

FINANCIAL INCLUSION AND POVERTY

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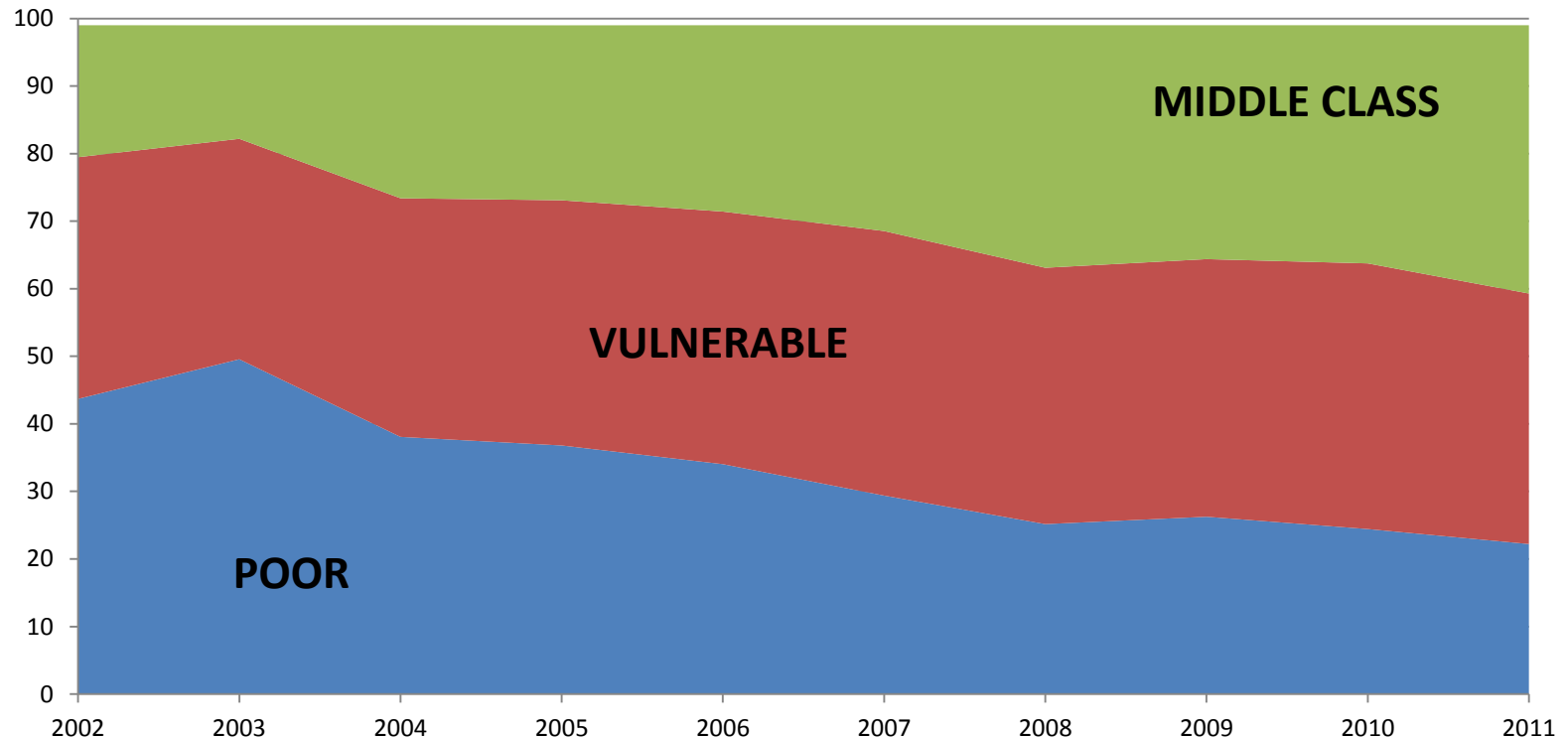
Part 1:

WHY SHOULD WE CARE?



ECONOMIC MOBILITY

Turkey has had a positive performance on economic mobility in the recent years....

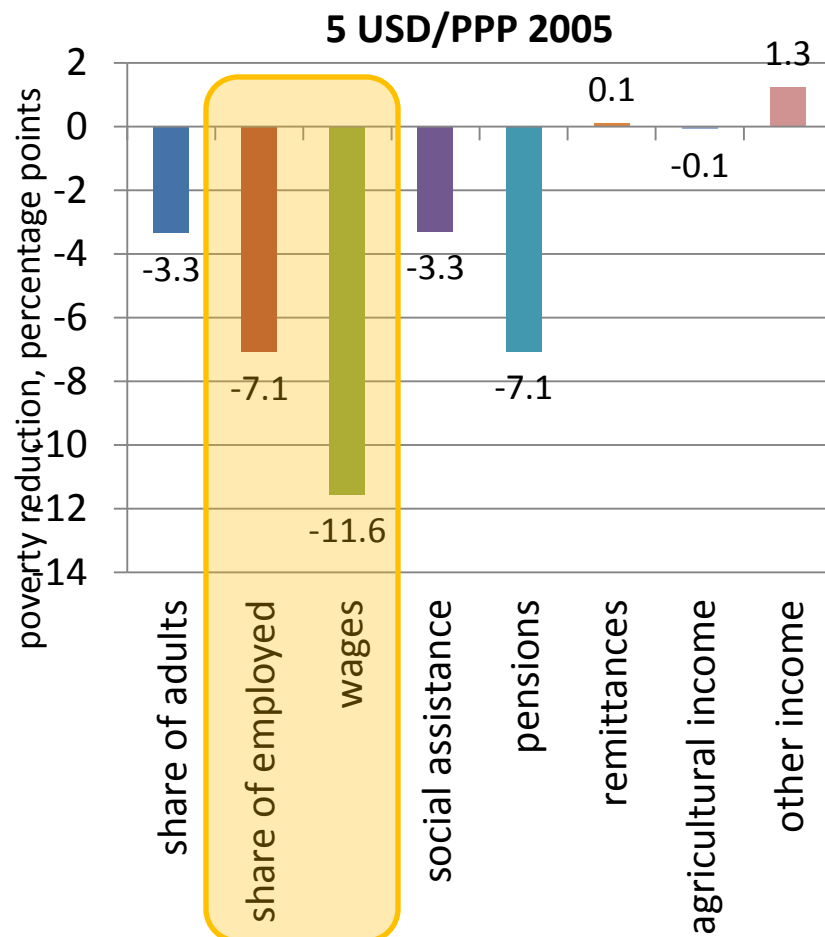


Source: Azevedo and Atamanov (2014)



