After Hours Seminar Series

Financial Inclusion: Why it's a Hot Topic & What it Means

November 18, 2010

Participants

Oya Pinar Ardic, CGAP
Caroline Mauldin, US Department of State
Lauren Hendricks, CARE
Moderated by Jennifer Maurer, RESULTS

Sponsor

United States Agency for International Development: Microenterprise Development Office

Female: Everyone thank you for coming to our 46th After Hours Seminar Series. My colleague, Lindsey, is going to take just a minute or two to introduce some new activities that we're undertaking.

Female: Hi, everyone. I just wanted to quickly announce that the new Microlinks website just launched this month. It's in beta right now and we would love for you guys to come sign up. The new URL is http://www.microlinks.kdid.org. We have a new learning marketplace that will house all of the events here, news and announcements, our new blog as well that will cover the event and other activities going on; the library, which will have a new faster search so you can find things much better than on the old Microlinks site; and also a good practice sector with USAID-reviewed materials and best practices.

And you can – if you sign up for Microlinks after this event for the new site, we have a free USB for you, and if you have to run off, we also can collect your business card and sign you up and you'll still get a free USB, so we encourage you to do that.

And in conjunction with the launch of our new website, we also launched our social media recently, so we encourage you to like us on Facebook at http://www.facebook.com/microlinks and follow us on Twitter at http://www.twitter.com/microlinks. And you can also join the conversation about this event going on right now at #MLEvents. And we especially encourage people tuning in on the webinar to use the hash tag at Twitter so you can talk with each other and have a conversation during the presentation.

So thank you very much. And now I'll hand it off to Jennifer Murr and-

Female: Blog.

Female: Blog.

Female: Blog _____.

Female: Oh, we'd also like to encourage people to visit http://www.microlinks.kdid.org/blogs to read the posts, and you can comment there as well, so we encourage questions and comments. So now I'll pass it off to Jennifer Murr from results.

Female: Thank you. So I use this _____ right here. Okay. Well thank you, everyone, for coming. At least it's not raining out; it's a little dreary, so as you watch it get a little bit darker outside hopefully we can have enlightened conversation in here. So again, thank you. I'm real excited to be able to moderate this panel. These three women are quite impressive in their work, in their thinking, and what they're looking forward to for financial inclusion.

So as we all know, like half the world doesn't have access to formal financial services. Now that doesn't mean they don't have complex portfolios, it doesn't mean they're not trying to use financial services, but they usually have to use informal ways for their financial transactions, which are costly, sometimes dangerous, and not really effective. And if we think about all they're doing still, despite those barriers with informal financial services and all they're still accomplishing, if we can actually help them to get more convenient, more reliable, more effective and cheaper access to financial services, I think we'd all be in a better place and certainly our partners in developing countries.

So our goal here is to discuss what is financial services; what does financial inclusion mean; and how do governments, donors, NGOs, foundations, how are we grappling with this issue, how are we trying to reach new people in new effective ways. So each of our presenters will speak for about 15 minutes or so, and then we'll open it up to questions and answers. So please make sure to take down your thoughts. And we do really encourage a lively conversation at the end.

So I will first start with our first presenter, let's see, Mr. Oya Pinar Ardic. She's an economist at CGAP. Before joining CGAP in 2010 Oya was an associate professor at the Department of Economics at Bosphorus University in Istanbul, Turkey. She holds a BA and Masters degree in economics from Bilkent University and a Master of Science Degree and a Doctorate in Economics from the University of Wisconsin in Madison.

Her research focuses on topics in economic growth and development, international finance, macroeconomics, socioeconomics, and most recently, access to finance. She has coauthored and published papers in several peer reviewed academic journals and she speaks Turkish and English. So if all her degrees in economics wasn't enough, she's actually fluent in a very interesting language. So, Oya, please take it over.

Female: Thank you, Jennifer. And thank you for inviting me here. So what I'd like to do today is to talk a little bit about financial sector deepening and economic growth. And I'm going to tie it up all to financial inclusion, so this is basically the outline of my talk. And I will focus on the first two – I will not focus on the first two parts extensively, but I'd rather talk about financial inclusion and how we measure financial access in more detail.

So being an economist, my presentation today will be biased towards what economists have written in this topic. So first of all I'd like to start with finance growth nexus in the economics literature.

Now there is a strain of literature that suggests that finance is not that important for growth. And quite famous economists are actually proponents of this strain. For example, you can see a quote for Lucas there, who is a Nobel Prize-winning economist, and he suggests that it's basically an overstressed determinant of economic growth. And it's sometimes suggested that finance follows wherever enterprise leads. But the other group suggests that we should never ignore the relationship between finance and growth, and there are also very famous economists in that group as well. For example another Nobel Prize-winning economist, Miller, suggests that the idea that financial markets contribute to economic growth is a proposition too obvious for serious discussion. So those are the basic ideas in the economics literature, and the debate is going on.

Now the question then is why do we care about this. And I think most of us in this room do care about finance and its effects on development or vice versa, because it has implications for policy. Now if we in the end find out that finance causes growth then this should put financial sector policies at the highest priority in the policymaker's agenda. If it turns out that it's the other way around, that is growth causes finance, then research and policymaking should adjust accordingly. And basically how we can develop better financial systems after achieving growth should be on the policymaker's agenda.

So what does economic theory say about this? Well, there is a lot of discussion going on and debate going on in economic theory, but overall the idea is that financial systems may in fact influence saving rates, investment decisions, technological innovation, and even long-run growth rates of the economies. So the major idea is that financial sector in fact provides real services by reducing information, estimate, reason, transaction costs.

How does empirical site of economic literature deal with this? Well, when you look at this the literature you see a variety of models and techniques and each model has serious shortcomings, but in the end there are three major findings of this literature. First is that countries with better functioning banks and markets grow faster. Second is that their issue of causality and related problems and empirical analysis do not drive the results; the issue of causality meaning whether finance causes growth or growth causes financial development. So even if there are problems with that in terms of your analysis, it does not drive the results; this is the good news. And the third major finding is that better functioning financial systems lead to fewer external financing constraints for firms and industries as a whole.

So this is one solid mechanism through which financial development matters for growth. This is the area with which empirical economics has more confidence in saying that, you know, financial development is good for growth. So the question here is obviously how do you measure financial development. Now I'm going to get to that in the end of this presentation, though my treatment of it is obviously not going to be giving you the entire picture of measurement. But before I do that I would like to talk a little bit about functions of financial systems and financial development, and I'm going to link this to financial inclusion.

So the basic idea, the basic function of financial systems is to produce information ex-ante about possible investments and allocate capital; monitor investments; and exert corporate governance after providing finance, facilitate the trading, diversification, and management of risks; mobilize and pool savings; ease the exchange of goods and services. So those are all the functions that you could expect from financial systems. Now obviously these functions are different across countries in terms of how well the financial systems perform. And basically if you take a look at these functions, they all influence saving and investment decisions, and in the end, resource allocation and economy, and the overall welfare.

So in this respect we can think about financial development occurring when financial markets, instruments, and institutions reduce and perhaps eliminate information asymmetries and transaction costs and ease enforcement by doing a better job at providing all of these five functions. Now policies to improve any one of these dimensions will have obviously implications on resource implication and welfare, depending on the state of the rest of the economy, because simply these functions matter in terms of peoples' decisions or firms' decisions about investments and whether to save or not.

