Financial Inclusion in the Supply Chain

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Introduction

Approximately 2.5 billion of the world's adults do not use formal financial services to save or borrow money. About 90 percent of them live in Africa, Asia, Latin America, and the Middle East.[1] Without access to formal financial institutions, people must rely on their own funds or risky informal services that charge excessive fees to invest in their health and welfare and that of their families.

Vesting the poor with the proper knowledge, skills, and attitudes toward financial management and connecting them to financial products and services can help them manage their money more effectively, invest in economic opportunities, and reduce risks related to illness or loss of employment. For all these reasons, financial inclusion has become a critical development issue and is now part of the G20 agenda.

Expanding access to financial services in the developing world requires significant cross-sector efforts. In addition to regulatory and policy intervention—including long-term institution building, policies to promote competition in the financial services sector, and regulation to protect consumers—financial providers must develop appropriate products and services that overcome existing barriers to supply and demand, and meet the needs of the world's poor.[2]

Companies across all sectors can expand access to financial services by engaging with workers in their supply chains. With access to the majority of the developing world's working poor, companies can improve workers' livelihoods while reducing administrative costs and possibly turnover, and increasing productivity. Companies can offer relevant financial education programs and access to formal financial products through automated payroll or remittance systems.

The Financial Inclusion Continuum

Financial inclusion is not binary, with people either included or excluded from the financial sector. It is a continuum from fully banked to unbanked. "Fully banked" refers to an ability to access, understand, and use a wide range of financial products and services through mainstream financial service providers. People who are "unbanked," or financially excluded, have severely limited access—or perhaps no access—to formal financial services. While some individuals opt out, financial exclusion is, by definition, involuntary. It refers to a system of barriers that reinforce the exclusion of the world's poor.

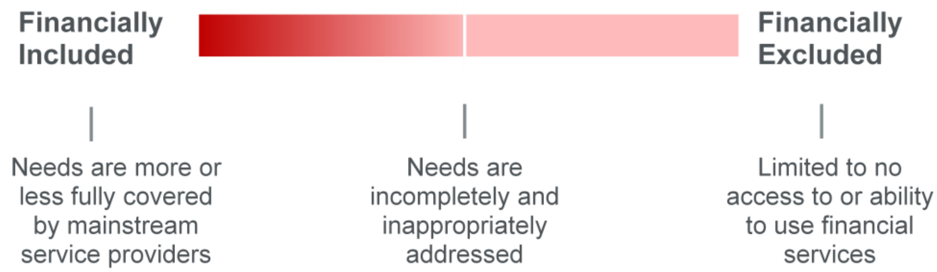
[1] Aparna Dalal, Jonathan Morduch, Alberto Chaia, Tony Goland, Maria Jose Gonzalez, and Robert Schiff. "Half of the World Is Unbanked." Financial Access Initiative. October 2009. Available at: http://financialaccess.org/node/2603.

[2] The World Bank. "Finance for All? Policies and Pitfalls in Expanding Access." 2007. Available at: http://go.worldbank.org/HNKL9ZHO50.

Financial Inclusion:

A state in which all people who can use them have access to a full suite of quality financial services, provided at affordable prices, in a convenient manner, and with dignity for the clients.

—Center for Financial Inclusion



The lack of suitably priced, physically accessible products and services, combined with a lack of awareness and education to drive demand, ensure that the world's poor remain excluded from formal financial services. Mainstream financial service providers are often unable or unwilling to offer products and services that are tailored, marketed, delivered, and made accessible to low-income users. The primary barriers related to supply include:

» **Physical access:** Access to banks and formal financial service providers remains low throughout the developing world. This condition is especially true in rural areas, where poor infrastructure and low population densities make it cost-prohibitive for financial institutions to invest in ATMs or bank branches. People must therefore travel for several hours to reach a financial institution. For example, Ethiopia has less than one bank branch or ATM for every 100,000 people, compared to 96 for every 100,000 people in Spain.[3]

» **Eligibility requirements:** Banks often require photo identification and credit history to open an account; yet many of the world's low-income workers, even those employed in the formal economy, do not have access to government identification and have never used formal financial services. These requirements make it impossible for them to open accounts even if they have money saved.