... and poverty reduction has been driven by labor markets
(in Turkey as well as other developing countries)

- labor markets is mostly a quality of jobs story (better earnings)
- Social protection matter to reduce poverty depth/severity



Source: Azevedo and Atamanov (2014)

But success in poverty reduction is not just about moving people out, but also preventing those that are out of poverty from falling back in (protecting the vulnerable group)

	Origin (In 2002)	Percentage moving to 2011				
		Poor	Vulnerable	Middle Class		
Poor	43	58	41	0	100	
Vulnerable	37	1	58	40	100	
Middle class	20	0	2	98	100	
Total	100	22	38	40	100	

Source: Azevedo and Atamanov (2014) calculations based on ECAPOV data .

Notes: transition matrix is based on synthetic panel for 2002-2011. Welfare aggregate is consumption (+health, +durables) per capita and poverty line is 5 and 10 USD PPP 2005. Rsq for consumption model is 0.36. Explanatory variables include year of birth cohort, number of children, education of the head of household, rural/urban dummy and different interactions between these variables. Sample: head of households 25-55 years of age. Values₅ based on lower bound estimates.

Part 2:

WHAT DO WE KNOW?



Financial sector development and inclusiveness can strengthen labor markets and help the poor and vulnerable to mitigate shocks

- A large literature exists on the role of access to finance to towards growth generation and reducing inequality (*see Beck and Demirguc-Kunt, 2008 for a literature review*).
 - Beck, Demirguc-Kunt, and Levine (2007) find that 60 percent of the income growth of the poorest quintile is due to financial development's impact on the economy.
 - Claessens and Perotti (2007) offer an explanation of how financial development can be related to inequality, theorizing that in unequal societies, unequal financial access is a result of skewed political influence and regulatory capture.



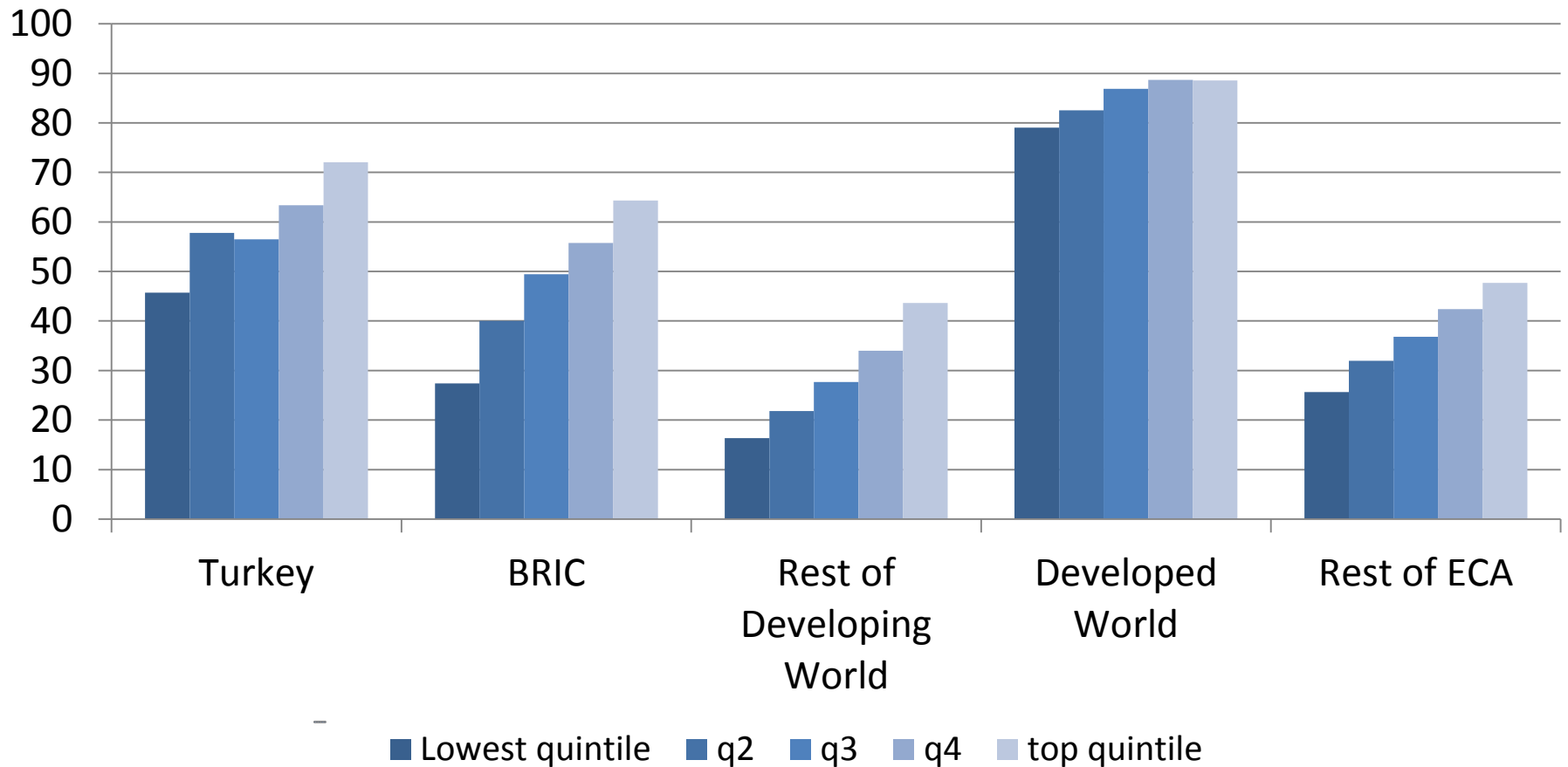
BANKING CHALLENGES TO THE POOR

- Many poor lack a safe and secure place to store cash
- Bank fees and fines are restrictive
- Informal financing may be more unreliable and have higher interest rates
- Lack of collateral for loans
- Low loan to deposit ratios perpetuate a cycle of low lending



