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Reducing inequality through DIGITAL FINANCIAL INCLUSION

Global poverty rates have risen for the first time in 20 years. Inequality has worsened, and the most disadvantaged groups have been hit the hardest. Over 90% of the people who have fallen into poverty as a result of the COVID-19 pandemic live in low- or lower-middle-income countries.[1] Between 2019 and 2021, the average income of the poorest 40% of households was estimated to have fallen by 2.2%, compared with just 0.5% for the richest 40% of households. By disproportionately affecting low-income individuals and women, climate change risks worsening inequality and pushing more people into poverty.[2]

OPPORTUNITY

Inclusive digital financial services can equip low-income households with the tools to make them more resilient to emergencies and income shocks, through products such as digital remittances, formal savings, and credit.

CHALLENGES

- Vulnerable populations, including women and people with low incomes, are typically **harder to reach during emergencies,** in spite of being disproportionately affected.
- Getting emergency funds through family or friends can be difficult if there are barriers to accessing them. Over 50% of remittances are sent to households in rural areas, but the **cost of remittances can be high**.[4]
- A lack of documentation and collateral makes **access to formal lending difficult** for low-income households and MSMEs that typically have meager cash buffers.[7]

SOLUTIONS

- Inclusive digital finance, including digital payment channels, can be used to disburse support payments to households and firms. This allows beneficiaries to **get relief payments more quickly and safely**, thus providing vulnerable populations with the resources to cope with adverse shocks.[3]
- Households spend more on food and other items, and lower their borrowing when remittance payments are high, thereby reducing extreme poverty.[5] Digital finance **lowers the cost of remittances**, which in turn helps to reduce poverty and build resilience to shocks.[6]
- Digital technologies can cut the high costs of the origination and servicing associated with shorter-term loans, by **automating credit underwriting, monitoring, and collection,** and by using low-cost digital disbursement and repayment processes. Together, these innovations make short-term loans to digitally connected MSMEs and households more viable.[8]

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BANGLADESH

Low-income households and family members who had migrated to the city were introduced to mobile money accounts, resulting in more urban-to-rural remittance payments being sent back home. By extension, spending by mobile banking users on food and other items rose, and borrowing fell.[9]

MEXICO

Income rose by 7% when bank branches were rapidly opened in retail stores in rural Mexico, where people with low incomes benefited the most. Increased access to banking services created new jobs and made it easier for informal business owners to operate.[10]

ASIA

Data from a fintech in Korea used by low-income workers to send money home to developing economies in Asia show the cost and time savings of digital payments, and workers learning to optimize the timing of their transactions to get the best exchange rates.[11]

KENYA

Fuliza, the M-PESA overdraft facility launched in partnership with NCBA and KCB Bank, allowed users to complete payments or execute transfers even without sufficient balances in their accounts, effectively functioning as a short-term source of credit for household and business expenses, and emergencies.[12] Together with government policies that temporarily removed transfer fees, it is likely to have been a key factor in the doubling of digital payments processed in 2021.[13]

INDIA

In rural communities, storing income in a digital bank account rather than keeping cash at home **raised household savings by 131% within three months,** and the effect was long-lasting.[14]

WORLDWIDE

By cutting the costs of remittances by five percentage points, recipients in emerging economies could benefit from **$20 billion more each year**.[15] In 2020, $12.7 billion cross-border remittances were made via mobile money.[16]

1. Mahler et al., 2021. **2.** IMF, 2021. **3.** World Bank, 2022a. **4.** IFAD, 2022. **5.** Lee et al., 2021. **6.** Jack and Suri, 2014. **7.** World Bank, 2022b. **8.** Ibid. **9.** Lee et al., 2021. **10.** Bruhn and Love, 2014. **11.** Agarwal et al., 2021. **12.** World Bank, 2022a. **13.** Safaricom, 2021. **14.** Somville and Vandewalle, 2018. **15.** Ratha, 2015. **16.** Visa, 2021.

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