» **Affordability:** Most formal financial institutions have strict minimum-balance terms, require financial collateral, and charge access fees that make users pay a fixed rate or percentage for each transaction. Low-income workers cannot afford these requirements.

Financial Literacy:

The combination of consumers' understanding of financial products and concepts, and their ability and confidence to appreciate financial risks and opportunities to make informed choices, to know where to go for help, and to take other effective actions to improve their financial well-being.

—The World Bank, DFID, and OECD

The lack of demand results from low levels of awareness, education, and literacy. Many of the world's working poor have never been part of the formal financial system; therefore, they lack the skills and capacity to use and benefit from its existing products and services. Others distrust the system.

Demand for financial services is intrinsically tied to financial literacy. To boost literacy throughout the developing world, NGOs and financial companies are creating more financial training and educational programs that cover topics such as how to budget, save, and access and manage credit. To be successful, these programs must not only adjust to local contexts; they also must transform education into empowerment, teaching individuals how to evaluate their financial situations and incorporate financial products into their lives.[4] In doing this, financial literacy programs drive demand for financial products throughout the developing world.

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[3] The World Bank. "Finance for All? Policies and Pitfalls in Expanding Access." 2007. Available at: http://go.worldbank.org/HNKL9ZHO50.

[4] The World Bank, DFID, and OECD. "The Case for Financial Literacy in Developing Countries: Promoting Access to Finance by Empowering Consumers." 2009. Available at: www.oecd.org/dataoecd/35/32/43245359.pdf.

Case Study: Primark

Country: India

Focus: Savings accounts for factory workers

Description: Primark has partnered with Geosansar, a social enterprise focused on access to savings in India, to provide electronic payroll to workers in supplier factories. The accounts are part of the State Bank of India network. With more than 18,000 branches, it is the largest commercial bank in India.

Design: Bank accounts are opened and accessed using state-of-the-art biometric finger-scanning devices, providing a safe and secure system that does not rely on documentation. Kiosks are located near factories and in the communities where workers live.

Education: Geosansar staff provide financial education and literacy training in the account opening process.

Impact: Geosansar expects to have 400 kiosks open in the next few years and reach as many as 20 million to 30 million low-paid workers in India. Workers have reported spending less time traveling to the nearest access point and increased savings. Primark will be collecting metrics to demonstrate the program's impact over the course of a year.

Focusing on Savings

While the world's poor need access to a range of financial products and services—including insurance, credit, and money transfers—savings is often overlooked. Providing people with a safe and reliable place to store their money enables them to rely on savings for basic consumption in the event of income fluctuations, save for investments in themselves and their families, and build rainy day funds. Formal savings levels remain low throughout the developing world, but not because the poor do not prefer to save. In fact, studies have shown that the poor prefer to rely on savings rather than loans at a rate of 12 to 1.[5]

Without a formal, secure place to store their incomes, the world's working poor tend to store their earnings in cash, or in assets such as jewelry and livestock. These methods are prone to significant risk from loss or theft, reducing the overall return on savings. In sub-Saharan rural Africa, as much as 20 percent of informal savings is lost because of fires and floods.[6] Low demand for *formal* financial services speaks less to a lack of potential demand and more to the lack of financial education that would highlight the advantages of such services.

The benefit is clear: Savings help the poor climb out of poverty. Specifically, access to formal savings products allows people to:

- **Weather bad times:** The poor are better able to cope when they become unemployed or sick if they have savings. One study, for instance, showed that having a savings account helped women avoid taking time off from work when forced to deal with life's unexpected emergencies.[7]
- **Generate large sums of money for investments and major events:** Savings help the poor make major investments and purchases, including housing, health, and education for their children.
- **Manage day-to-day expenses:** Savings accounts help individuals maintain a stable level of consumption in spite of fluctuations in income.

