

The MAP Global Insights series – Volume 3

Making Access Possible (MAP) is a multi-country initiative to support financial inclusion through a process of evidence-based analysis feeding into a financial inclusion roadmap jointly implemented by a range of local stakeholders.

MAP was initiated by the United Nations Capital Development Fund (UNCDF) and developed in partnership with FinMark Trust and the Centre for Financial Regulation and Inclusion (Cenfri). In each country, MAP brings together a broad range of stakeholders from within government, the private sector and the donor community to create a set of practical actions aimed at extending financial inclusion tailored to that country.

The volumes in the MAP Global Insights series consolidate and synthesise the learnings from the MAP programme across MAP programme countries.

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About the cover

Norman Rockwell's United Nations drawing, *We The Peoples*, which he sketched in 1952, was initially created as a study for a future painting. It was a representation of the artist's hope for the future of a fragmented world, one in which the United Nations played a pivotal role. With hopeful expressions on their faces, this diverse group of people melds together to form a united whole. Although the final artwork never came to fruition, the artwork was later recreated as a mosaic and presented to the United Nations in 1985, and is currently displayed on the third floor of the United Nations conference building in New York. Over the past few decades we've progressed from a relatively simple ideal of a harmonious planet towards a more nuanced understanding of what it takes to make progress towards those goals. The SDGs embody the principles of the UN as illustrated by Norman Rockwell by encapsulating that the social and the economic are equally important for an inclusive, fair and just world in harmony with nature, which calls for a new era of engagement and exploration in pursuit of equality for everyone on our planet. To truly fight inequality we have to create an environment in which everyone has access to the support, benefits and safety nets of finance, where financial inclusion plays a pivotal role.

Finance for inclusive societies

That which is not...

*Growth is not necessarily inclusive growth.
Pro-poor growth policies are different from inclusive growth policies.
Financial sector development is not necessarily, or by definition, inclusive.
Business as usual will not get us to the 2030 Agenda on time.*

The interconnected global world of our times means that money and the flow of money are increasingly connected across geographies, people and systems – and the basis for making these connections work needs to be reconfigured. For financial inclusion, the UN's call for an integrated, systems approach to complex development challenges is a call for better understanding the money flows at the most micro level of communities and societies and, in the process, better understanding the potential to include those currently outside of the financing system within the scope of the national financing system at the very least – and where possible of the global financing system.

Financial systems exist in all countries. But the degree to which the benefits of the systems have translated into economic benefits differs widely. This is largely due to the existence of market inefficiencies and failures and differences in terms of the level of development and sophistication of financial markets in specific countries. The link between the benefits of financial services/financial sector development and economic development, while real, is therefore not tangible at the micro level and takes a long time to become evident. Countries eventually benefit from greater efficiency, resource availability and the like, yet the economy in general, and individuals, households and small businesses, are not necessarily better off in the short or medium term. Furthermore, given increasing levels of inequality in countries, the economic development and growth that flows over time from financial sector development is no guarantee of economic inclusion, let alone financial inclusion.

While financial sector development at a macroeconomic level is crucial for economic development over time, over the short and medium term it is financial inclusion that can meaningfully impact on people's ability to participate more in the benefits of growth.

The benefits of financial inclusion are well known and have formed the bedrock of MAP's work on poverty reduction and improved welfare. Financial inclusion expands the access of low-income individuals, households and small businesses to appropriate financial services. In the first instance financial inclusion plays a microeconomic role – helping people achieve their goals and deal with shocks.

By transacting, saving, investing, borrowing, or mitigating risk, poor people are able to lower their transaction costs, smooth consumption, accumulate assets, and lower their exposure to productive or personal risks. They also benefit from time savings, improved privacy and security, and increased informational records. This leads to an increase in disposable income, decreased opportunity costs, greater control of finances, increased traceability – and thereby increased welfare.

On a broad enough basis, gradually and indirectly this increased welfare over time contributes to reduced inequality.

But while financial inclusion as a poverty-reduction instrument has enabled tremendous progress, even if we reach the World Bank's financial inclusion goals of 'universal financial access' ('UFA2020'), this is not enough – because there is only limited evidence that access in itself addresses the broader poverty reduction and welfare improvement objectives financial inclusion has set itself. Staying purely within the realm of business as usual and relying on the indirect benefits of financial inclusion will not get us to the 2030 Agenda on time; it is now widely acknowledged that financial inclusion must help to enable achievement of the broader UN Sustainable Development Goals (SDGs): *enabling growth while addressing inequality*.

Ramping up financial inclusion's support for inclusive growth. The most pressing question for financial inclusion now, therefore, is how it can *contribute more directly* to the inclusion of poor individuals, households and small businesses in the benefits of growth, linking to the 2030 Agenda, and how it can do so *in addition to* its existing contributions to development (improved welfare via the financial benefits that increased financial inclusion generates).

Originating in the financial inclusion research for building markets, which was firmly grounded in both the Making Markets Work for the Poor (M4P) and the livelihoods approaches, the MAP programme balances twin objectives: effecting market-level improvements through policy interventions and private-sector investments, and improving livelihoods and well-being. From the outset, the programme's version of financial inclusion, by placing people and their livelihoods at the centre, has emphasised the overlap of financial inclusion and inclusive growth. The MAP thinking is that financial inclusion can drive growth in specific economic sectors – thereby contributing to broader economic objectives; can help secure access to resources such as basic services and infrastructure, education and healthcare – thereby allowing the poor to invest and participate actively in human capital formation; and can enable people to access income-earning opportunities, increase their income, do more with their current level of income and/or build their assets – thereby improving welfare (see particularly Note 4 of Volume 2 in the Global Insights series).

