate their own income and run businesses but fail to comply with the requirements of the traditional financial system: lack of collateral, credit records and, in the case of migrants, lack of documentation. Access to financial services, including credit, loans and savings, is vital for low-income women but is rarely available to them. These services can help their households cope with economic shocks arising from unexpected expenses—for example, health care, school fees or funeral costs. Moreover, for self- employed people, and especially women, access to credit can also be an essential pre-condition for their work. Only 37% of women are able to use their own capital to start up their businesses, compared to 68% of men[4].

Some areas to explore

Gender disaggregated data collection and analysis. Developing information/indicators systems will not only improve legal frameworks, it will also serve to **innovate in products and services, and characterize women** for their adequate attention according to the size of the company and the needs of their businesses (CAF).

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[2] McKinsey. The power of parity, 2015.
[3] Women in the Informal Sector: A Global Picture, the Global Movement http://muse.jhu.edu/article/30519
[4] Progress of the World´s Women 2015-2016

See the value proposition of women's financial inclusion. G20 countries need to work on the financial inclusion of economically active women, who are not being considered as clients by the financial system, making available financial products based on their needs and income levels.

Adapt financial infrastructure. Banks are averse to lending to clients without traditional collateral, which women often lack. They are particularly risk-averse to lending to those in the SME and agricultural finance sectors, segments with large percentages of women (AFI, 2017). They should develop collateral registries with alternative information and rating systems to include women. Banks should set gender specific targets and measure accordingly. They should include digital payments and other services such as cash transfer and other government payments.

Adapt service delivery. Banks should also work to reduce the language barriers and speak a more simple and open language. They should also educate their biases against working with and lending to women.

It is crucial that **financial education programs** focus on increasing women's self-confidence and that, at the level of public policy, the gender approach is incorporated into the national financial education strategies. Financial literacy programs for women are a critical investment for women's financial inclusion. Enhanced access training and better support networks among female entrepreneurs also help to raise the productivity of enterprises owned and managed by women.

Explore the potential of digital financial services for women operating in the informal markets. In G20 countries, the gap of SIM and mobile phone ownership is small, and offers an opportunity to provide financial services to populations excluded from traditional financial institutions. Digitization enables broad-based financial inclusion and, although reliable identity data is still missing, with existing technologies for identification and verification of new customers this issue can be solved. Plus, the use of **alternative data or big data improves credit scoring** and holds great promise to expand access to finances, especially for women operating in the informal sector. In this context, there is potential in enhancing women's financial education, offering services customized to their needs like digital payments methods to save time or convenient mHealth insurances, reducing economic, cultural and transport access barriers, guaranteeing improved security and privacy, and developing alternative assessment systems that include women by making them visible and valuing their income and potential for growth.