

Reaching the Excluded Responsibly: The MasterCard Foundation's Strategy for Financial Inclusion

Anyone working in international development knows that there is no magic solution for reducing poverty and improving the lives of people affected by it. The story of development is one of persistent and incremental change that enables people living in poverty to overcome barriers and inequities and empowers them to prosper. Financial inclusion is a critical element of such change.

What drives that incremental change? While there are many factors, innovation is prime among them. Finding, fostering, and spreading the word about new initiatives that are shown to be effective, including financial inclusion initiatives, is essential. This usually involves putting end-users, the ultimate beneficiaries of financial inclusion programs, at the center of all planning. That is why we at The MasterCard Foundation have client-centered innovation at the heart of our programs, particularly those that promote financial inclusion.

The challenges of financial inclusion are well known, as the most recent Global Findex report attests: some two billion people in the world, mostly in developing countries and emerging economies, have no access to the basic financial products and services that many of us take for granted. For people living in poverty, not having the ability to save, borrow, or move money reliably, easily, and inexpensively is a significant impediment to improving their lives¹. The good news is that ever more people are finding themselves financially included. While the Findex report outlines the work that still needs to be done, the number of people around the globe who have access to financial products and services has increased by about 20 percent in the past three years—some 700 million adults—bringing the rate of the world's banked from 51 percent to 62 percent.

Why is that good news? Because access to basic financial services is a fundamental necessity that helps people achieve their economic and personal goals: opening a new

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business, growing produce more efficiently on small plots, dealing with emergency health-care costs, or even sending their children to school.

The MasterCard Foundation supports pilot financial inclusion projects that focus on the client and have the potential to be scaled up significantly. With our partner organizations, a variety of institutions in the private and public sectors, we identify innovative ideas that deserve attention and need support to move from the planning stages to implementation. For example, in January 2015 we launched a \$50 million Fund for Rural Prosperity (FRP), designed to identify and support innovative approaches to financial inclusion that serve smallholder farmers and people living in poverty in rural regions of Africa. Both of these groups of people are often ignored by financial institutions which see them as consumers with little income. The financial institutions, therefore, have little interest in cultivating this market segment. In fact, the needs of people living in poverty in sub-Saharan Africa are particularly acute—only 34 percent of this population have an account at a financial institution—but there is also tremendous dynamism in the market and an opportunity for real improvement.

The FRP Innovation Competition, the first of three to be held over three years, received an overwhelming response from traditional financial service providers, mobile network operators, financial technology (fintech) firms, and other budding enterprises. Their ideas on how to extend financial inclusion demonstrated the breadth and depth of the innovative ideas in rural and agricultural finance to be found in Africa. We are recognizing and supporting the best of these proposals, which we consider truly innovative approaches that stem from understanding the real needs and aspirations of the disadvantaged and marginalized. If properly designed and implemented, these proposals stand the best chance of breaking through the barriers that separate poor rural people from the financial products and services they need and want. Among the most exciting are the proposals around mobile technology. They have tremendous potential to provide new platforms for safe, reliable, inexpensive, and appropriate financial services in a way that traditional bank branch structures never could.

The financial services sector in Africa is growing rapidly and it can deliver financial services sustainably and at scale, but it still only reaches what is essentially a wealthier urban population. Philanthropic resources like the Fund for Rural Prosperity are, therefore, most appropriate and effective when they can deepen the sector's understanding and strengthen its ability to serve the particular needs of tens of millions of rural clients. The FRP, however, is only one initiative, and there is much more to do.

In its effort to extend the access frontier, The MasterCard Foundation attempts first to understand why the private sector is unable or unwilling to provide financial services for all, and then to make the case that financial inclusion is good business by demonstrating how the underserved can be served responsibly and sustainably.

Such initiatives inform our overall learning framework, which is driven by the need to understand how access to financial services improves the well-being of clients who have complex and sometimes contradictory financial service needs. We're experimenting with how financial service providers can best develop the appropriate products, services, and channels to meet those needs while keeping the client at the center

of their operations. Moreover, we continue to learn about the ecosystem that surrounds any financial inclusion initiative—the local, national, regional, and sometimes global institutions that determine the rules of the game for innovators, entrepreneurs, and established businesses. For example, in some African countries, traditional village savings and loans groups remain the primary vehicle for financial inclusion. These approaches have their weaknesses, however, and we are only beginning to understand how to leverage the opportunities most effectively that expanded mobile phone penetration now provide within the sector.

The Foundation supports innovation and client-centered service in three specific areas of financial inclusion: expanding opportunities for rural and agricultural finance; linking traditional savings groups to the more formal financial services industry—what we are calling “savings at the frontier”; and leveraging technology in ways not used before to enable more people to become financially included on a sustainable basis.