For MAP, the broader question is this: what is the ability of a country's low-income individuals, households and small businesses, given improved access to financial services, to further benefit from and contribute to the country's broader economic growth?

Congruence of the MAP approach with the UN SDG integration approach

- ✓ Align public and private actors around people-centred economic policymaking
- ✓ Focus on societal goals
- ✓ Focus on integration
- ✓ Whole of government approach
- ✓ Systems approach
- ✓ Connect issues across sectors and thematic areas
- ✓ Leverage creativity and know-how of all of society
- ✓ Bring together representatives from government, donors, communities, civil society, academia and the private sector
- ✓ Focus on people's daily realities and meeting actual needs

The UN SDGs are an attempt to address the root causes of poverty and inequality within and between countries (along with climate change and environmental degradation), and to achieve peace and justice for all. Not only a broad global compact for poverty alleviation, the SDGs are also a call for drastic change in order to shift the development focus to inclusive market-based systems, social security, inclusive capitalism and unlocking resources through investment and entrepreneurship.



How is MAP rallying?

- Adopting an inclusive growth commitment more purposely, through the programme's inclusive data agenda; multi-stakeholder-driven engagement; and market stewardship.
- More explicitly positioning financial inclusion to expose and challenge economic and social exclusion.
- Focusing on increasing equality of access to resources (particularly the four crucial needs) and to opportunities (e.g. a job or a small business) as a strategy for improving livelihoods and boosting inclusive growth.
- Maximising conceptual and actual linkages between the microeconomic and macroeconomic: between the real-economy activities of individuals, households and communities to meet their crucial needs, and government responsibility and efforts to power national growth and increase citizens' participation in its benefits.
- Supporting governments to leverage the potential of existing individual and household expenditure (albeit often informal) as a mechanism for helping to fund economic growth.
- Actively engaging with new technology – including as a force that is redefining the role of financial services in the real economy – as an enabler for inclusive growth.
- Focusing more deeply and more strategically on key sectors and market segments with the potential to de-risk markets, thus creating a more enabling environment for financial inclusion.
- Moving beyond access indicators to identify and define the drivers of usage of financial services that can power inclusive growth.

Responding to people's daily realities

One of MAP's strengths has always been that it positions consumers at the heart of its research activities and analysis, so that subsequent financial inclusion interventions start from where a country's consumers *actually* are. While macroeconomic, political economy, regulatory and provider data are key, there is a strong emphasis on the microeconomic: the real economy (the part of the economy producing goods and services rather than the part comprising financial services) and the actual financial needs, activities and behaviours of the financially underserved or excluded. Most comparable financial inclusion development programmes focus on level of income or amount earned; by contrast, the main focus of MAP segmentation is *source of income* – people's daily realities in terms of how they generate their income.



More explicit focus on 'the four crucial needs'. The programme's work in improving lives and livelihoods has relied on an understanding of the factors that support livelihoods: health, education, financial intermediation, entrepreneurship, employment, redistribution (social grants) and access to basic services (e.g. water, sanitation, energy, connectivity). While individuals, households and small businesses in the UNCDF MAP countries have a wide range of needs for which they access and use financial services (whether local/informal or formal), time and again MAP has found that the following four needs are commonly prioritised: basic services and infrastructure, education, healthcare, and entrepreneurship. MAP has therefore come to characterise these as the four areas of crucial need in terms of increasing equality of opportunity.

That is to say, regardless of their income levels, people in the MAP countries spend on the four crucial needs, largely through engaging the use of financial services. Figure 1 provides a breakdown from the case of Myanmar (FinScope 2018) of how the population accesses financial services to help them meet priority needs.

People's money. As Figure 1 shows, existing money at household level is being spent on services outside of the formal economy. Among financial inclusion's key challenges is learning from the enduring popularity of informal financial service offerings in order to inform policy and interventions that more appropriately serve people's actual needs. By expanding the access of low-income individuals and households to appropriate formal financial services, particularly in major economic sectors and for basic services and infrastructure, financial inclusion plays a much-needed intermediating role in the economy between microeconomic and macroeconomic actors.