Now so poorly functioning financial systems basically will slow down aggregate growth because of inability in facilitating efficient resource allocation. Informational estimate fees lead to credit constraints, and this is specifically worse for the poor to access formal credit, because the poor lack collateral or even political and social connections to basically get easy credit from formal institutions. Now there is basically some inequality because of this issue; there are no equal – in this respect there are no equal opportunities and equal access for everyone when the financial sector is poorly functioning.

So this brings us to the question of financial inclusion. Do we have to target the poor specifically? Now my answer to this would be, well, half the world has no access to formal financial services; that is what we know. So this is the most recent count that we performed at CGAP, and basically you can see that in sub-Saharan Africa, South Asia, the percentage of households banked is – or households that have access to formal financial services is 12-percent and 22-percent respectively; those are very low numbers. So the world average is around 50-percent, which is also the case in Europe and Central Asia. Europe here is Central and Eastern Europe basically. And Latin America and Caribbean, Middle East and North Africa, East Asia and Pacific are all below the world average, but still in much better shape than sub-Saharan Africa and South Asia. Now if you take a look at the high income OECD and non-OECD economies, their average is 91-percent of households have access to formal financial services, which is quite a difference.

So why is this important? Well, think about the life cycle consumption idea that economists would like to consider. So the idea is that your incomes may be volatile, but what you would like to do is smooth out your consumption. So if you take a look at this illustration here, the left panel is about a rich household and the right panel is about a poor household. Now their consumption levels may not necessarily be the same, but the idea is that throughout their live they want a smooth level of consumption regardless of their type. But their incomes; rich households do not have extremely volatile incomes – I mean I should say volatility in their incomes coming in high frequency, as poor households. So poor households don't know what's going to happen tomorrow or the day after, but the rich households would have a little bit more perspective in terms of what's going to happen in their future.

So smoothing consumption for rich households seems to be an easier issue, and they also have better access to financial services in general, whereas poor households, because they do not have collateral, or as I already mentioned, some connections, they may not have access to formal financial services, some of them do not have access because those services do not exist in their areas, and in order to smooth out their consumption patterns they really have to try a lot. So what do they do? Well, we already have evidence from financial diaries that they actually use a lot of different financial instruments; they use insurance, they use credit, they use savings. These do not necessarily have to be formal. In fact, most of the instruments that they use are informal. But they do use finance actively; they have to in order to smooth their consumption.

Now the problem with this is, of course, informal financial services are in general more costly and less reliable. And there is evidence, again, from economics literature, that finance exerts a disproportionately large positive impact on the poor, and hence reduces income inequality. So with that being said, let's just turn our attention to what the policymakers are doing in terms of financial inclusion.

Now our recent findings at CGAP Financial Access Reports suggests that at least one aspect of financial inclusion is under purview of the financial regulators in 90-percent of countries around the world, and our sample is about 142 countries; those are the countries that responded to our survey initiative. And financial inclusion strategies are increasingly common, so over time we observe an increase in national strategy documents throughout the world. And also this new slide right up there summarizes data from CGAP's Financial Inclusion Regulation Center, and this also suggests that financial inclusion regulations are quite recent, and we see more and more regulations or amendments to regulations passed every year. So policymakers are working on this topic.

Now to my last part of my talk, how do we measure financial access? Now this graph right here talks a little bit about the dimensions of data. So what you could do is to collect household or firm data, which is what we would like to think as demand-side data, or you could collect data from institutions, financial institutions themselves; that's supply-side data. And you could basically dig deeper and get very detailed data for one or two countries or you could have some high-level indicators that would allow you to make some sort of cross-country comparison with more countries, but then you won't be able to have a lot of details.

Now there are initiatives in all of these types of data, let me say. So, for example, there are household surveys done by the World Bank and firm surveys done by IFC that would cover fewer countries, so they are on the low-right panel. And there is CGAP World Bank Group financial access survey, that's what we do, and IMF's survey. So that's basically on the top-left panel, those are supply-side data, they have more countries, but as I said, those are high-level indicators. For example, that's not going to tell you which region within a country needs more attention, but that data set will tell you, you know, which countries need more attention, so to say. And there is a recent initiative by the Gates Foundation and the World Bank, basically which that initiative intends to use the Gallup World Poll to get household-level data, but it's going to be a huge initiative, and therefore they are not going to be able to go into a lot of details.

All in all, what I'd like to do a little bit now in the rest of my time is to do some self-promotion, if you will. So this is what we have in the financial access survey and report that we do at CGAP. We have a section that is repeated annually that includes quantitative data on number of deposit accounts, number of loan accounts, number of branches and things like that, based on the institutional approach, that is we collect this data for different types of institutions. And each year we have different policy themes that we explore, so for example, this year we had information on financial inclusion mandates, and the two graphs that I showed you were basically taken from that part of the survey. We also had consumer protection legislation and SME access to finance as the two other themes this year.

So let me just tell you this, that the first time that we started collecting this data, this is not really standard data; this survey goes to financial regulators in each country and it is not standard. And the first time that we started collecting this data the regulators did not have much information, but data is improving – data quality and availability is improving over time, so this is good news. And more and more regulators are now collecting this data from institutions so that they are able to respond to our survey.

So if you have interest, this is where you can find the report and the data. All the data that we collected is public; you can take a look at the data and the report. And that's it.

Female: Thank you so much.

Female: Thank you.

Female: I think I speak for most people here that we really do rely on that report and it's quite important, so thank you for your work. And I also found it – I just found it interesting as you were discussing kind of the debate among and within economists of economic theory and then empirical data on the ground, and I think it's something we all kind of try to grapple with, of what do we – things should happen; are we told it should happen, and what's actually happening. So we're very lucky our last speaker actually does work the programs on the ground, so she can help us answer some of those questions.

And actually our next two speakers, we're very grateful to have them. They just flew in on the redeye last night from the Gates Conference in Seattle, so thank you, both of you, very much for being here. I will try not to make our questions too too hard or too complicated. So our next speaker is Caroline Mauldin; she works in the Office of the Undersecretary for Democracy and Global Affairs at the State Department. She joined the Obama administration in 2009 and she works to support the Undersecretary of State for Democracy and Global Affairs, Maria Otero, who I'm sure most of you know from her work in microfinance, on a range of issues, including financial inclusion, innovation, technology policy, and global partnerships. In this capacity Caroline works closely with U.S. embassies, USAID, the Treasury Department, and other U.S. government agencies to coordinate and elevate financial inclusion in U.S. foreign policy.

Prior to joining State, Caroline worked for global microfinance leader ACCION International, and was in the leading team and founding team for the Center for Financial Inclusion. She has worked for Oxfam America and the Carter Center, and she holds a degree with honors in international relations and Latin American studies from Tufts University. So thank you, Caroline, for being here.

Female: Thank you. Hi, everyone. Please do bear with Lauren and I. *[Laughter]* We're tired, but we're so – I can speak for myself, I think Lauren too, that we're very excited to be here. A very well-timed panel I think for us, because we just spent the past two days in Seattle with some of the leading thinkers in this space, and it was really an awesome experience to be with the Gates Foundation, bringing together I think about 150 or 200 people to really dive deep into one area of financial inclusion that hasn't really gotten as much attention, which is savings and the importance of savings as sort of the lynchpin for financial access and stability for the poor.