BY REGIONS

Account Use across Income Quintiles (2011)
Adults with an account at a formal financial institution (%)

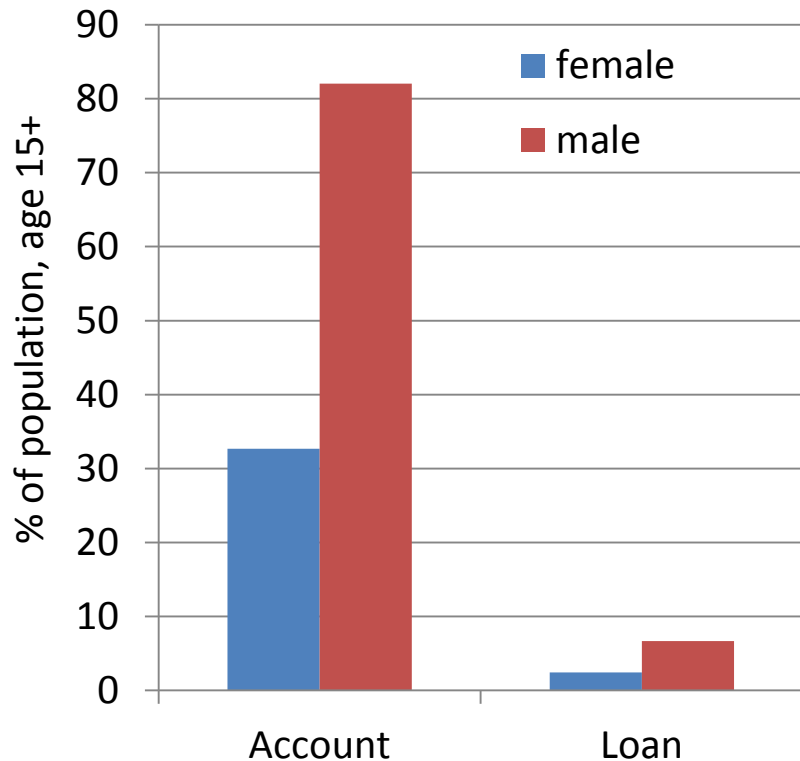


Turkey has a high proportion of formally banked adults, but account penetration varies across individual characteristics such as gender, income, and education.

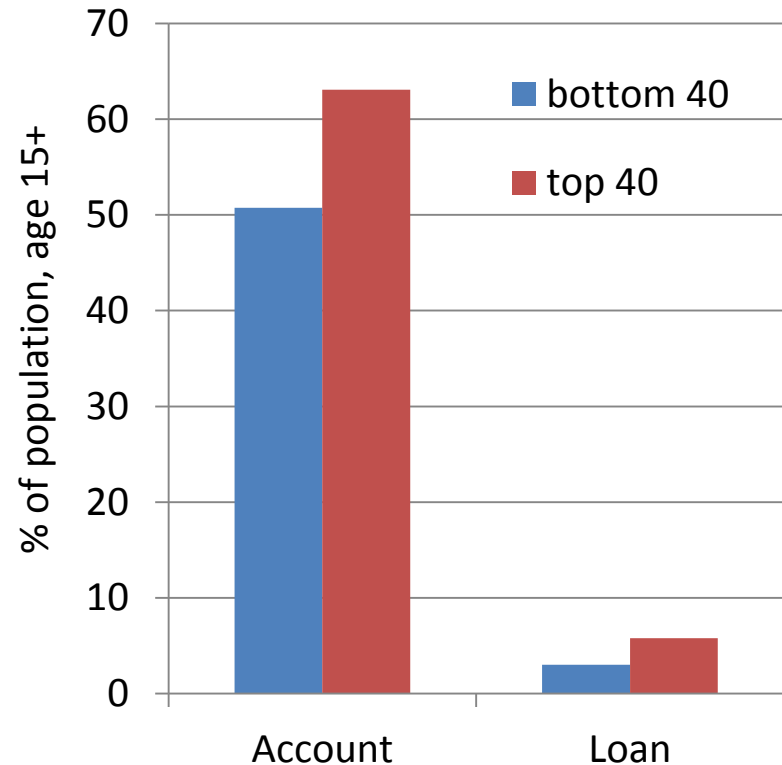


GAPS IN ACCESS, by gender and B40/T60

Access to financial institutions in Turkey across gender, % of population +15



Access to financial institutions in Turkey across groups with different level of income, % of population +15

