The Link Between Financial Inclusion & Sustainable Development

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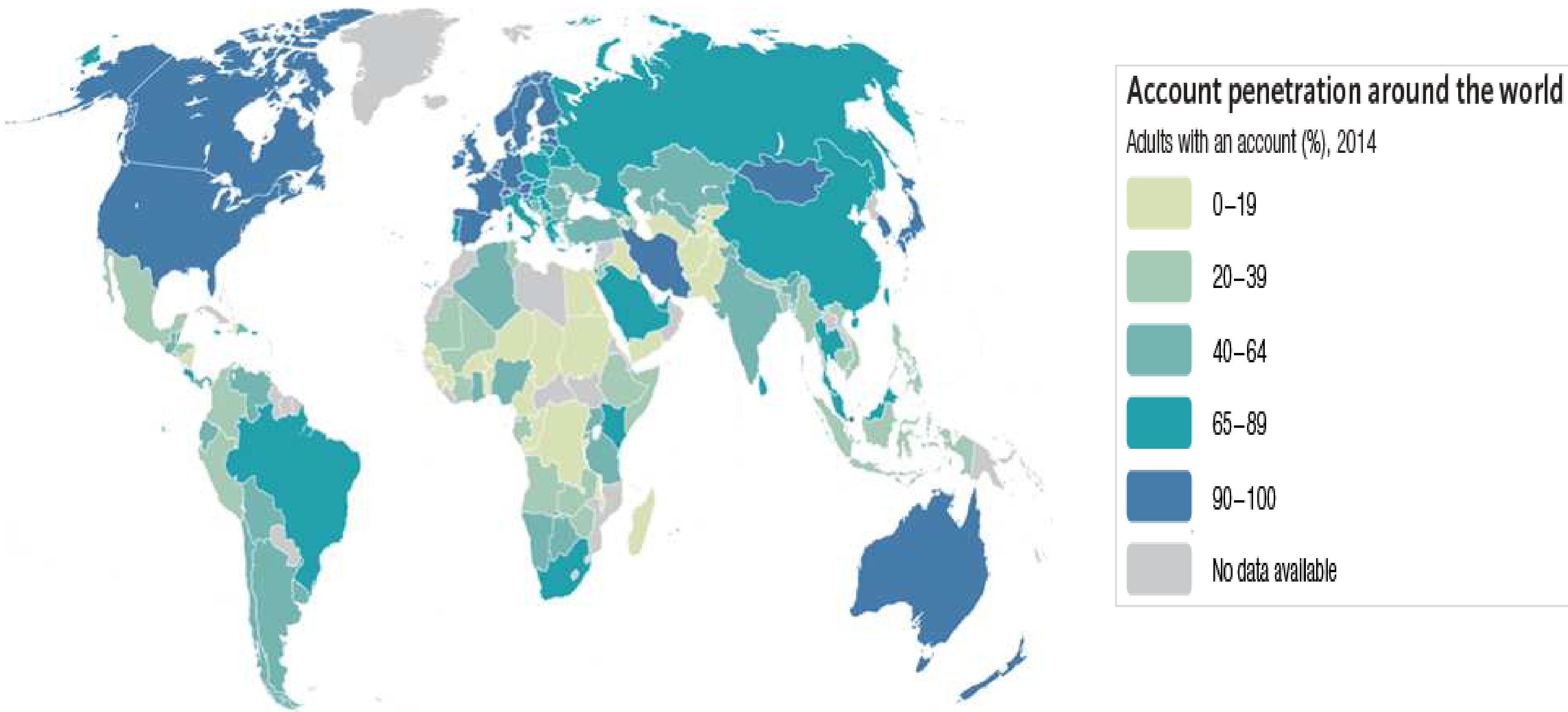
What Is Financial Inclusion?



Source: Global Findex; https://www.worldbank.org/globalfindex

Financial inclusion means that people have access and can effectively use appropriate financial services. Such services must be provided responsibly and sustainably in a well regulated environment.

Financial Inclusion Helps People Escape & Avoid Poverty

Financial services help people:

- make investments to escape poverty
- survive economic shocks & avoid becoming poor

In India, an effort to set up accounts for farmers reduced the rate of rural poverty between 14-17 percentage points

In Kenya, mobile money reduced extreme poverty by 2% and helped women leave farming for jobs in business or retail

In Mexico, income increased by 7% in areas where bank branches were rapidly opened in 800+ retailed stores

In Ghana, insured farmers spent $266 more and their post-harvest assets were $531 higher

Financial Inclusion Promotes Innovation

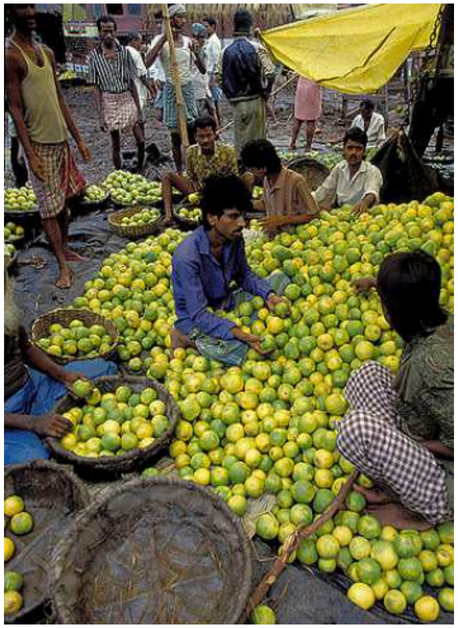
In India, increased credit access allowed the wealthiest entrepreneurs to substantially increase profits

Increased availability of credit in Bosnia and Herzegovina led to higher self-employment and business ownership

In Mongolia, the availability of credit allowed women to expand & invest in their businesses

When given a savings account with no opening fees, Kenyan market women increased private expenditures by 38%

Key Obstacles to Better SME Financing



Formal SMEs account for roughly *half* of employment and a *third* of GDP in emerging countries—

Yet they face a credit shortfall of about *$2 trillion*

Bad institutions cripple SME lending:

- Weak rule of law leaves banks reluctant to lend
- Complex regulations and weak governance raise lending costs

Banks hesitant to finance SMEs:

- No credit history, collateral, business plan
- SMEs want small loans

Financing Sustainability Upgrades Among SMEs

Global firms offer their suppliers better access to supply chain finance in exchange for higher standards

Sustainability criteria can be used to measure credit eligibility— Firms with high sustainability investments get the most profitable returns on stocks (Khan et al., 2016)

Government/IFI's provide credit *and training* to banks to improve sustainable standards of borrowers

Public-private sustainability platforms:

African Agriculture Trade Investment Fund + ILO monitoring of compliance with fair labor practices in funded projects