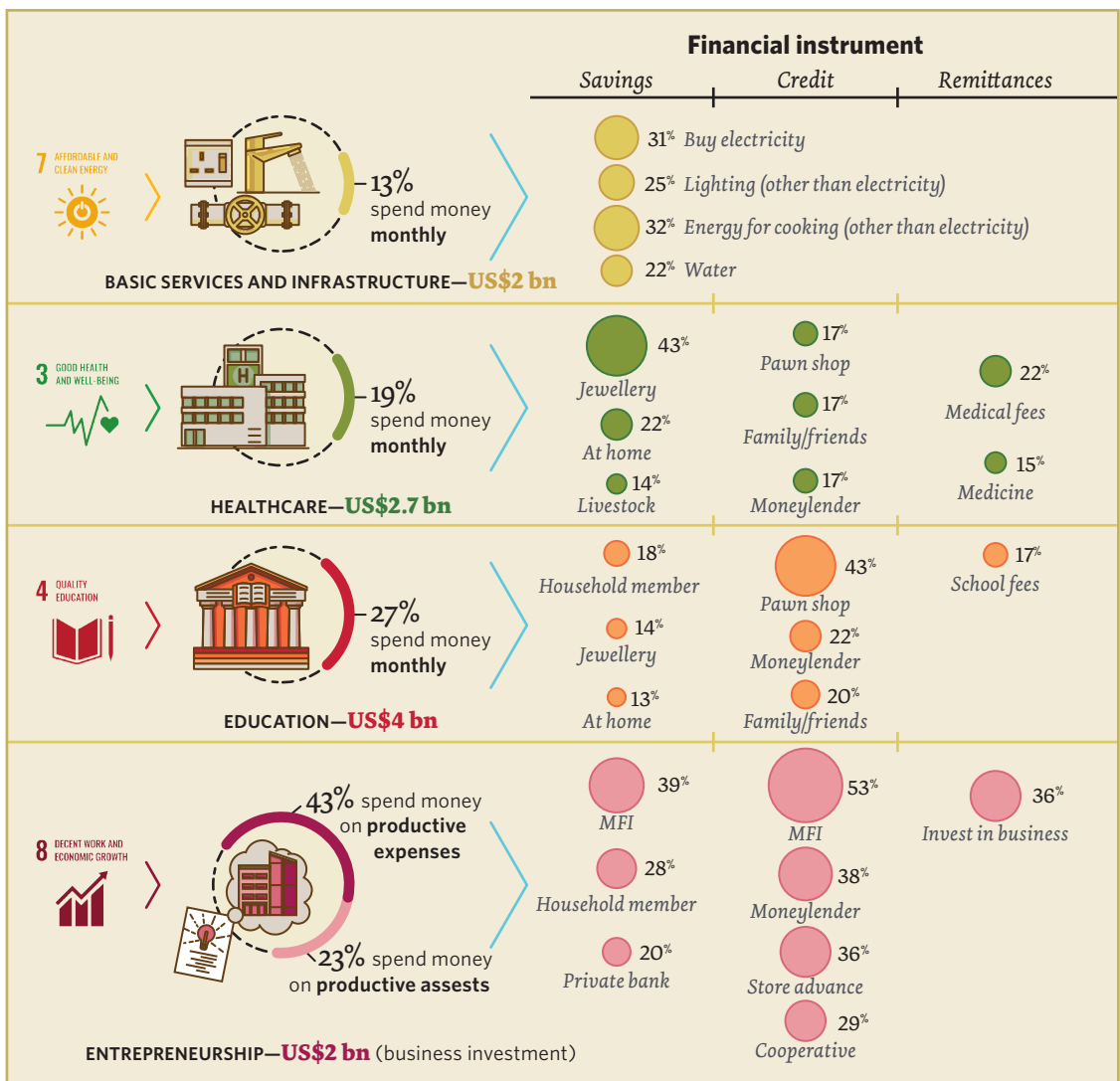


Figure 1: The four crucial needs, and how consumers source finance to meet them

Source: FinScope Myanmar 2018.

The importance of access to basic services and infrastructure. Access to basic services and infrastructure for everyone is crucial if a country is to improve participation in economic activity by all who live there. Healthcare, digital and mobile phone infrastructure, transport, water, sanitation and energy all fall into the category of basic services and infrastructure. The ability to access services (e.g. education, health) or invest in productive opportunities (e.g. business, farming) can increase social mobility. Without this ability, productive participation in the economy becomes difficult for poor households, and government budgets must play more of a part to support the standard of living of poor groups. Providing common access to quality basic services and infrastructure is, therefore, fundamental to governments' efforts to provide equality of income-earning opportunities. Such access is often not provided, however, as it is not always cost effective to include poor areas. But given that infrastructure and services are crucial needs, people access financial services (often informal) to find ways to meet these needs.

Prioritising access to education. While primary education is free in most MAP countries, there are still (often quite substantial) costs involved in sending a child to school (e.g. uniforms, stationery and transport). And while primary education might be fee-free, secondary education and upwards often entails additional co-payments, meaning that the cost of education becomes more of a barrier. Yet, MAP finds that people widely regard education as a crucial need and harness financial services (often informal) in order to access education and manage educational expenses. There remain, however, significant inequalities in terms of access to education – and especially higher education; and there are large variations between countries, and in-country between different income groups, with regard to the quality of education.

Making a plan. Across the MAP diagnostic findings, it is apparent that most entrepreneurs are self-employed out of desperation rather than active choice. Targeting aspirational small businesses (those self-employed out of choice rather than desperation) with growth-supporting financial interventions has a multiplier effect, by creating jobs and employing more people (see Note 3 for the MAP MSME methodology). Additionally, by virtue of being so ‘close to the ground’, aspirational SMEs are able to quickly spot and grow economic opportunity (see also Note 1 in Volume 1 and Note 2 in Volume 2). Applying the proper financing mechanisms for entrepreneurs is an effective strategy for boosting inclusive growth from the bottom up with those closest to the ground and is also invaluable for determining real economic needs from a business value-proposition perspective.

Financial inclusion as a channel for formalising available capital. Expenditure on basic services and infrastructure can be leveraged as a mechanism for development. As countries develop and also become more urbanised, the demand for energy increases, along with the payment streams towards specific utilities. From a household perspective, therefore, more efficient payment mechanisms and the ability to better smooth consumption can improve people’s ability to pay utilities. And, from a macro perspective, increasing the formal demand for utilities, as well as capturing the payment streams from households to utility providers, can positively impact on infrastructure investment and the availability of pools of capital for the provision of additional financial services.