So I'm going to talk about in particular what I see as the government role in the promotion of financial inclusion, and something that I've been looking at for the past year, since leaving bittersweet ACCION and joining the State Department. And then I'll talk about sort of what I think governments can do worldwide and then I'll talk about what the U.S. government, how we're sort of framing our engagement, at least in terms of the State Department.

So I think there are four areas that I see government sort of taking on a major role, and there may be more, so if you all think of some we can discuss afterwards. The first is the one that's most obvious to most people, which is regulation, and usually is in the realm of a central bank or the ministry of finance or a supervisory committee of some sort. And this is an area that regulators have been involved in for since the beginning of microfinance, especially in Latin America, where we see some of the more mature microfinance industries. But it's also becoming an area of increased engagements. As Oya pointed out, I think 90-percent was the percentage of governments who are working in some regard with financial inclusion. And I think we're seeing increased engagement as we see new business models of microfinance institutions and other financial service providers, as they look to alternative delivery channels, like mobile banking, like smartcards, like correspondent banking.

And this is, it's really kind of an unknown space for regulators, and I think that there is a fear of the unknown. And I think that we, as the microfinance industry, should be proactively engaging regulators in conversations about how we can approach this new business model for microfinance and for financial inclusion in an effective way that allows for innovation, but also balances risk and the security interests of both protecting consumers and the system at large.

So I think we've seen two countries in particular, Kenya and the Philippines, be very diligent about this. In the case of Kenya, Safaricom, which I'm sure all of you know backwards and forwards, engaged the regulators from the beginning, but the regulators decided that they were going to basically watch and see. And so with that Safaricom was able to sort of do a process of trial and error, and I think what we saw then is that through that sort of initial engagement they continued a conversation that was very productive for that industry in particular. And I think what we heard in Seattle from actually the lead regulator from the Philippines is that innovation is always going to outpace regulation, and that if we're conscious of that then regulators really should be following the market, but not too far behind. And so it's important that they have, again, this continual conversation and that we in the industry are very open and engaging with regulators and that we don't approach each other with fear, 'cause I think that that sometimes can get in the way.

I think other countries are looking to go in this direction. Some are very proactively, again, as Oya pointed out, moving on microfinance or sort of mobile banking regulation. Some examples are Mexico, Colombia, Peru, and even Haiti I think just two weeks ago passed new legislation on mobile banking or e-money.

There are also two really important new platforms to discuss financial inclusion regulation among governments. The first, which I think is just an extraordinary organization, the Alliance for Financial Inclusion, which is basically a membership organization with regulators from I think 60 different countries around the world. And it's basically a way for regulators to engage with one another and to transfer knowledge, and I think that's the first time it's been, that particular platform has taken place in the microfinance industry.

The other platform, which we heard some news on just last week, was the G20 and its development of the Financial Inclusion Experts Group. And some of you may have seen last week that President Obama announced a $520 million fund for SME finance, which was developed out of this Financial Inclusion Experts Group. So I think there we see that financial inclusion actually is rising to the level of interest of heads of state, which is really exciting, because, you know, the fact of the matter is that this is an industry that was started by non-profit organizations and it was seen as a development strategy, and now it's actually being sort of translated into an economic growth strategy and a political imperative for countries in the developing world in particular.

So that's regulation. So the next area is moving away outside of sort of banking regulation, but into the policy space, and looking at or encouraging governments to look at those areas where infrastructure may be fragmented, that presents additional barriers for people to access finance and to grow their businesses. One example is national ID systems. So in a developing country if you don't have a systematized way for people to present who they are at a bank, then that person is obviously going to have a lot harder time accessing traditional finance mechanisms.

Another area is establishment of credit bureaus. So as we look at some of the challenges of microfinance, and I think we're seeing this particularly in India right now, is the challenge of over-indebtedness. And what happens when you have increased competition in the microfinance industry and clients who are taking out multiple loans from multiple institutions, and those institutions in some cases don't have a way of sharing information on their client base, and so you see that there's replication of efforts and that clients are taking out too much money, more money than they're able to pay back. So credit bureaus is another really important policy space that we want to look at. So I think, you know, when we look at policy we want to sort of frame financial infrastructure as important, like physical infrastructure, you know, in that we build roads and we build bridges so that people can get from one side of the country to the other; we build financial infrastructure so that people have paths to build their businesses and stabilize their incomes.

Okay, so then that's number two. The third is government as a catalyst and as a convener. And I think that, again, as Oya pointed out, several countries, many countries actually are developing sort of financial inclusion strategies, and in doing this they're bringing different players to the table. I think one of the best examples is the government of Colombia, which has developed Banca de las Oportunidades, which is not in fact a bank, but it's a national financial inclusion strategy that has political buy-in at the highest levels. And it was established in the Uribe government and has been since adopted by the Santos government. So we see that there's a continuity there.

I think government can also be a catalyst in terms of investment, obviously investment in this financial infrastructure, like credit bureaus and identity systems, but also the angel capital that is necessary to really reach the poorest of the poor, where traditional capital is not going to go. So that's number four.

Number five is government actually as a player itself. So in a lot of these countries governments are employing a large percentage of people, and they are distributing payments in cash. This is an area that I think I'm very interested in, especially in post-conflict areas or areas where cash distribution is challenged by infrastructure and security concerns. So looking at how governments can actually not do more in this area, but just update them or do them differently. So bringing their own systems into the 21st Century and migrating their payment systems onto a mobile platform, for instance. We're starting to do some of this in Afghanistan; the Department of Defense is looking into paying mobile – or has launched a platform there to pay police forces. We're also looking to do this in the DRC, which is a project I'll be working on with CGAP, hopefully, and the Gates Foundation in the next couple of months.

So basically, you know, looking at how we can streamline government processes using modern tools like mobile banking so that, you know, we increase accountability, transparency, and that also security is increased, both by people not having to carry cash around and also people getting paid on time, because a lot of times I think in Afghanistan and the DRC what we see is that governments will pay $100.00 to one police officer, and along the way everybody who touches that $100.00 takes $10.00 off. And so the end recipient gets, you know, maybe 20-percent of what their total salary is going to be, and then they have to resort to pillaging and other things that endanger the people and the community around them.

So I think that generally speaking government as a player is great for the financial inclusion sort of industry as a whole, but it also is good for the government itself. I think we see that the more you increase inclusive finance and bring more people into the formal sector, you also increase transparency of the ability to track your economy in efficient ways, your ability to collect taxes even; which is a very big priority of Secretary Clinton's. Basically increasing the sort of relationship or enhancing the relationship between the government and its people.

One way that a lot of governments, and especially in Latin America, are starting to do this is by transferring their conditional cash transfers over electronic systems, whether it's through prepaid cards or mobile banking or just vis-à-vis the state bank. Mexico is doing this, Colombia is doing this, Brazil's been doing this for a long time. So that is an amazing sort of way to enhance financial inclusion from the get-go; you create a no-barrier entry point for the poorest people in the country to open a bank account, and so now all of a sudden in the past three years Colombia has introduced the lowest quintile of its population, 5 million families, into the formal financial system, and I think that's a pretty powerful thing.

So those are the four. All right, now I'm going to go to what the State Department is doing vis-à-vis other U.S. government agencies. The way that I've tried to look at this is three buckets; there's education, there's coordination, and there's elevation. The first one, education, is really what I've dedicated a lot of my time to in the past year, and that is based on the fact that not a whole lot of people know what financial inclusion is. I mean clearly the people in this room care about it, but for the, you know, diplomat who's working in Tanzania, he may know or she may know what microcredit is, but financial inclusion and this idea of a full spectrum of financial services for the poor is kind of a foreign concept.