RURAL AND AGRICULTURAL FINANCE

Smallholder farmers comprise the overwhelming majority of the rural poor in Africa. Providing appropriate and sustainable financial services to this client group requires a solid understanding of their unique needs. For instance, many smallholder farmers want to borrow money to purchase seeds and fertilizer but they cannot repay those loans until harvest, so special repayment terms may be needed. Traditional financial institutions have not served rural smallholder farmers well; current estimates are that only 3 percent of the demand for agricultural financial credit is being met. We also know that these farmers have financial needs beyond credit, including savings and insurance. Finding mechanisms to mitigate the risks smallholder farmers face is an important way to help them break the cycle of poverty.

The Foundation has been partnering with a number of organizations to increase access to financial services for smallholder farmers. This includes a variety of partnerships with microfinance institutions such as Opportunity International and input suppliers such as One Acre Fund. We are also helping agribusinesses partner with banks through our work with AGRA (Alliance for a Green Revolution in Africa), an organization of partnerships working across the African continent to help small-scale farmers and their families lift themselves out of poverty.

Supporting innovation in financial inclusion is one requirement; sharing what we learn as a result is another. That is why we engaged the Global Development Incubator to establish a rural and agricultural finance “learning lab” to advance research and stimulate further learning and engagement across the sector. The initiative will begin developing and spreading best practices by early 2016.

SAVINGS AT THE FRONTIER

Over the next few years, the Foundation also will work to expand access to savings services by supporting the expansion of informal savings groups. The Foundation

has a number of partners that have worked with local communities to develop these groups, which are often the only form of savings and credit their members have access to. The groups are reaching more rural and poorer client segments than formal financial services and are an important pathway to financial inclusion. These groups also have shown that they can improve clients' lives. Through his work in developing countries, Dean Karlan, an American development economist, has demonstrated that informal savings groups can increase food security and help clients provide a buffer so their family can meet short-term or emergency needs. Savings groups alone, however, cannot address all the financial needs of all households.

In 2014, research with more than 500 savings group clients found that they value the discipline of saving regularly, the convenience of the groups, and the social aspects of coming together regularly to save and discuss what to do with the money collected. They also face a number of challenges, including a limit on the size of loans available to members, which are contingent on how much each member deposits, as well as the insecurity that can arise from saving cash in lock boxes.

Linking informal savings groups to formal financial service providers can be an effective way to meet the needs of savings group members without interfering with the strong social links and financial discipline that come from being a member of a group. The MasterCard Foundation has been working to connect informal savings groups to formal service providers since 2008, primarily through partnerships with NGO facilitators. Our experience has shown that these links are beneficial, but that they also require building the knowledge and capacity of both savings group clients and formal financial service providers.

Over the next few years, the Foundation will continue to seek innovative approaches to linking savings groups with formal financial services. This will include engaging directly with financial service providers to foster a client-centric approach to market research, and encouraging them to consider appropriate and responsible connections through technology.

We expect these efforts to help provide access to safe and appropriate formal financial services for an increasing number of poor rural clients.

LEVERAGING TECHNOLOGY TO SCALE ACCESS TO SERVICES

Finally, the Foundation is expanding its work to help financial service providers, particularly microfinance institutions, develop new channels that will enable them to reach a greater number of clients. Through our partnerships with Opportunity International, FINCA, UNCDF, and IFC, among others, we are supporting organizations that are learning how to roll out new channels in order to reach more rural areas. We are concurrently conducting research to learn how access to digitally delivered financial services improves lives, and what clients want and need from these types of products.

One question that remains for most microfinance institutions is the level of investment required for these new channels and the benefits that will accrue to financial services providers' bottom lines. This is a critical issue for sustainable expansion. The

sector will benefit from understanding the costs and benefits of the new channels in more detail, and the human and capital resources required to make them a sustainable success. We are also working to understand how the supportive infrastructure such as agent networks and appropriate regulatory environments can facilitate growth.

One of our most exciting initiatives involves helping to develop the next generation of mobile financial services. With extensive use of mobile financial services, the rapid expansion of smartphones, and the increasing number of fintech firms, the potential for scalable digital financial inclusion is greater than ever. Smartphones provide opportunities for financial education and customer engagement, and Africa, which already has more mobile accounts than physical accounts, can lead the world in this arena.

KEEPING CLIENTS AT THE CENTER

Throughout our three focus areas, we are adhering to our core value of keeping clients' needs at the center of our work. The annual MasterCard Foundation Symposium on Financial Inclusion allows us to demonstrate case studies and other examples of innovation and client-centered service. We also continue our efforts to improve standards for client protection. We know there is much more to do, and we look forward to working collaboratively, and responsibly, with our partners and the financial sector to reach the financially excluded.

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1. The Global Findex Database 2014, "Measuring Financial Inclusion around the World", April 2015, Available at <http://www.worldbank.org/en/programs/globalfindex>.