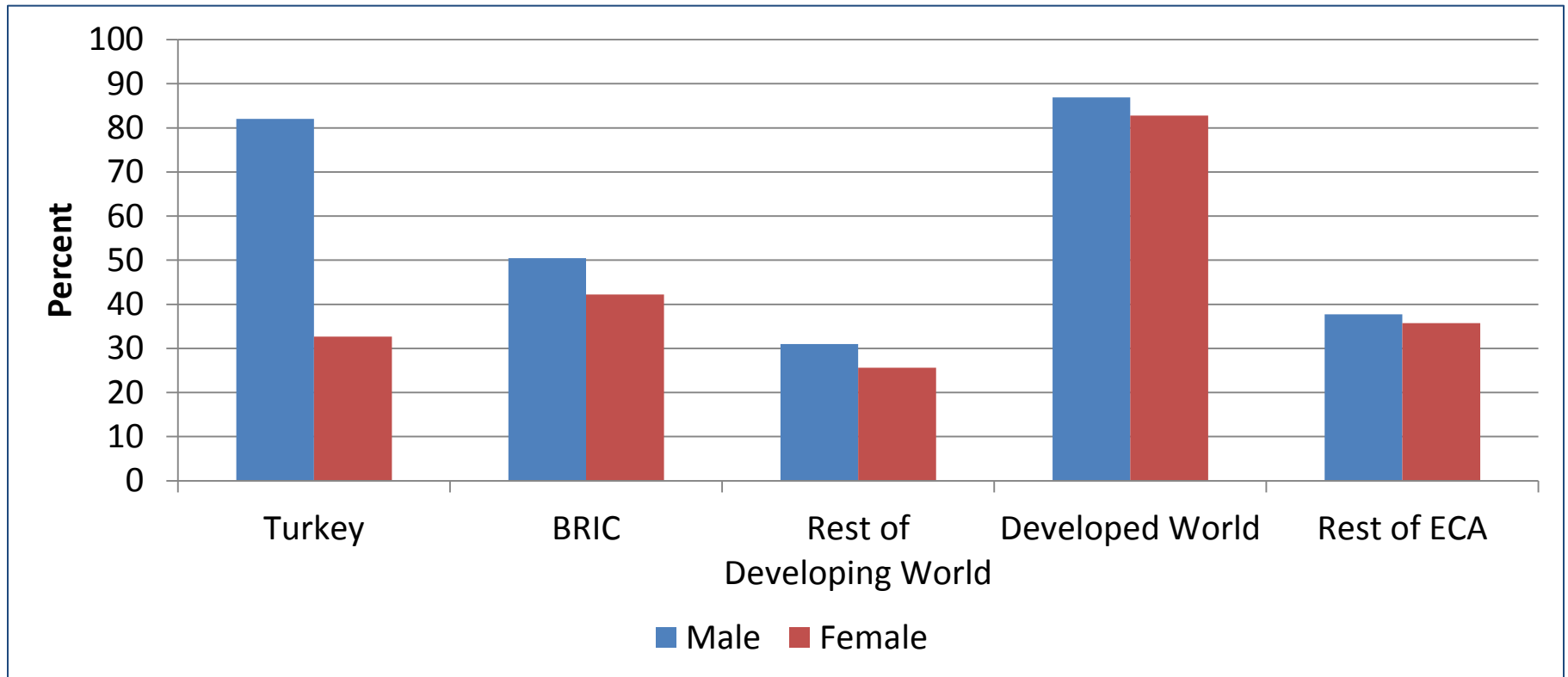


Source: Findex. Azevedo and Atamanov (2014). Pathways to the middle class in Turkey: How have reducing poverty and boosting shared prosperity helped? World Bank.



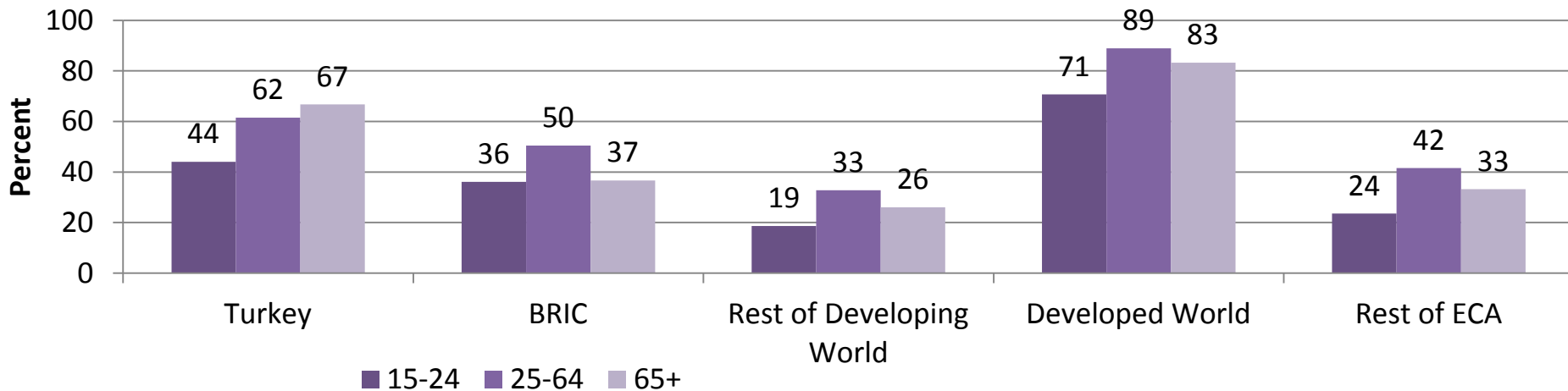
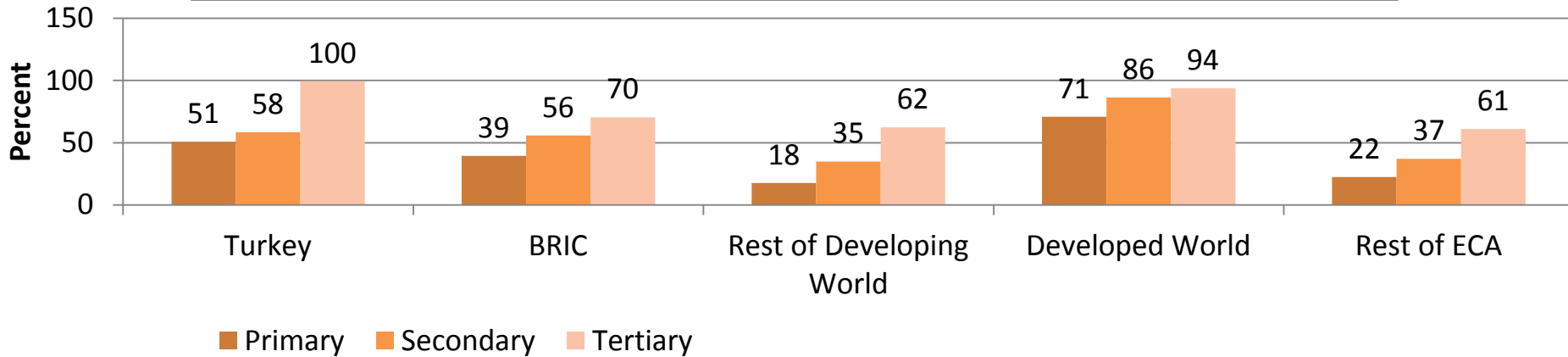
WITHIN TURKEY, THERE IS LARGE VARIATION IN THE RATE OF BANKED ADULTS BY GENDER...