So what we're doing at State is developing a financial inclusion curriculum that will be offered to all of the State Department's diplomats so that they can be better educated. And this is really based on the idea that the State Department's value add in this industry in the context of most of the expertise existing outside of government, in the private sector with CARE and with CGAP and with ACCION and with others is that we have human resources. We have diplomats on the ground in almost every country in the world, and if we can educate them in a way and engage them in a way so that they can use their local relationships to generate the political will for reforms, then we will do a lot in terms of moving this industry forward.

So education is a big thing for us, and I'm hoping that we can use Microlinks. I don't know where the Microlinks people are, but we'll definitely be using that tool more.

The second bucket is coordination, and this has to do with the fact that the U.S. government is a very big bureaucracy and you would not believe how many different agencies that are actually working in microfinance. I think the one with the most history is USAID, which has notably supported and advanced the microfinance industry since the '80s. But for all of the expertise that exists within AID, I think it's rarely reached up to the level of diplomatic conversations, where for instance, a U.S. ambassador goes to the ministry of finance and says, "It's really important that you pass this law". So I think we need to do a better job of figuring out where our shared priorities are and sort of leveraging them for increased impact around the world. And we're also working with the Treasury Department, who is very actively looking into the world of mobile banking vis-à-vis anti-money laundering and other constraints there. But so far I've actually been extremely motivated and heartened by the degree of collaboration and sort of shared values across U.S. government, so that's a good thing.

The third bucket is elevation, which I think really is using the bully pulpit of Secretary Clinton; of Administrator Shaw; of Secretary Geithner; of President Obama, who I'm sure, as you all know, his mother worked in microfinance; and of my boss, Maria Otero. All of these people who have a deep commitment and passion and expertise in this area, and so using their ability to highlight important projects, to sort of increase, again, the political will of people committing to microfinance and to financial inclusion in other countries.

So I think that is where I will stop and – yeah, and I think – yeah. Okay. *[Laughter]*

Female: *[Laughter]* Great. Thank you so much. I really loved your analogy relating kind of hard infrastructure, like roads, to financial infrastructure. I just think it's a really clear way to explain to people what's needed, because once you explain it that way it seems obviously clear. And it's also great to hear that you're actually heartened by U.S. coordination, agency coordination in this topic, because as someone who works, as some of you might, with other organizations that work on kind of the steel piping of aid and the different agencies and coordination both in D.C. and on the ground it is good for us to hear that sometimes it does work. So thank you for that.

Female: It's not all resi, but, you know.

Female: Yeah, there's progress. It's progress.

Female: I'm an optimist.

Female: Our final presenter is Lauren Hendricks. She is the Executive Director of a CARE Access Africa initiative, and I was very fortunate this past I think it was May or April, to visit actually some programs of theirs in Kenya, and it's really quite impressive. So for those who don't know, Access Africa aims to reach 30 million people in sub-Saharan Africa with access to a basic suite of financial services within the next decade. Prior to Access Africa, Lauren was the director of Economic Development Unit for CARE USA. She was responsible there for strategic direction and technical leadership for over 100 active microfinance and enterprise development programs in 54 countries. She currently serves on the board of directors and on the investment committee for MicroVest, a capital management firm investing in microfinance institutions. Lauren also serves as a chair of the board for the SEEP Network, and this is all from Tanzania, so just, she's kind of busy. I don't know how she sleeps.

Prior to joining CARE, Lauren was a program specialist at the Center for Institutional Reform in the Informal Sector, IRIS, at University of Maryland. She has over 15 years experience in evaluating, designing, and promoting the development of microfinance programs worldwide, and she spent three years prior to all of this in the Republic of Georgia with the International Rescue Committee, managing a microfinance program and overseeing its transformation into a locally-registered and managed institution.

So, Lauren, thank you very much, but right before I turn it over to you I want to encourage our folks who are joining us via webinar to make sure they take down their notes and start submitting questions; we'll have them in about 15 minutes. Thanks.

Female: Great. Thanks so much. And I will say I'm a past chair of SEEP, not a current chair.

Female: Oh, past chair, right.

Female: Lest Bill Tucker track me down for-

[Laughter]

Female: Bill would never do that.

Female: Well thank you guys so much for having me, and I appreciate everybody working around schedules to be here, 'cause it's really exciting and I think, as Caroline was saying, I mean coming out of the past two days at the Gates Foundation in Seattle, in some ways I've had a lot of my ideas about what I was going to do and where we were going kind of tumbled in the last couple of days, so I'm still kind of trying to figure out some of my new priorities and strategies. And it was really – it was just an exciting forum to be talking with all of these people who have financial inclusion at the forefront of their agendas.

CARE has decided to focus on financial inclusion, particularly in Africa, over the next decade. And really focusing on Africa because it is the least-served region for financial services globally, with less than 12-percent of the financially active population having access to formal financial institutions. So as part of our strategy for financial inclusion in Africa we have started a program called Access Africa, which is what I lead. Access Africa is based on CARE's village savings and loan methodology, and that is a methodology of facilitating and training groups of people, predominantly women – over 70-percent of our clients are women – in savings groups. CARE's role is one of training and facilitation; we don't put money into the groups. The groups are funded by the savings of the members themselves. Women save into the groups in very small amounts. The average savings amount across the portfolio is \$0.34 per week. And once the women build up a pool of funds then they're able to borrow out of that.

I know many people here are familiar with the self-help group movement in India. One of the features that makes the VSLA movement different from self-help groups is that they are time-bound. So at the end of a year, usually a year, the groups can choose, some do 10 months, some do 13, but it's usually a year, all that money comes back into the group and it's shared out. So based on how much you saved and how much interest has been earned in the group, you get your shares back. Because of the interest charge on the loans, which is typically quite high, at either 5 or 10-percent per month, the return on savings for the members is also usually quite high, so the average across the portfolio is about 54-percent annual return on savings for members.

CARE is looking to reach, as Jen was saying, 30 million people, and so we are scaling up rapidly. Over the last two years we have had 40-percent annual growth in our portfolio; we are currently reaching 1.9 million people across 24 countries. And last year alone added over 560,000 new clients.

CARE's strategy for financial inclusion is based on starting from these savings groups and using these savings groups as a foundation, and what we feel is often a basic and necessary first step for the very poorest households to be included into the formal financial sector. There was a lot of talk this week about the scaling down of formal financial institutions, and whether it's using mobile payment systems or correspondent agents who operate small kiosks or small grocery stores in villages, or the extension of mobile services from vans and ATMs, and getting touchpoints for financial services out closer to rural populations. This is extremely important.

But there is still a significant portion of people, particularly in sub-Saharan Africa, who want to transact in amounts that are too small to enter into the formal sector no matter how close the formal sector comes to them. So I was saying, you know, we could have a client who has a bank next door and an M-Pesa agent on the other side of them, and they still wouldn't be able to transact, because proximity isn't the only barrier for them. It will, in my opinion, likely never be financially viable for foreign institutions to take savings at $0.20 a week. And so what the village savings and loan groups do is allow people to aggregate that savings demand that they have and use that as an entry point into formal financial services.

