Financial Inclusion, Education & the Arab World

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Framing the discussions

• Why is financial inclusion important?

• Where does / will the Arab world stand?

• How to influence financial behavior?
2030: the Sustainable Development Goals (SDGs) Agenda

Source: https://sustainabledevelopment.un.org/sdgs
Financial services, especially savings, allow poor families to:

- absorb financial shocks
- smooth consumption
- accumulate assets
- invest in human capital (e.g. health and education)
Role of financial inclusion in meeting the SDGs

- **Credit, insurance, and savings** are needed to help farmers make bigger investments to increase crop yields.

  - Access to savings = +21% in crops yield
  - Access to credit = +10% in crops yield
Role of financial inclusion in meeting the SDGs

- Out-of-pocket payments on health care in developing countries are a main reason why people remain in poverty.

- Households with **savings** accounts suffer smaller income drops when hit with health shocks – let alone access to **insurance**.
Role of financial inclusion in meeting the SDGs

- Cost of out-of-school children range from 1% to 10% of GDP
- Access to free **savings** = +20% increase in spending on education
- Short-term **loans**, commitment products, and direct debit services help pay tuition fees
- Labeling **remittances** for education = +15% in remittances
Role of financial inclusion in meeting the SDGs

- Financial services help women assert their economic power
- Access to savings = +38% in private spending
Role of financial inclusion in meeting the SDGs

- Innovations in digital financial services (e.g. pay-as-you-go, mobile payments) are likely to accelerate access to these essential resources.
Role of financial inclusion in meeting the SDGs

- Financial depth is linked to GDP growth
- Microcredit = +52% external employment
Role of financial inclusion in meeting the SDGs

- Financial depth is linked to lower inequality
In sum: access to financial services has a demonstrated impact

- GDP growth
- Financial stability
- Reduction in inequalities

- Income growth
- Job creation
- Economic empowerment
Financial Inclusion in the Arab World
The region has varying levels of financial inclusion
Different countries will have different issues and needs

Source: Findex, CGAP, Bank Al-Maghrib for Morocco.
Objective 2020: Full Financial Inclusion

How will the region grow?

Center for Financial Inclusion: Account Ownership by Region, 2010-2020

The graph shows the percent of the adult population with an account from 2010 to 2020 by region. It includes projections for 2015-2020.

- **High income: OECD**
- **East Asia & Pacific**
- **Europe & Central Asia**
- **Latin America & Caribbean**
- **Middle East**
- **South Asia**
- **Sub-Saharan Africa**

**Source**: Author projections based on Global Findex (2015).
What is required to grow faster?

Source: Author projections based on Global Findex (2015).
Behavioral Economics & Financial Capability
• Academics experiments have identified common behavioral biases
  • “I will start a diet tomorrow”

• Some of these biases help explain consumer financial behaviors
  • “I will start saving tomorrow”
  • “I will pay back tomorrow”
Two examples of behavioral bias

**Hyperbolic Discounting & Scarcity**

<table>
<thead>
<tr>
<th><strong>Hyperbolic Discounting</strong></th>
<th><strong>Scarcity</strong></th>
</tr>
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<tbody>
<tr>
<td>Greatly discounting future costs or benefits relative to immediate costs or benefits.</td>
<td>When we are faced with stressful situations, performance (and intelligence) can decrease. For the poor, this is more frequent given the significance of simple economic choices on well-being.</td>
</tr>
<tr>
<td>Expensive consumer credit seems like a good deal to cover short-term needs, even if the long-term costs are significant.</td>
<td>The low-income perform equally well with low-value financial decisions ($150$), but their performance deteriorates when the value of the financial decision increases ($1,500$).</td>
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Hyperbolic Discounting: Possible Solution

Most effective cost disclosure approach for payday lending

<table>
<thead>
<tr>
<th>PAYDAY LENDER</th>
<th>CREDIT CARD</th>
</tr>
</thead>
<tbody>
<tr>
<td>(assuming fee is $15 per $100 loan)</td>
<td>(assuming a 20% APR)</td>
</tr>
<tr>
<td>If you repay in:</td>
<td>If you repay in:</td>
</tr>
<tr>
<td>2 weeks</td>
<td>2 weeks</td>
</tr>
<tr>
<td></td>
<td>$45</td>
</tr>
<tr>
<td>1 month</td>
<td>1 month</td>
</tr>
<tr>
<td></td>
<td>$90</td>
</tr>
<tr>
<td>2 months</td>
<td>2 months</td>
</tr>
<tr>
<td></td>
<td>$180</td>
</tr>
<tr>
<td>3 months</td>
<td>3 months</td>
</tr>
<tr>
<td></td>
<td>$270</td>
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</tbody>
</table>

11% reduction in borrowing

→ Small changes in product design or regulation can improve behavior

Source: Bertrand & Morse, 2010.
Advancing financial inclusion to improve the lives of the poor