Account Use by Gender
Adults with an account at a formal financial institution (%)



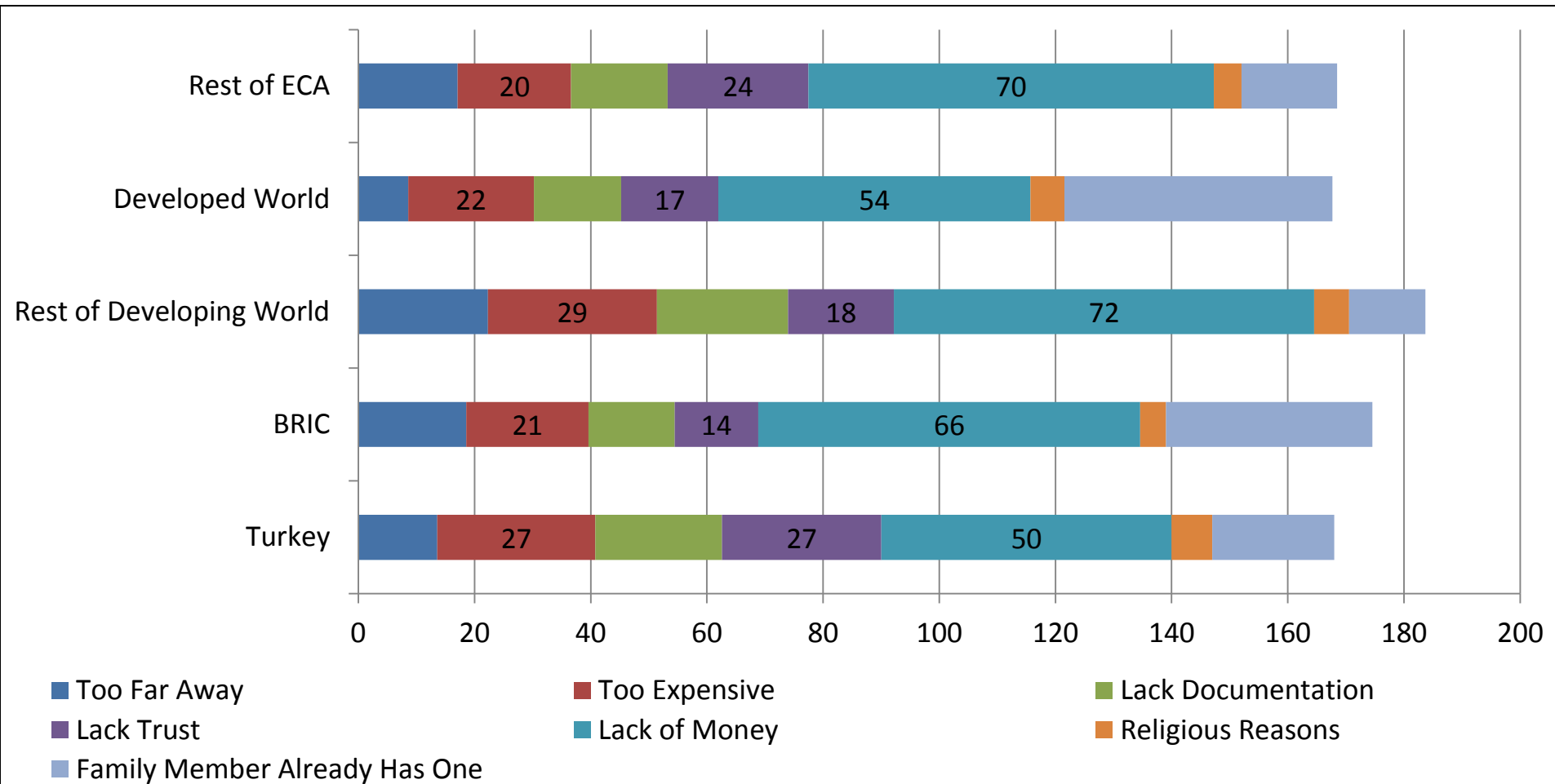
...AND BY EDUCATION & AGE

Account Use by Individual Characteristics (2011)
Adults with an account at a formal financial institution (%)



LACK OF MONEY AND TRUST ARE TOP REASONS FOR NOT HAVING AN ACCOUNT

Non-account holders reporting of reasons behind not having an account (%)



Part 3:

HOW CAN THIS CHANGE?