Equalising access to the four crucial needs. Financial inclusion empowers individuals, households and small businesses, particularly in impoverished communities, by building well-functioning and responsive financial systems that both boost people’s capacity for self-determination and strengthen the broader economy. The appropriate financial tools can increase individual, household and small business resilience and create pathways out of poverty over the long term. For the most part, financial inclusion in rural areas as well as in financially underserved pockets of cities is a win-win proposition for providers and consumers. While government and private-sector investment is clearly still required, financial inclusion co-opts households into the rollout and accessibility of basic services and infrastructure and entrepreneurship opportunities. Figuring out how best to serve low-income people through the use of financial services can facilitate co-dependent pathways to broaden the reach of such infrastructure and services. Given the need to realign the work being done in financial inclusion so that it can contribute more concretely to reducing poverty and combating inequality, equalising access to the four crucial areas of need must become a more explicit intermediary goal of financial inclusion.

Integrating the MAP approach in contribution to achieving the SDGs



Dynamic and competitive markets stimulate growth by encouraging people's choice of financial products and services that improve their lives in tangible ways while simultaneously increasing levels of employment, which in turn allows people to afford the products and services of other businesses. When these dynamics are restricted to a few households and very large companies, though, with a long tail of poor households and small, unproductive firms, the country's dynamism, creativity and productivity are stifled. Inequality extremes are, in the words of Cambridge economist Ha-Joon Chang, 'a source of needless human and economic waste' (Oxfam 2014 cited in ISSC, IDS & UNESCO 2016: 1).

A complex range of structural factors, however, influence a country's economic potential and the extent to which the population can participate in generating and reaping the benefits of growth. Developing countries lack many of the basic elements of what can be termed an 'inclusive growth ecosystem' and often struggle to create them as they industrialise. This limits their potential to integrate with the global economy and to extend the benefits of economic growth to their populations – which in turn fuels inequality and leaves their economies vulnerable to fluctuations in exports and commodity prices (WEF 2017).

From grouping countries to clustering countries. The longer MAP has operated, with increasingly rich datasets allowing for comparison between countries and between the same target market segments across countries, the more the programme has been able to hone its methodology and codify its practice. With this have come new and powerful technical lenses for viewing patterns of data coming out of the participating countries. Target market segmentation remains the core analytical tool in the MAP approach. Over time the programme reached the point of being able to *group* countries (see Volume 2, Note 2) in terms of their level of financial inclusion as it influences their articulation of a national financial inclusion goal. And most recently, using an inclusive growth lens, MAP has been able to *cluster* countries in terms of commonalities related to financial inclusion in the context of inclusive growth.

The MAP programme has been a frontrunner in embedding a regional dynamic into its financial inclusion work with countries, in acknowledgement of the power of neighbours, regional dependencies and political economies. The five MAP clusters are not regional, however, but are rather a conceptual and analytical tool for supporting development interventions. Thus, the regional operational and implementation focus of the national financial inclusion strategies remains, for building relationships, sharing cross-border initiatives, common currencies and the like, while the clusters help to inform programmatic interventions for development by casting light on existing levels of market development/sophistication.

An inclusive growth ecosystem – the key focus areas

In the interests of more purposely applying inclusive growth metrics to its financial inclusion thinking and practice, MAP turned to the established international literature, and particularly the frameworks for inclusive growth developed by the Asian Development Bank and the World Economic Forum (ADB 2014; WEF 2017), which stipulate the required structural underpinnings for a country to achieve sustained and inclusive economic growth. The underpinnings were used to identify nine inclusive growth focus areas that serve as criteria for assessing the health and robustness of the inclusive growth ecosystem in MAP countries.

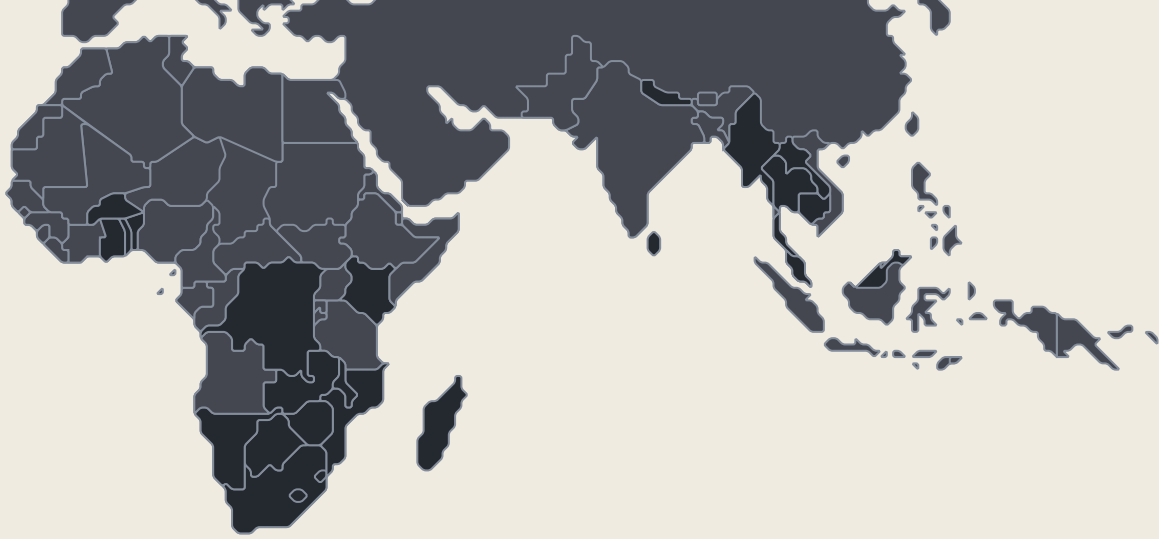
Narrowing the gap between micro and macro. Financial inclusion has always been a critical enabler of and thus a significant contributor to financial sector development, especially in least developed countries (LDCs), where levels of financial sector development are generally low. The MAP country diagnostics and research are deeply embedded in both the macroeconomic context and the political economy, so that the ensuing financial inclusion interventions will be relevant. The programme's enduring preoccupation with the factors that support livelihoods – macroeconomic and political economy context of the country and the four crucial needs – proved to be completely congruent with the inclusive growth focus areas (see Figure 2). This confirmed once again the effectiveness of focusing on consumers and their livelihoods as a way of promoting inclusive growth at the (microeconomic) level of people's daily lives, in what could otherwise remain a purely macroeconomic goal.