Women and Finance

While the benefits of saving apply to both genders, women stand to gain disproportionately from participating in the formal financial sector. When they have greater financial independence, women have more bargaining power at home and influence over family decisions. In addition, women typically spend the majority of their savings on goods and services that positively affect the health and educational well-being of their families, thereby creating a virtuous cycle that leads to long-term prosperity.[8]

Women make up between 60 percent and 80 percent of the global export manufacturing labor force and 70 percent of the agricultural labor force.[9] The growth of women in the labor force is also driving their power as consumers in the global market. A 2010 Booz & Company report estimates that women are set

[5] Bill and Melinda Gates Foundation. "Melinda Gates Challenges Global Leaders: Create Savings Accounts and Bring Financial Security to the World's Poorest." November 16, 2010. Available at: www.gatesfoundation.org/press-releases/Pages/melinda-gates-at-global-savings-forum-101116.aspx.

[6] Barclays and the Economist Intelligence Unit. "Banking for Billions: Increasing Access to Financial Services." 2010. Available at: www.newsroom.barclays.com/imagelibrary/downloadMedia.ashx?MediaDetailsID=5727.

[7] Pascaline Dupas and Jonathan Robinson. "Savings Constraints and Microenterprise Development: Evidence from a Field Experiment in Kenya." The National Bureau of Economic Research. February 26, 2011. Available at: www.econ.ucla.edu/pdupas/SavingsConstraints.pdf.

[8] Chhavi Ghuliani. "Addressing Financial Inclusion: How ANZ Is Using CSR to Access New Markets." BSR Insight article. September 2010.

[9] The World Bank. "World Bank Calls for Expanding Economic Opportunities for Women as Global Economic Crisis Continues." 2009. Available at: http://go.worldbank.org/8G1SVWMY70.

to surpass India and China as the biggest emerging market.[10] Companies with a large percentage of women in the workforce can particularly benefit from educating workers in their supply chains about financial products and services. Not only will they empower women in their workforce, but they will strengthen their ties to local communities, support prosperity where they manufacture or source goods, and harness the growing purchasing power of women.

Closing the Access Gap: The Role of Companies

Companies across all sectors are well positioned to address barriers to access. With supply chains extending throughout the developing world, companies can access the vast majority of the world's working poor. Using their existing networks of factories and agricultural suppliers, companies can introduce employees to the formal banking sector by automating payroll as direct deposits to individual accounts. This approach will ensure that workers are paid the correct amount on time and prevent potential fraud that sometimes occurs in factories and erodes take-home pay.[11]

The comparative advantage of using supply chains to offer financial services to employees is twofold:

1. The supply chain network is already in place, guaranteeing access to the world's working poor without significant infrastructure costs.
2. Providing access points at or near employment sites will encourage employees to save some of their paychecks on payday, especially if they are paid through direct deposit.

In addition to encouraging workers to save, automated payroll lets companies provide workers in their supply chains access to other beneficial financial products and services. Many workers migrate from rural areas to work in major manufacturing centers, and they send remittances to their families using expensive informal means. For example, prior to launching a mobile banking and payments service in Cambodia in 2009, Australia and New Zealand Banking Group Limited (ANZ), one of the largest banks in the Asia-Pacific region, found that garment factory workers in Phnom Penh were sending more than 5 million remittances each year, at costs of up to 3 percent of the transfer amount.

Employees are not the only ones who will gain. A recent program by Primark, a global apparel retailer, piloted the use of direct deposits to provide their factory staff with formal savings accounts. This program significantly reduced the time allotted to payroll. The agricultural sector, in which farmers continue to be paid in cash, can expect similar benefits from this change. Starbucks, for example, believes group savings programs will help its coffee suppliers improve their financial well-being and better adapt to the global market.[12]

Some studies suggest that access to savings reduces the number of sick days employees take. They are able to afford medications before illness forces them

Case Study: Australia and New Zealand Banking Group (ANZ)

Country: Cambodia

Focus: Mobile banking and remittances for factory workers

Description: ANZ started WING for factory workers in Cambodia's garment sector, an industry that represents 80 percent of total exports and 10 percent of the country's GDP. At the time, ANZ found that workers in Phnom Penh were annually sending 5 million remittances, using mostly informal means, at a cost of up to 3 percent of the transfer amount. WING provides the same services for about half the cost.