DEPOSITS & POVERTY

- **Awareness and behavior** is critical
 - Programs of financial literacy are gaining much momentum, but much of its demonstrated success seem to be skewed towards the youth
 - Education is an important channel
- **Legislation** needs to be changed so a missing middle can grow
 - From Microcredit to Microfinance
 - Legal framework and Regulation
- **Innovation** is often required
 - Mobile banking
 - **Deposit-collection services:** Deposit-collection services result in a substantial increase in savings for those offered the service
 - **Access:** Providing collection boxes, drop-off sites



DEPOSITS & POVERTY

- **Integration** with social programs
 - Bolsa Familia (Brasil) 3 million beneficiaries receive their transfer through a simplified account
 - Self-exclusion still a challenge
- *it is **not just** about deposits*
 - **Intermediation & savings commitment**: Experiment in Sri Lanka, workers had direct deposits but can only withdraw at a bank (*Mel, McIntosh, Woodruff*)
 - It is important to add value : payment systems; savings; credit



RECAP: DEPOSITS FOR THE POOR

- It matters!
- Existing coverage is heterogeneous
 - Low account use among females, less educated, and the young
 - Lack of money and trust are common reasons for not holding a formal account
 - Low savings for all
 - Formal borrowing is uncommon, informal lending is very high
- The solution requires working from multiple fronts
 - Supply and Demand factors
 - Behavior and awareness
 - Legislation (legal framework and regulation)
 - Integration with other efforts (social sector)



Thank you

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FINANCIAL INCLUSION DATA

- Analysis in this section is conducted using data from The World Bank's **FINDEX** 2011 database.
- The data provides indicators on the access and utilization of financial services for the population of individual 15 years and older.
- 147 countries: in most countries, the sample size is 1,000 individuals



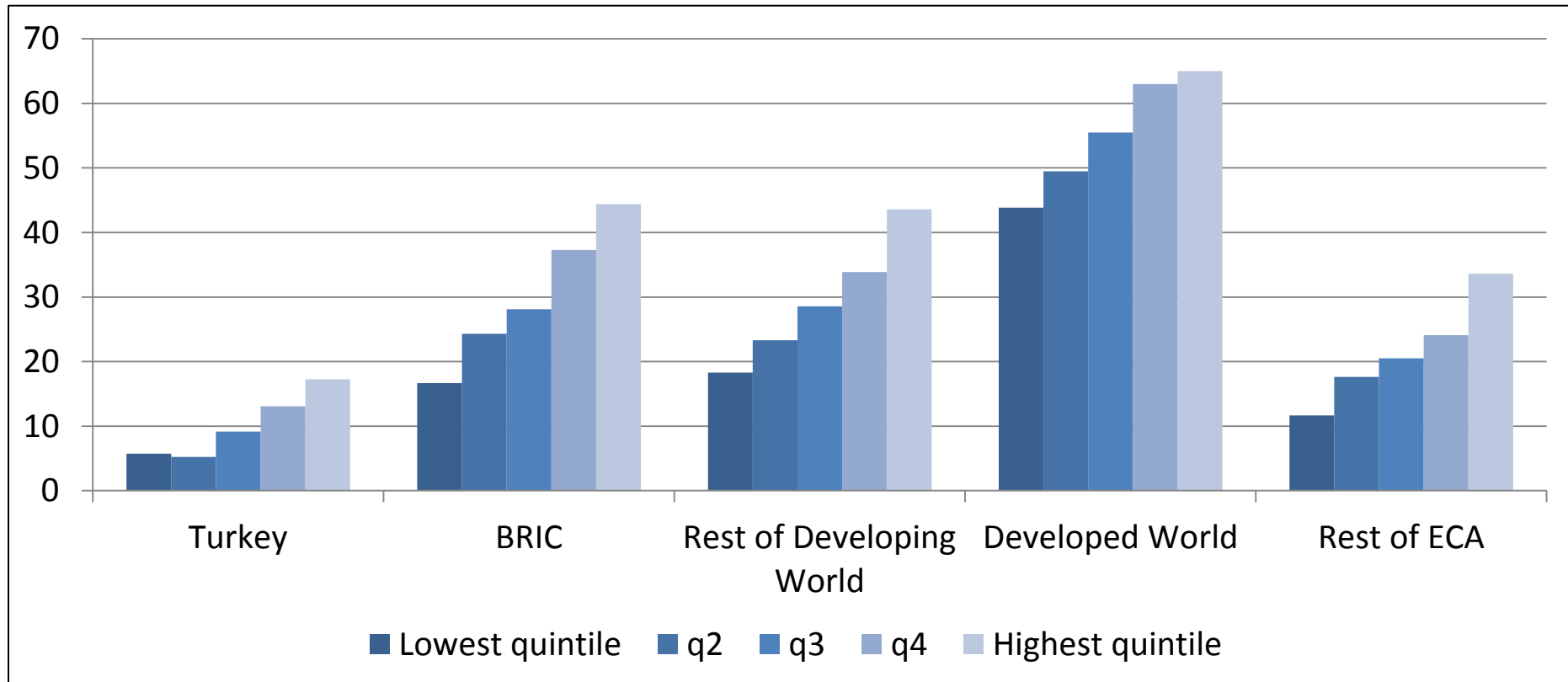
ANNEX:

SAVINGS & CREDIT



LOW SAVINGS

% of Population (15+) that has saved money in the past 12 months



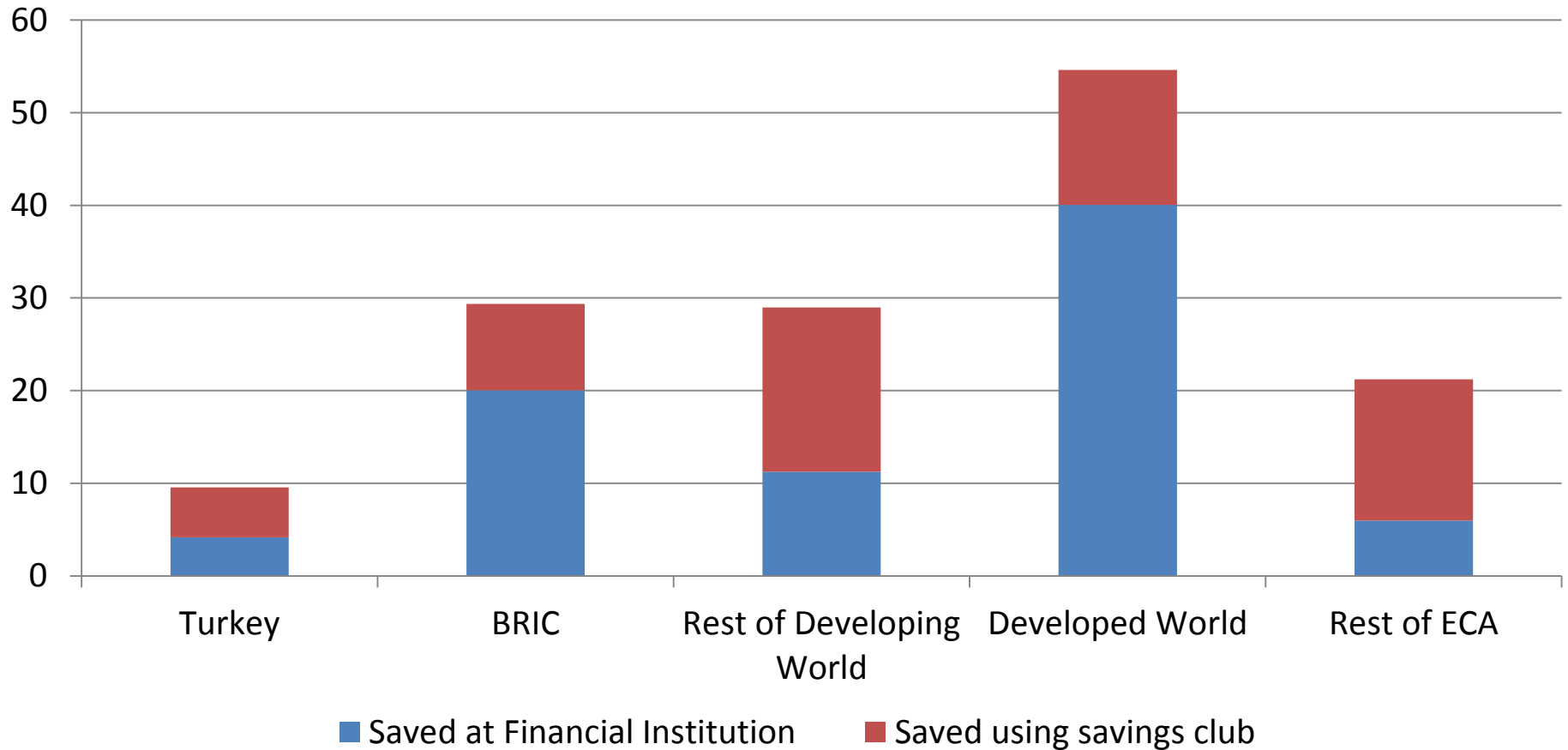
Source: FINDEX



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METHOD OF SAVING

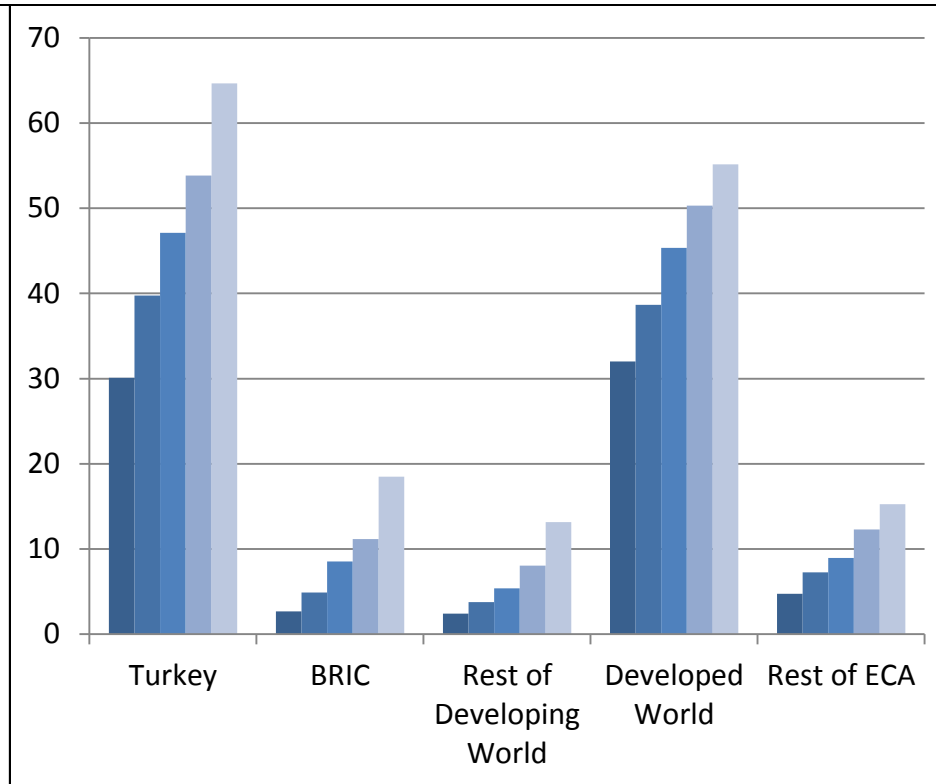
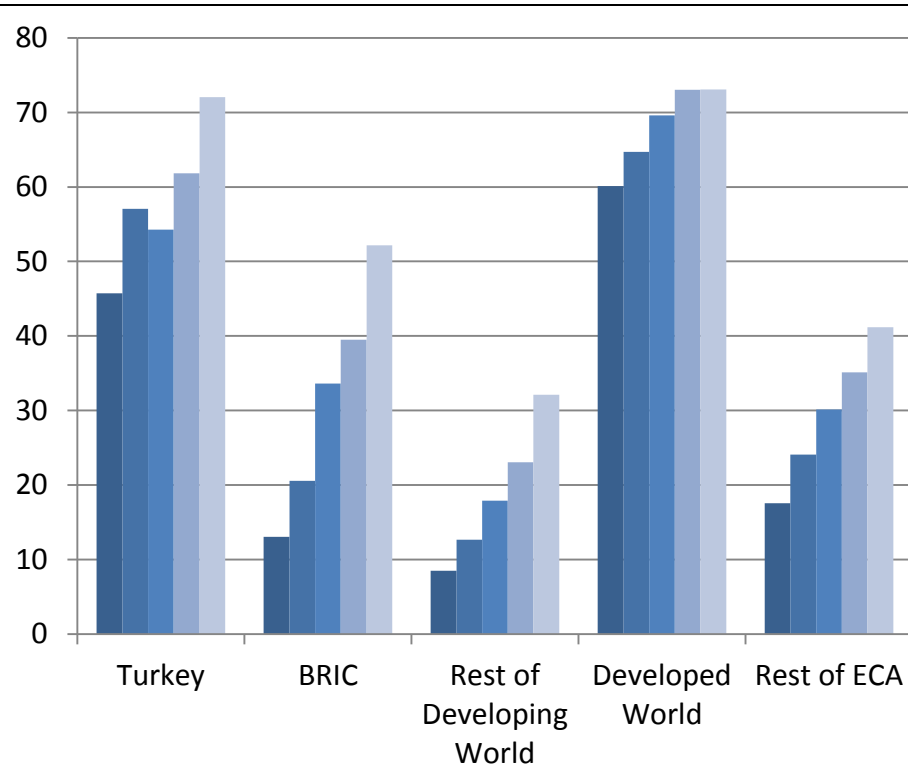
Formal and Informal Savings (2011)
Adults who reported saving any money in the past year (%)