From the inclusive growth focus areas, MAP derived 14 indicators, which were applied to 16 MAP countries for which data on all the focus areas and indicators was reliably available. An unsupervised machine learning algorithm was applied to MAP livelihoods data to group the MAP countries into distinct clusters based on the indicators (Nova Economics 2019).



Figure 2: Comparison: inclusive growth focus areas (derived from the international literature), and MAP's identification of the factors that support livelihoods

A K-means algorithm was used for the clustering exercise. K-means is a simple and popular unsupervised machine learning algorithm; it divides a dataset into groups based on patterns in the data. Similar data is grouped together and forms k discrete clusters, where k is exogenously determined at the outset.



The 16 MAP countries were clustered on the basis of similarities in terms of the inclusive growth focus areas. The result was 5 distinct country types, or clusters (non-MAP countries are in parentheses):

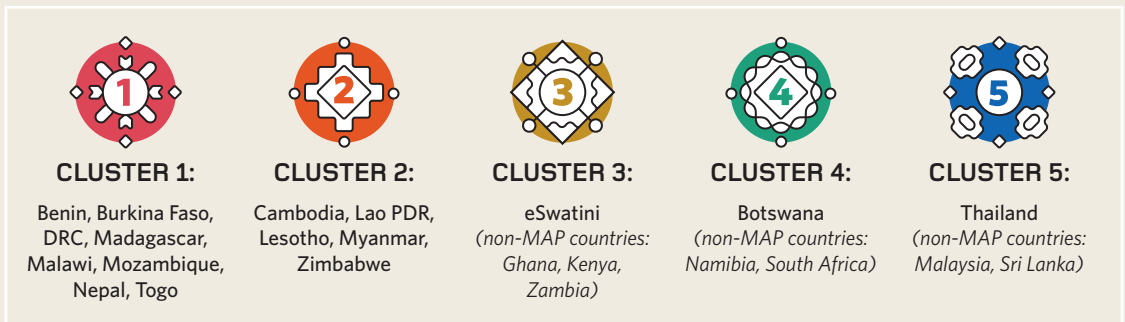


Figure 3: Country clusters

Source: Nova Economics (2019)

While not in the original clustering exercise, the non-MAP countries have been included in the list because they have comparable HDI, Gini coefficients and GDP per capita. HDI (Human Development Index) is a summary measure of average achievement in three areas of human development that accounts for: a long and healthy life; being knowledgeable (mean years of schooling, expected years of schooling); and having a fair standard of living (GNI per capita). As would be expected, countries with very low HDI also generally lack many of the structural underpinnings required to support and enable faster and more inclusive economic growth. Across the indicators used, GDP per capita and HDI were helpful descriptors to rank countries across the clusters (see Figure 4).

In particular, the clusters ordered from lowest to highest across all 14 of the inclusive growth indicators rank perfectly with the HDI, once again confirming the linkages between successful financial inclusion interventions and human development – the ultimate goal of inclusive growth and the SDGs alike.

The indicators were also aggregated according to the inclusive growth focus areas to create an inclusive growth heatmap (see Table 1).