So we have been working – so I often say that a lot of the microfinance industry and the financial inclusion industry is working on the supply side and bringing the supply side down in closer to the poorest of the clients. We're working on the demand side. And VSLA is building skills and assets of the poorest population so that they can rise up to a level where they can start to interact with the formal sector.

I will say that this philosophy about using the savings-led groups as a platform for financial inclusion in the formal sector is a bit controversial, and so CARE is a proponent of that, and there are other people who in the savings and loan movement who are more skeptical about using the groups to enter into the formal sector, and they prefer to see the groups kind of stay as standalone entities.

So I think one of the key things about the savings groups is that they start at a point of savings rather than of borrowing, and research has shown that particularly for the very poorest households, they would prefer to save than to borrow. And to some people that seems counterintuitive because you think these are poor households living below the consumption level, below a level of meeting their basic consumption needs, and so you would think their first instinct would be to bring more money into the households through debt. But research shows that these are very risk-averse households; they have zero safety nets if anything goes wrong. So they are much more interested in saving the little bits that they have rather than borrowing, and they would rather save up and build their own assets.

You know, one thing about extremely poor households is not that they have no income, it's that their income is very irregular, and so they have times when they are in surplus and then times when they are in deficit, and a savings program allows them to smooth that consumption so that when they're in excess they can save and when they're in deficit they can borrow out and they can smooth that consumption. Once household consumption is smoothed, households are much more likely to be able to take the risk of engaging in more high-value enterprises, and they are more likely to start new and cogenerating enterprises. So that's kind of the point at which we come at it, that if we want to reach the poorest, savings is a better place to start than debt.

There was a lot of talk this week too also about commitment savings. So one of the features for extremely poor households is that even when they save informal institutions, they save for very short periods of time. So I think the average account duration for a very poor household is two to three months. And something like VSLA, which is more of a commitment savings product, the client makes a commitment to save a small amount, but on a very regular basis so that it accumulates, has a much more significant impact on those households, 'cause they're able to build up assets. And that commitment and that social pressure to meet the commitment is very significant.

So this idea of kind of starting from a point of savings and of group savings and using that group to enter into the formal financial sector isn't new, and obviously India has been doing it for a long time and fairly successfully. But it is new in the African context, and CARE has been one of the pioneers in trying to push that forward. We have a very innovative partnership with Barclay's Bank across five countries. One of our kind of principles around these linkages is that financial institutions need to treat village savings and loan groups as clients and as a market. So in Tanzania, where I live – I cover all of Africa, but I live in Tanzania – we have 350,000 VSLA clients. And so it's a significant market for any bank interested in reaching it, and so they should develop a product that is appropriate for VSLA groups.

And so we have been working with Barclay's in Uganda, Kenya, Ghana, Egypt, and Mozambique to develop what the Brits call "bespoke products," which I take to mean unique. But specialized products simply to meet the needs of the VSLA groups. So they are now becoming Barclays clients and entering Barclays using a savings product that Barclays is offering for them. And the next plan then is to roll out wholesale credit product. So a credit product that would go to the group as a whole, but go into their group, fund it, and the group would intermediate, as they do their own savings.

And so this has been a very successful product. The groups are very – because of the share-out process there are times in the groups when they have kind of significant excess liquidity, and so for them to be able to put their liquidity in a very safe space is a very appealing option for them. And I always think it's such a – in Africa Barclays is, you know, a gold standard bank; it's the top tier bank. And so to have someone who's gone from being extremely poor in a rural area and saving $0.20 a week to being a card-carrying Barclays client is a really significant change in that person's life, and they really feel – and they report, "Now I feel like I'm really part of the economic community. I'm part of this country now, look, I'm a client of Barclays'. You know, I never would've even dreamed of going inside a Barclays Bank before and now I'm a client". So it's very exciting.

There's also a couple of other innovative projects we're doing with MicroInsure and offering insurance products to the VSLA groups. Again, it's aggregating that demand for services so that MicroInsure, it would not be profitable for them to on an individual basis go out and reach out to a bunch of people in rural areas and offer them funeral insurance policies at $2.50 annual premium. But if we can aggregate 20 people, all of whom agree to purchase that – it's an individual product, but the group agrees that everyone will purchase it, then it starts to make financial sense to offer them those products.

I think another exciting innovation in the industry and one that we are really keeping our eye on because we think, especially for the clients that we work with in remote rural areas, that it's going to be a real game-changer, is the mobile phone space. So right now we are using M-Pesa in Tanzania or groups to store excess liquidity.

So they are using it as de facto savings accounts. For me, in my opinion, that's a great temporary measure in the market, but things like M-Kesho I think are more exciting, where mobile payments platforms, like M-Pesa or ZAP, which is the Zain system; or Mobile Money, which is the MTN system, are able to be used to link into a formal financial institution account. Because as exciting as M-Pesa is, it's only a one product short-term savings account; it doesn't have the full financial features that a client might want. So it doesn't have loan capabilities, it doesn't have insurance capabilities, it doesn't have pension capabilities. So getting clients linked into a full-service financial institution is the long-term goal, and using the M-payments platforms as a transfer mechanism rather than as the financial service itself I think is very exciting.

But also there was just lots of interesting stuff going on in the mobile payment space in terms of who is going to run that; is it a financial institution product that uses the rails of Mobile Money, or is it Mobile Money is going to – we were hearing about the case in Pakistan, where in order to meet regulatory requirements the phone company, who simply wanted the platform to be able to do mobile transactions, bought a bank. *[Laughter]* I always like the way they say, "We want to do this, so we bought a bank". Oh, that was easy. But then once they had it, they decided to offer, you know, more financial products using that space.

So I think it's still an ongoing, very fluid in that market about who's going to kind of end up being the main provider services; is it going to be telcos or is it going to be financial institutions. And it was interesting to hear Safaricom talk about, you know, that they had gone through the process of thinking about should they become a bank before they hooked up with Equity and decided that they would co-brand this M-Kesho product.

My time is coming to the end and I wanted to talk just a little bit about some of the regulatory and the policy issues that could help I think spur financial inclusion, and particularly for the people we work with, the very poor. And so one of those and one of the most pertinent kind of to my issue is the ability of informal groups to have legal identity for the purpose of opening financial accounts and entering into contract relationships with financial institutions. There are some countries where this is expressly prohibited; there are some countries where it is enabled.

So India passed a clarification on the regulation that allowed self-help groups to open accounts with financial institutions without any sort of formal registration process. There are countries, Rwanda for example, which has recognized the SLAs in the financial legislation and allows VSLAs to operate as informal groups, but has outlawed the linkage between VSLAs and formal financial institutions. So clarifying what is now a very gray regulatory space in many countries would be extremely helpful for us.

Instituting risk space, AML/CFT policy – so AML/CFT is anti-money laundering/combating the financing of terrorism. *Pshew.* It used to be AML/KYC, and anyway, it's too complicated for me to keep up with. But the requirements now around identification for the opening of accounts with financial institutions can be a significant barrier to the very poor. And Caroline was talking about national ID systems and encouraging countries to roll out national ID systems, and India is in the process of doing that now, and it's a five-year process – four-year process? Anyway, a several-year process. But they do have 2 billion people. But in the meantime a more risk-based approach to KYC would be appropriate. So allowing accounts below a certain level – they call it a tiered approach – allowing accounts below a certain level and transactions below a certain level to be operated outside of KYC requirements would be extremely helpful.