DEBIT & CREDIT CARD USE

Has Debit Card

Has a Credit Card

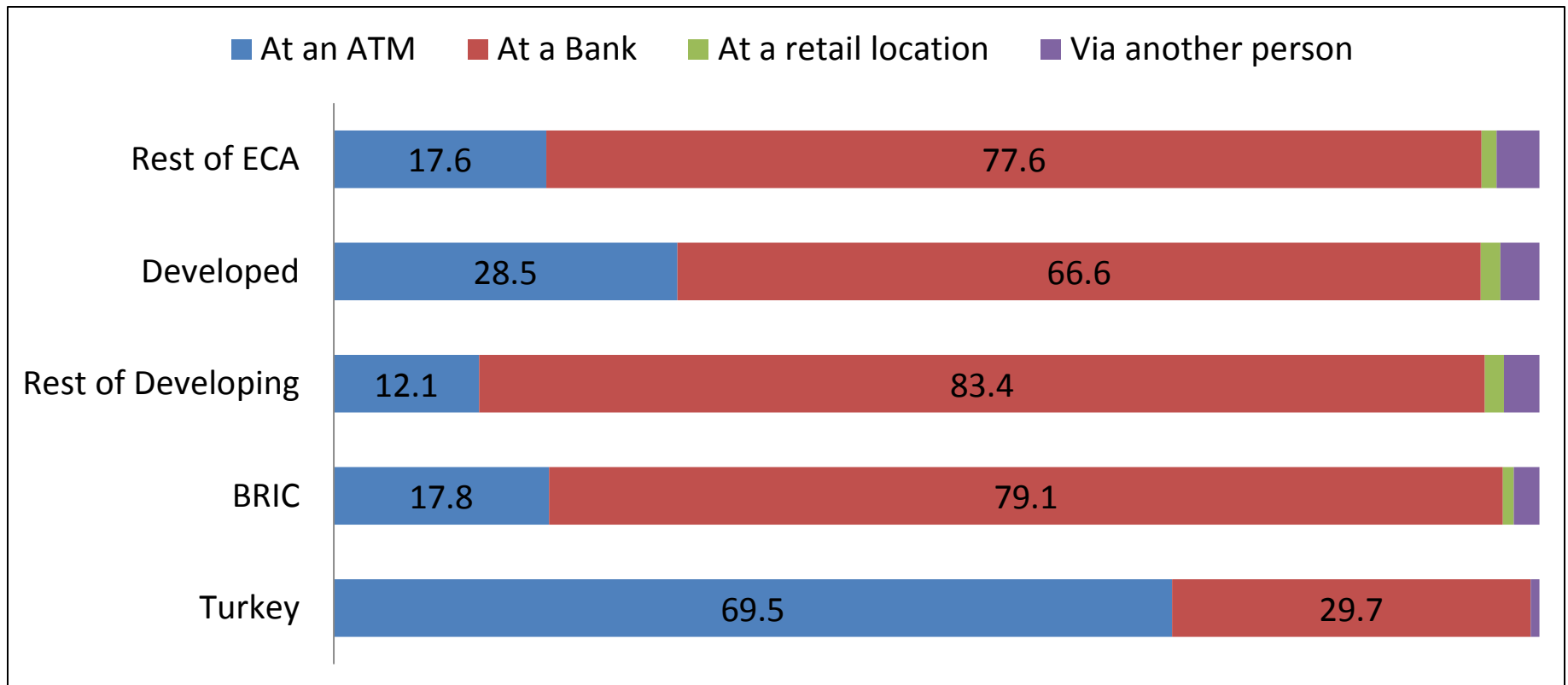


■ Lowest quintile ■ q2 ■ q3 ■ q4 ■ top quintile



TURKISH DEPOSITORS HAVE HIGH ATM USE

Most frequent mode of cash deposit



Source: FINDEX



FORMAL BORROWING UNCOMMON

Adults borrowing from formal or informal sources in the past year (%)



Source: FINDEX