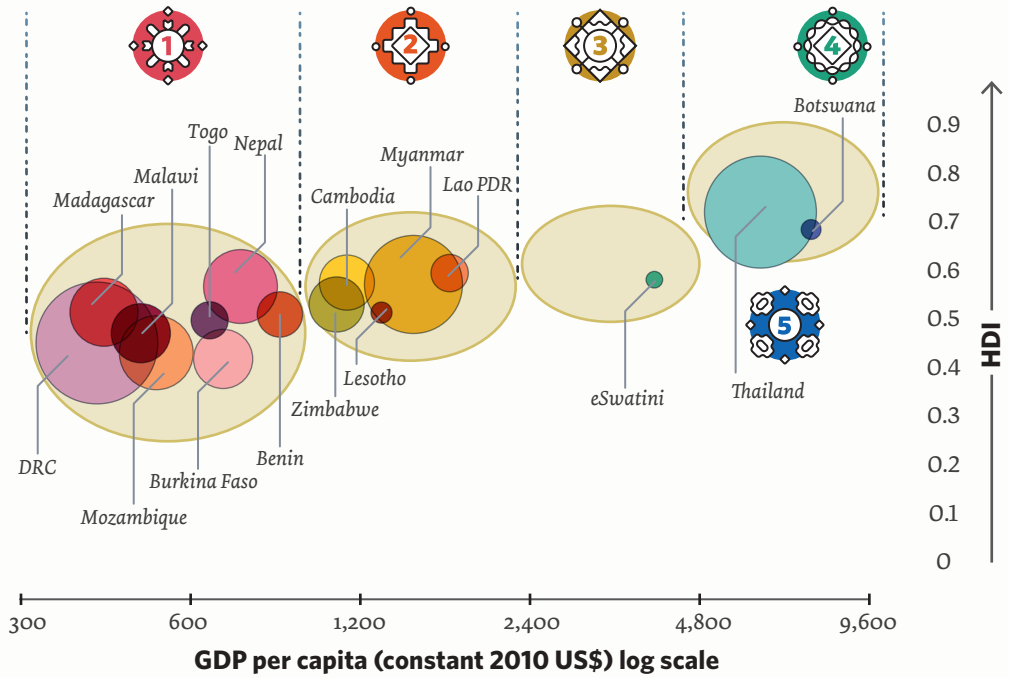


Figure 4: Clustering 16 MAP countries, by HDI and GDP per capita
 Source: Nova Economics (2019), citing UNDP (n.d.) and World Bank (2019).



Inclusive growth focus areas





0.52	0.59	0.66	0.84	0.83	Macroeconomic context
0.45	0.47	0.59	0.54	0.82	 Education and skills
0.33	0.52	0.56	0.73	1.00	 Basic services and infrastructure
0.41	0.48	0.47	0.95	1.00	 Health and human development
0.19	0.87	0.54	0.46	1.00	 Asset building and entrepreneurship
0.03	0.13	0.29	1.00	0.97	Corruption and rents
0.71	1.00	0.66	0.94	0.27	Fiscal transfers and social protection
0.18	0.19	0.23	0.37	1.00	Financial sector development
0.54	0.50	0.37	0.36	1.00	Unemployment and income inequality

Table 1: Inclusive growth normalised scores, by MAP country cluster

Different contexts – differentiated financial inclusion interventions. The inclusive growth focus areas, as crucial aspects of the inclusive growth ecosystem, provide a helpful way to score or rank countries in terms of their progress towards inclusive growth. The MAP country clusters are ranked from *least* to *most* enabling inclusive growth context (with Cluster 1 representing least and Cluster 5 most), as measured by the aggregated scores across all 14 indicators. With countries being at different stages of financial inclusion, and of economic development more broadly, their needs and priorities differ, requiring differentiated financial inclusion interventions. Countries' levels of progress or investment in terms of the nine inclusive growth focus areas are assessed, which includes getting a sense of the extent to which, in terms of the *current* realities of their lives, the population has the potential to benefit from and contribute to inclusive growth. While opportunities to unlock inclusive growth through financial inclusion will necessarily differ per country, they will differ *substantially* between the clusters.

In UN nomenclature, 'least developed countries' (LDCs) are low-income countries confronting severe structural impediments to sustainable development. They are highly vulnerable to economic and environmental shocks and have low levels of human assets.

Characterising the clusters in terms of livelihoods and inclusive growth realities

The country clustering can be used to explore livelihoods differences – how individuals and households earn their incomes and put food on the table – across the five clusters. This provides insight into the microeconomic context and labour force composition, both of which are crucial considerations for financial inclusion interventions.

MAP segments the population based on primary source of income, with the following five main target market segments (and usually sub-segments unique to the country in question) being identified: salaried workers, self-employed adults (i.e. micro, small and medium enterprises or MSMEs), farmers, dependants, and irregular earners. Each of the livelihoods segments has distinct needs in terms of access to and usage of financial services, and this informs a differentiated approach to increasing financial inclusion in each country cluster. (For more on the MAP target market segments, see also Note 1 of Volume 1.)

Households in the lowest-income clusters (Cluster 1: 'very low-income' and Cluster 2: 'low-income') are largely reliant on small-scale/subsistence farming as a primary source of income. From Cluster 1 to Cluster 5, the importance of small-scale/subsistence farming, as well as small businesses (MSMEs), decreases relative to formal employment and dependency. (Cluster 5 is interesting, though, in that the proportion of the population earning their income through small-scale/subsistence farming is much higher than in Clusters 3 and 4.) It is likely that small-scale/subsistence farming is still important in Clusters 3 and 4 but it is not recorded as the *primary* source of household income. Clusters 3, 4 and 5 have higher proportions of dependants compared to Clusters 1 and 2.



CLUSTER 1:

Very low-income, some inequality

Majority small-scale/subsistence farming. High proportions of MSMEs and dependants. Low proportions of salaried (formal) and irregular (informal) employment.

Cluster 1 is made up entirely of least developed countries, with basic and undiversified economies. There is a lack of basic infrastructure such as electricity, and literacy levels are very low by global standards. Country performance on education, health and human development measures is very low, and Cluster 1 countries generally have very weak and ineffective government institutions. Economic prospects are, therefore, limited, and the populations are for the most part living in poverty. There is 'some' inequality in Cluster 1 but levels of inequality are lower than in Clusters 3 and 4. Formal employment levels appear relatively low, while levels of small-scale/subsistence farming and self-employment (small business ownership i.e. MSMEs) are high. Out of necessity, a high proportion of Cluster 1 country populations are dependants.