Design: WING relies on a network of 42 microfinance institution branches and 500 rural merchants, such as mobile phone shops and convenience stores. Customers can withdraw and deposit cash at any of these locations or send remittances using mobile phones on a variety of networks, allowing WING to reach all 24 provinces of Cambodia in a cost-effective manner.

Education: Education is part of the introductory process for new customers. ANZ has also partnered with NGO communications firm Equal Access to deliver radio programs on money management throughout Cambodia.

Impact: As of July 2010, WING had more than 150,000 registered users, 56 percent of whom were previously unbanked. Nearly two-thirds of newly banked customers were women.

[10] Booz & Company. "The Third Billion." June 27, 2010. Available at: www.booz.com/me/home/what_we_think/40007409/40007869/48487877.

[11] Sarah Butler. "New Look and Primark Help Indian Factory Workers to Open Bank Accounts." *The Telegraph.* May 8, 2011. Available at: www.telegraph.co.uk/finance/newsbysector/banksandfinance/8501060/New-Look-and-Primark-help-Indian-factory-workers-to-open-bank-accounts.html.

[12] Edward Millard. "Increasing Profitability for Farmers Supplying to the International Coffee Market by Improving Supply Chain Management, Including Traceability." Available at: www.globalfoodchainpartnerships.org/cairo/papers/EdwardMillardCoffee.pdf.

to miss work. Better health may increase productivity and reduce turnover.[13] Along these lines, workers who feel they are being adequately rewarded at work, whether through more pay or employee benefits (such as access to savings accounts), may feel more loyalty to their employers and take more pride in their work, once again increasing their productivity. BSR's successful HERproject, for example, uses global supply chains to educate female factory workers about basic health issues and has demonstrated a significant return on investment. This same model can be used by companies to provide financial education and access through their supply chains.[14]

Recommendations

Companies that are considering adding financial education and access to their supply chain programs should keep in mind the following:

» **Learn from existing supply chain models aimed at increasing access to financial services for the world's poor.** Examining the achievements and challenges others have faced can expedite the learning process for supply chain managers and reduce program development time and cost. It can also reveal the barriers and challenges they may encounter.

» **Remember that the developing world is heterogeneous.** Although reviewing case studies and existing models is crucial, each region, country, and perhaps even supplier will have distinct barriers. Engage the target audience through focus groups, individual interviews, and market research to determine where the target audience resides on the financial exclusion continuum, and review the regulatory environment to understand the unique barriers they must overcome. Consider new and innovative technologies, such as mobile banking and biometric identification products, which could address local challenges.

» **Address both supply and demand constraints.** Appropriate product design and delivery are critical for creating supply, but to ensure demand companies must adequately educate and train workers, particularly low-income workers who may never have been part of the formal banking sector.

» **Seek partnerships with organizations that have on-the-ground experience and networks.** Partners can help companies design and deliver locally relevant products and education.

» **Track metrics to measure impact and to encourage ongoing improvement.** Companies should monitor such metrics as the number of accounts created, payroll administration costs, number of workers opening accounts for the first time, percentage reduction in the use of informal services, and even worker satisfaction. Collecting and reviewing these figures can help companies determine if they are meeting their objectives. Metrics can also ensure that products and training continuously improve.

For more information on financial inclusion and how your company can get involved, please contact Chhavi Ghuliani at cghuliani@bsr.org.

[13] Jake Kendall. "A Penny Saved: How Do Savings Accounts Help the Poor?" Financial Access Initiative. November 2010. Available at: http://financialaccess.org/node/3600.
[14] See HERproject for further information: http://herproject.org.