More focus on Africa in my opinion would be extremely helpful. *[Laughter]* And Caroline already talked quite a bit about the regulatory space around mobile phone banking. And in my opinion putting in place regulatory frameworks that encourage and speed up the implementation of mobile transactions and mobile wallets would be incredibly helpful.

And it's interesting, because we see countries that are – so Haiti is a great example and we're hearing about it. So Haiti has put in a tiered KYC policy that is really opening up the space for the poorest open accounts. I think 40-percent of Haiti is undocumented or without a national ID. So putting this tiered system in place will allow those people to move easily into the formal financial sector. At the same time, Haiti is essentially blocking mobile phone companies from getting into mobile financial transactions, and so it's interesting to see that some-

Female: Without a banking partner.

Female:	Yeah, without a banking partner. So it's interesting to see some countries are moving forward in one area and kind of pulling back in other areas. And then finally I would encourage particularly the State Department to work with governments to ensure that policies that are enacted, particularly around women's financial inclusion, go from a policy to an implementation phase. So there are lots of countries in Africa where we see good legislation in place around women's contract rights and women's property rights and women's inheritance rights, and those good policies don't translate into practice on the ground, and that really limits women's ability to move into the formal space. So with that I will end it and I guess we're going to have questions now.
Female:	Yeah, thank you so much. I just have one brief question to start. I would love to get all of your opinions about the Gates' commitment of $500 million for savings over five years. What do you think that means for the field, both positive and negative? And how would you like to see that commitment move forward? So anyone who wants to take that.
Female:	Practitioner.
[Laughter]	
Female:	Oh, well, yeah, I think – I was really struck – I think one of the things that is going to make the savings movement significantly different from the microcredit movement is the range of players that we're all going to be forced to interact with. So I know many people in this room come from the kind of microfinance background, and a lot of us have experience in setting up microfinance institutions that are primarily kind of credit-based. And when we did that we could really be very isolated, right? And in many ways we wanted banks to stay out of the space, we wanted regulators to stay out of the space, we wanted people to leave us alone so we could do it. And savings is fundamentally different; it requires a very proactive engagement with policymakers, it's going to require a very proactive engagement with bankers, because they have the platforms to take in savings at the level and the frequency that we're talking about. It's going to take a very proactive

engagement with telcos and with any of these payment platforms. So it is a fundamentally different game.

And I think one of the things that Gates, besides their money – and I still think they could've given more – but they have played a significant role in convening all of these different players, and I think that that's been a really fundamental shift and has really led to some fundamentally different types of programming in savings, which is exciting.

Female: That's a great point. Thank you.

Female: I would just actually add to that that I think that Lauren is exactly right, that, you know, it's a fundamental shift. And I think an additional shift is the idea that we don't actually need to give the poor money, that in fact they have money that is just not adequately being leveraged and used. Jonathan Morduch, Daryl Collins, and Stuart Rutherford wrote an excellent book called *Portfolios of the Poor*, in which they studied the financial journals, so to speak, or the, you know, the uses of money among poorer populations in I think four countries.

Female: Yes.

Female: And they found that the average poor family uses nine financial tools, I think eight of which are outside of the formal financial system. So this means that basically, you know, the formal financial system is only reaching so far into the pockets of the poor, so to speak. And if we're able to extend that reach, not to take their money from them obviously, but help them use it in better ways and that makes them more efficient managers of money. As Jonathan Morduch said, it's more about helping them hold onto their own cash. So anyway, I'd just throw that out there.

Female: I think there's a question in the back.

Female: If everybody can please just say your name and organization before you ask a question.

Male: Hi. I'll stand up. My name is Oscar Abello and I work at the Center for International Private Enterprise. And I'm really glad you brought up the $500 million initiative. I was going to bring that up. Because I read – I wasn't in Seattle, but I did read Melinda Gates' announcement, and what I found to be striking was the conspicuous absence of everything you just mentioned in response, the VSLAs, ROSCAs, ASCAs, insurance schemes in South Africa for funerals. Like you said, there's plenty of financial intermediation already occurring, and when you play the savings game, as Ms. Hendricks mentioned, and it's totally different, those informal groups that are already on the ground, they need to be the key players I think. That's my opinion. Because if they're not you're going to be undermining what's already taking place and it's just going to end up blowing up in everyone's faces.

So I'm wondering will there be a concerted effort on the part of, you know, the folks on the panel, the organizations, or anyone else in the field, will there be a concerted effort to put those informal groups at the front of this movement? Because they were absent from Mrs. Gates' remarks in Seattle.

Female: Well they may have been absent from the press release, but they were very much present in the room. And in her opening address to the group she did mention the savings and loan movement and CARE's work and others' work in the space. And Gates is a funder of ours and of central other implementers of the savings-led approaches, so OXFAM and CRS and others.

That being said, I appreciate what you've said about – I mean one of the worries in the financial inclusion movement is that is it going to be a movement to include the middle class and the lower-middle class, or is it really going to be a movement that includes the extremely poor. And there is a risk that – because the middle class in most of the countries we work in are also unbanked, and so you could have significant progress on global financial inclusion without reaching the poorest households. And so I do think that all of us in the movement need to kind of keep everybody's feet to the fire about reaching the hardest and the most marginalized and not just, you know, the easier-to-reach populations.

Female: Agreed.

Female: Hi, my name is Mariko; I work at Making Sense International. And Oya mentioned that the poor are already using many informal instruments. And the book, the *Portfolios of the Poor*, mentions the same thing. And all of the research around poor peoples' income, showing that it's small, it's just not being leveraged in the right way. I'm wondering, Jennifer, in your – or sorry, Lauren, in your experience working with financial institutions, like how widely accepted is that tendency that the research is showing that, you know, people really do have money, it's just not leveraged in the right way, and people already are using informal services, so they really are sort of financially literate.

So like when you work with a financial institution like Barclays or the handful of other MFIs or otherwise, what do bank managers say about that?

Female: Well, no, there is definitely an education process on both sides, right? So we have been working with microfinance opportunities on adapting their financial literacy curriculum for our low-end clients, because we do find that there is a difference between the informal and the formal sector, and you do need to educate people about what's going to change when you move into the formal sector.

At the same time, there is a big education component with the formal institutions. So, you know, for example, with our relationship with Barclays, Uganda was the first country that we rolled out savings products in. We had two consultants from Accenture sit with Barclays for six months, doing market research, focus groups, so they could learn about our clients and understand their financial habits, their financial needs, how they save, how they might interact with Barclays. And now in each country where we roll out the Barclays products we go through a shorter but similar process; so we have consultants sit for two months/six weeks with Barclays in those countries to help them understand, because, you know, we have this global agreement with Barclays London, but when we got on the ground we quickly realized that there was little buy-in and little understanding from your branch manager in Kazumu about, you know, the agreement out of London.

And so those are the people that really needed to buy in, so there's definitely an education process. There's definitely still a perception among the more formal institutions and the larger institutions that the poor can't save or they save in such a level that it's not interesting. But, you know, we have groups that are saving, you know, $3,000.00 or $4,000.00 a year. And when the banks start to realize that they could move that from a metal box in a village into their institution it starts to become more interesting.