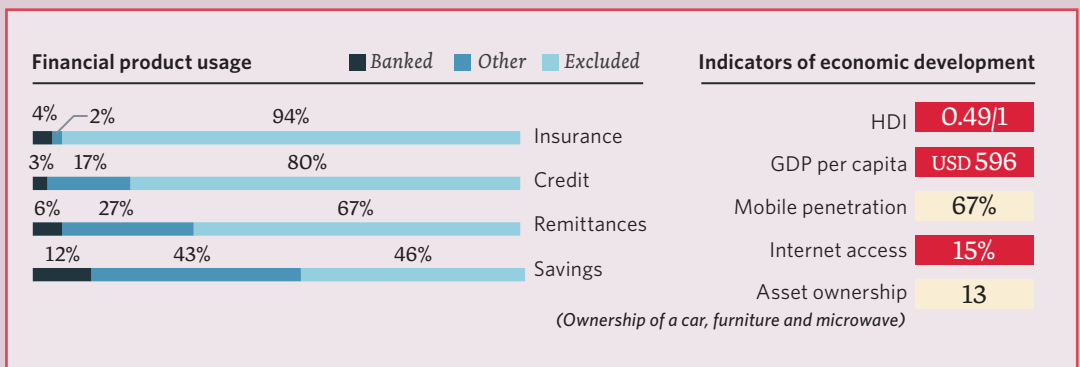


Figure 5: Cluster 1 characteristics

Source: FinScope Consumer Surveys: Benin 2018, Burkina Faso 2016, DRC 2014, Madagascar 2016, Malawi 2014, Mozambique 2014, Nepal 2014, Togo 2016.



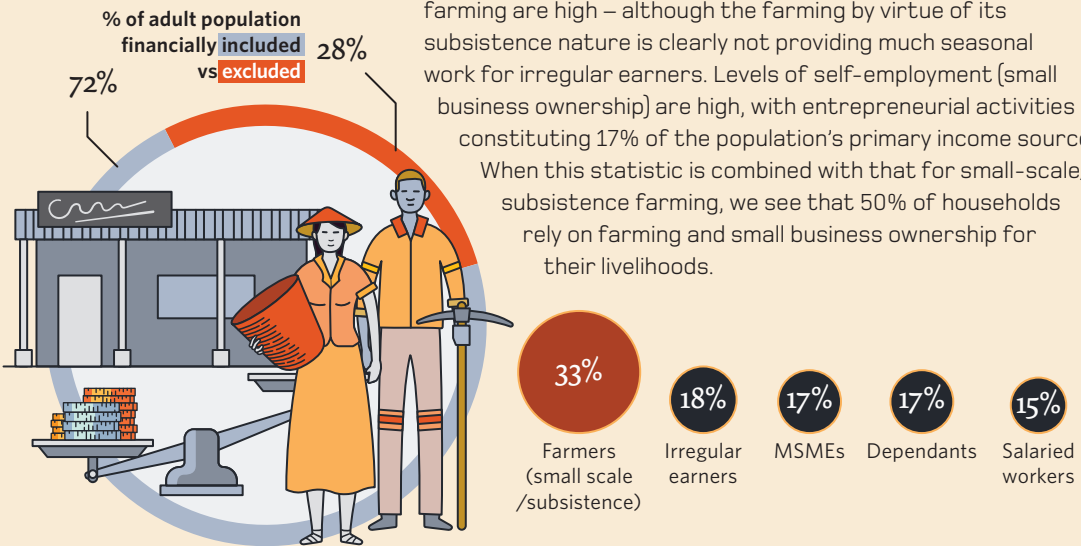
CLUSTER 2:

Low-income, some inequality

High proportion of small-scale/subsistence farming. Small businesses contributing significantly. Higher proportion of salaried (formal) and irregular (informal) employment than in Cluster 1. High proportion of dependants (though lower than in Cluster 1).

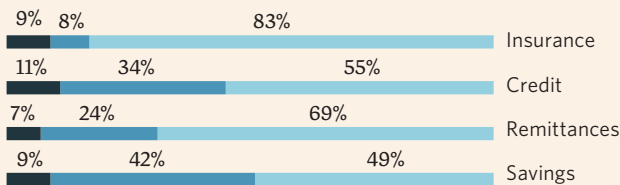
The countries in this cluster have higher economic complexity, offer more economic opportunities, and have double the GDP per capita of Cluster 1 countries. Nevertheless, living standards are low and the populations are very poor. As is the case with Cluster 1, these countries struggle with low levels of government efficiency and effectiveness, although levels of access to basic services and infrastructure are higher than for Cluster 1 countries; that said, 50% of the Cluster 2 populations lack access to electricity. Opportunities for asset building and entrepreneurship are significantly improved compared to Cluster 1. Basic literacy levels are significantly higher in Cluster 2 than in Cluster 1 countries but the proportion of people who have completed tertiary education remains exceptionally low (5%).

Cluster 2 also has 'some' inequality, though once again levels of inequality are lower than in Clusters 3 and 4. And levels of salaried and irregular employment both appear relatively low (but higher than in Cluster 1). Levels of small-scale/subsistence farming are high – although the farming by virtue of its subsistence nature is clearly not providing much seasonal work for irregular earners. Levels of self-employment (small business ownership) are high, with entrepreneurial activities constituting 17% of the population's primary income source. When this statistic is combined with that for small-scale/subsistence farming, we see that 50% of households rely on farming and small business ownership for their livelihoods.