One of the challenges that we were talking about – sorry, I hate to keep referring to a meeting you guys all weren't in, but it was really mind-shifting for me, and so – and I got so much information that I'm still processing it all. One of the big challenges for financial institutions around banking the very poor is that their savings accounts are not profitable. So the average savings – and this came out from *Portfolios of the Poor,* the average savings balance in some of these institutions for poor accountholders is \$19.00, but the average cost to the financial institution for maintaining that account is like \$45.00. And so they're losing \$29.00 or something on every single account.

And so one of the values of what VSLA can do is aggregate 20 people all saving \$19.00 into one \$400.00 lump sum, which then makes financial sense for the bank to bank. And so I think understanding the financial and economics of how the banks operate and what their costs are and helping them to understand what these informal groups can bring to them and how they can benefit them is a win-win.

Female: Yeah, and I would just echo that by saying I think what the founders of the microcredit movement did really well is that they spent probably ten years figuring out the business case for microcredit, and once they got that down they realized that it was scalable and profitable . And I think as we move towards financial inclusion, which I have every hope that we are doing, I think the real challenge is going to be how do you make the business case for mobile banking? You know, what are the revenue-sharing models that can be agreed upon by the telco and by the bank? Likewise for savings. I mean, again, how do you restructure a savings account for a very low-income person so that it makes sense for a bank to actually want to do it.

And that's where I think, as everybody in this room probably knows, that microfinance really shakes the rest of the development industry, as we at the end of the day really believe in a business model and the bottom line of being able to scale up to meet demand. So I think that this forum that Gates had was really interested in looking at that business model for savings, and I hope that we'll be able to also do the same thing for mobile banking, 'cause I think that's really the ticket in terms of extending scale and reach to the remote and most poorest people.

Female: Most poorest, that's right.

[Laughter]

Female: That's the tiredness.

Female: That's the jet lag.

[Laughter]

Female: My name is Michelle Friedman and I work at the World Bank in agriculture and rural development. I just wanted to thank you guys for the presentations; they were very clear and very informative. I hate to shift away from talking about the poorest of the poor, but I actually work with the missing middle groups, so it's sort of in my own personal interest to ask you where they fall in this discussion. So in the sense that our projects work with producer organizations of about 20 to 50 people, and they are unbanked and they don't have access, and our projects essentially give public credits, streams of credit, which is incredibly inefficient. And we're trying to move away from that, and we don't even know where to begin looking; there's just not a lot of information out there.

So my first question is is it just because we don't really know, or is that something that is just the situation, the structural situation of the microlending movement right now? And then second of all, in terms of the financial cooperatives, we've noticed that that does exist in rural areas and it does exist to a scale that could be used towards funding lower-middle income SMEs. And so do you see this kind of system being able to support small businesses of producer organizations in rural areas as well?

Female: I can go?

Female: Go.

Female: Okay. Thank you, Michelle. Full disclosure, we went to college together. *[Laughter]*

So yeah, I appreciate the question, because it's something that I think several of the principals or sort of bosses at the State Department are really interested in is the missing middle. And I was recently in Peru and Colombia looking at what I'm now calling the continuum of financial inclusion. So whereas at ACCION we really – I spent several years looking specifically at microenterprises, I think now I realize that in fact the spectrum goes from subsistence, you know, welfare recipients, all the way up to informal medium enterprises that aren't entering into the formal economy because of legal restraints or too much bureaucracy or what have you.

One of the ways that we have identified to sort of reach out to the missing middle a little bit more is in terms of a policy constraint called “secured transactions”. And this is an extremely boring topic that apparently the only people who know anything about it or lawyers, and I’m not one, so it’s been an uphill battle for me. But basically the idea that you can that small businesses should be able to use moveable collateral, moveable assets, like plants, like crops, like sewing machines, anything other than property as collateral for a commercial loan. And shockingly, most countries in Latin America especially, don’t have this type of law on the books. We have it here in the United States, we have it in Canada, Bosnia, China. I mean like most – it’s kind of amazing that no country in Latin America has this.

So one thing that we have taken on is actually sort of lobbying our Latin American partners on the importance of this, because if a small business, like your cooperative, is able to go to a bank and say, “Listen, we have $2 million worth of crops in the field, can we please get a working capital loan out of this?” they should be able to do that. The OAS actually developed a model law on secured transactions, which is excellent, and I think that’s a great sort of way for us to be able to work with partner governments, when you have an organization like the OAS, who is able to give some sort of technical expertise, and then we can go in and either provide funding or further technical assistance to help them tweak it to their particular environment. But I think looking at sort of constraints like that, policy constraints to why these small businesses aren’t able to access financing, so.

Female: Over there, and then we have one question over here, in the back there.

Male: All right, this question comes from the webinar from Muhammad Junaid in USAID Iraq. The question is, “Mobile technology offers opportunity for leapfrogging financial inclusion. The challenge is how lethargic bureaucrats are persuaded to support creating the right linkages. Was any discussion in Seattle to address this challenge in how Gates Foundation can help in leveraging mobile technology to increase savings and promote financial inclusion and how the United States government can help create nexus among the various players?

Female: Here you go.

Female: Sure, I'll take the Gates side and you can take the American government side.

So the short answer is yes, so there was – of the two days we spent in Seattle a half a day was dedicated solely to regulation, and much of that conversation focused on mobile technology regulation. But I think one of the most exciting things that Gates has done is this AFI, the Alliance for Financial Inclusion, which is made up of regulators from 54 countries, all in the developing south. And the purpose of it is for them to share their experiences around financial inclusion. And so I think one of the most exciting things is for countries like Kenya and the Philippines, who have made significant progress on financial inclusion through fairly the role – regulations around mobile technology, to share those experiences with their colleagues in other countries who are grappling with the same thing.

And to put a little pressure on them. You know, we talked a little bit about the kind of embarrassment factor, the shame factor of seeing, you know, your next door neighbor country making all this progress on financial inclusion while your policy barriers are preventing it. You know, at the same time I do think there's a significant role for the State Department to play as well in kind of encouraging countries to adopt financial inclusion. So I'll let Caroline talk.

Female: Yeah. Sure. First, Muhammad, thank you for your service, 'cause I know it's got to be difficult over there and I would certainly love to discuss further with you, if you're listening. *[Laughter]* Yes, I think that what Lauren said is absolutely correct; I think that this comes back to the point I made about the government being a convener and a catalyst. I think that in a lot of cases what we need is just to start the conversation and get people to the same table. And I think, again, there's a lot of discussion around revenue-sharing and profit models among telcos and banks. And for every country it's different, because as I'm sure everybody has read a million times, Safaricom had 70 to 80-percent market share in Kenya when it started, and that meant that it was able to scale up much more quickly than if it had had some competitors who also wanted to do Mobile Money.

So as an example of what the U.S. government is doing, we are working really closely with Citi actually, Citi Group, to put together a Mobile Money policy forum, which is taking place November 30th and December 1st in Kenya. And we've invited telco executives and banking regulators and other stakeholders, including U.S. government representatives who are working in the field from Gabon, Cameroon, and DRC. And the idea through this Mobile Money policy forum is to have each country team really sit together and map it out, sort of develop a roadmap for how we can launch Mobile Money in each of these countries.

I think part of the reason we selected those three is that there is (a) political will to some extent to launch Mobile Money, and (b) high mobile penetration. So I think that we are very eager to get the conversation going. I think most central banks are realizing through mechanisms like AFI the potential of Mobile Money to increase financial inclusion. So it's really just a matter of bringing people to the table.

Female: Yeah, actually what I – two things real quickly. One thing is I think that there are legitimate constraints on regulators in the countries that we work in. They are working in fairly unsophisticated financial environments and they have been outside in a lot of cases, groups like the G20, which are making decisions around financial regulatory policy. The penalties for developing countries for being in non-compliance with AML/CFT are significant, and so the regulators legitimately have fears about how far they can push some of these issues.

And so one of the things that came out in Seattle is a group called FATF, the Financial Access Task Force, which is the body that puts in place the frameworks for regulation, but also monitors it and does the peer evaluations and can fine counties in non-compliance, is going to put out some clarifying regulations on – they have encouraged risk-based approaches without kind of defining what that means, and so they're going to put out some further guidance to countries, which hopefully will help them push the boundaries of financial inclusion.

I think another interesting perspective to take, which is that in Africa in particular a lot of these strategies, whether it be Mobile Money or correspondent agent banking, which hasn't gone as far in most places in Africa, but policies around financial inclusion, they're not pro-poor policies necessarily. When 90-percent of your population is outside of the formal sector it's just a pro-growth policy to try and figure out how to reach them. And so, you know, a lot of regulators aren't necessarily thinking of it – they have a great desire to increase financial inclusion, but it's not necessarily an anti-poverty strategy or a pro-poor strategy; it's just a growth strategy for them, which I think is an interesting perspective and different than Latin America or places like Iraq or Europe.

Female: I know we have two people in queue for questions, so why don't we take both of them? And you can answer them ______ ______ ______.

Female: Thanks. Hi, my name is Cher. I'm with the Institute for Sustainable Communities, and in my previous position I was actually with an MFI and DRC and was quite interested to hear about this upcoming project regarding the mobile banking regulation. I'm curious the story you told about the police officer getting a small percentage of his check as everyone takes their piece. And in my experience the systems there that can seem haphazard and inefficient are actually quite intentional and deliberate in the way they're set up, because everyone is benefiting and getting their piece. I'm just curious how you guys plan to get buy-in from the Congolese government, for example, to change a system from which many are obviously benefiting? I know that's kind of a big question, but just your thoughts on that. Thanks.

Female: So good luck to you.

Female: Yeah.

[Laughter]

Female: Did someone have a question over there? Oh, I thought I saw a hand. Did someone else? Okay, never mind.

Female: Okay. So thank you. And I would love actually to talk later about your experience in DRC. First of all, very interestingly, this request actually came from President Kabila himself. And he was in a conversation with our Assistant Secretary for African Affairs, Johnnie Carson, who is just an extraordinary African expert. And I think it really came out of Secretary Clinton's trip to the DRC last year, in which she really saw that gender-based violence was just rampant and she really tasked some of her team to look at ways to combat it, non-traditional ways. You know, so, and I think what they identified was, again, this story of people not getting paid. And so what happens when you don't get paid and you can't feed your family? You're forced to other means, which are not good for your community.

So the political buy-in I hope is from the top, and so I think if we have any challenge it will be to the extent to which it trickles down. But so far so good in terms of that.

I think one of our biggest challenges is the systemic aversion, because people have gotten so used to the sort of bonus system, so to speak. We actually – DOD I think was the lead on this pilot that we did in Afghanistan in which Roshan, the leading telco there, helped us pay a select number of police forces. And though the pilot itself was successful, there was an extraordinary amount of resistance to scaling it up, and it was for that exact reason, that people did not want to lose out on the money that they had been skimming for so long.

So I guess my answer is I don't know how we're going to do that quite yet. I think we're fortunate in that there have been some attempts in the past, and though they haven't been successful, we can glean some lessons from them. And I think that – oh, gosh, excuse me. I think that, again, the tiredness. I think that the political will really will help. And so we plan to be, you know, obviously fully engaged with the government of the DRC every step of the way to make sure that there's no step that we're moving forward on that they're not ready to move forward on themselves.

Female: Your last question?

Male: Hi. I'm David Levai from Center for Financial Inclusion. Just to conclude, I'd like to hear your opinion on how these new systems, these new channels can be in some way sold. How can the business case be made to those private sector actors, whether they're telcos, banks, insurance companies? And will we be able to get them involved in that system without having to fund them to do this?

The point is that Safaricom, when they started M-Pesa, only started M-Pesa because they received the $1 million grant from the European Union. They would have never gone down market if they had not received that, because they were too risk averse. So ultimately this is a good thing. They never sent the money back to the European Union, and that's money that they cashed out – they cashed in, sorry.

If we renew this experience on a larger scale and a larger level, how many governments, instead of channeling money directly to the people that need it the most, is channeling money to the corporations that will give services to these people, to which extent can we prevent that little bit? And that little bit rejoins why the – when we look at the reform of the healthcare system here, the healthcare industry was very pro reform, because at the moment where the government imposes everyone to have a healthcare plan, if they can't fund it the government will fund it, but it will be ultimately channeled through the same actors. If that's the same thing for savings account, for insurance policies, for telecom accounts throughout the developing world to 4 billion people that need to be reached, that can incur amazing transfers from government money to ultimately corporations. How do you mitigate for that?

Female: *[Laughter]* I think your question might be above my pay grade. Well, I mean I'm not sure that transferring money out of the hands of the government of DRC and into private sector in DRC is necessarily a bad thing. And I also think if we were asked today, "Hey, would you have paid $1 million for M-Pesa?" we'd probably all say, "Yeah, that was a good deal". And so will there be subsidy required to get private sector into the game in some of this? Absolutely. But we've sunk a lot of subsidy into microfinance, and I think a lot of us think that that was probably a pretty good deal too.

So I think the question has to be what is the subsidy getting us, and is it getting us a sustainable system that has benefits far in excess of what the original subsidy was. And if that's the case then subsidize away.

Female: Right. I think also, and my USAID colleagues can probably speak to this better than I can, but I think there is room for the sort of the catalyst role. And I think one of the ways that USAID is doing this is through challenge funds, and it's sort of modeled on the x-prize, if you will. And they just launched one a couple months ago in Haiti with the Gates Foundation in which they said, "Listen, telcos, the first person to reach 100,000 mobile wallets will get $15 million". And that certainly, you know, if $15 million doesn't motivate you to get your act in order then I don't know what will. And I think the result of that – well, there is no result yet and we can't say whether it's a win yet, but I think that it definitely got the attention of the Haitian government, which is-

Female: Who probably-

Female:	-who actually is now blocking it. No, but I think more importantly they're now engaged and they're realizing how important this is to reach financial inclusion to sort of establish better financial stability in the country. So I think that while we don't believe in subsidized financial inclusion in the long-run, I agree with Lauren, that I think that they're in a lot of these high-risk sort of – or unknown areas, that there is a role for that kind of subsidy.
Female:	Do you agree?

[Laughter]

Female:	Well I think that's actually a fantastic point and it really changes us to think what is the role of private money, what is the role of public money or donor money in catalyzing this movement. A lot of questions have been answered, a lot of questions now are in all of our minds about how this actually happens. I encourage all of us to take this back to our community, your organizations, and think about what role in this process do you play and what can you take from here to move forward, which I think is a goal that we all want to see. It's not a question of is this a good thing; it's just how can we actually make it happen. So again, thank you to you all for coming and spending your time here. Thank you so much to our panelists; we really appreciate it, and I think they deserve a huge round of applause for all they've given us.

[Applause]

[End of Audio]