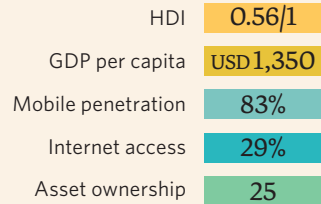


Financial product usage

Banked Other Excluded



Indicators of economic development



(Ownership of a car, furniture and microwave)

Figure 6: Cluster 2 characteristics

Source: FinScope Consumer Surveys: Cambodia 2015, Lao PDR 2015, Lesotho 2011, Myanmar 2018, Zimbabwe 2014.



CLUSTER 3:

Low-income, high inequality

High proportion of salaried (formal) employment. Irregular (informal) employment also significant. High proportion of dependants. Low proportion of participation in self-employment (MSMEs). Importance of farming likely under-represented.

Cluster 3 (eSwatini) has almost treble the GDP per capita of Cluster 2 countries and a stronger inclusive growth context, on aggregate, than countries in Clusters 1 and 2, although Cluster 3 underperforms in key areas. Levels of both unemployment and inequality are higher; almost a quarter (23%) of the adult population are unemployed. This could be the result of a combination of few people participating in either small-scale/subsistence farming or small business self-employment (with no alternative livelihood options), and relatively high levels of salaried employment (44%) providing some households with relatively high income. Cluster 3 shows the highest proportion of salaried workers (formal employment) of all the clusters.

Roughly 16% of Cluster 3 households rely for their primary income on small-scale/subsistence farming (6%) or entrepreneurial activities (10%). While the Cluster 3 livelihoods data suggests reliance on small-scale/subsistence farming is very low, the importance of farming is likely under-represented in the data because Cluster 3 includes only one MAP country, eSwatini, which is very small, with very specific characteristics and constraints. If data for other Cluster 3, non-MAP countries such as Ghana, Kenya and Zambia were to be included, the picture would look very different: for instance, in Zambia, 26% of adults have farming as their main source of income (FinScope 2017) versus eSwatini's 6%.

Cause for concern in the case of eSwatini, though, is that while unemployment levels are high, fiscal transfers and social protection remain fairly weak. As with Clusters 1 and 2, basic literacy levels are quite low (still only around 88%); however, compared to Clusters 1 and 2, a much higher proportion of the population (21%) have completed tertiary education.

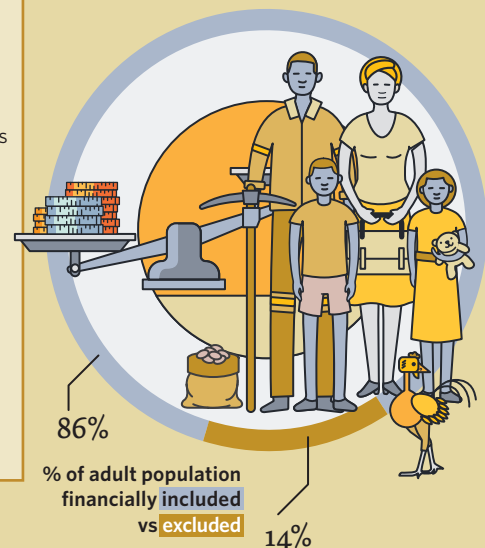
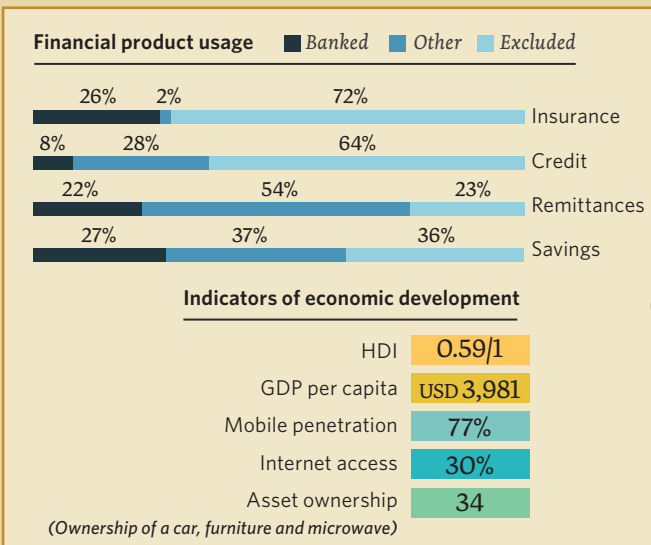
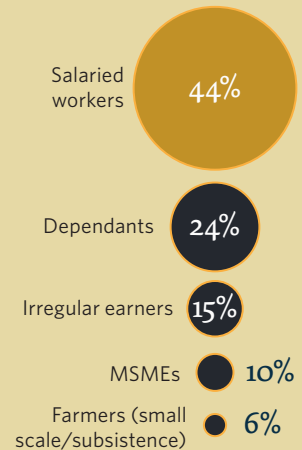


Figure 7: Cluster 3 characteristics
Source: FinScope Swaziland 2014.



CLUSTER 4:

Middle-income, high inequality

High proportions of salaried (i.e. formal) and irregular (i.e. informal) employment. Very high proportion of dependants. Very low proportions of farmers and MSMEs.

Cluster 4 (Botswana) has the highest GDP per capita of all 16 of the MAP cluster countries (nearly double that of Cluster 3 – eSwatini), although its society is also the most unequal and it has high levels of unemployment (17%). Cluster 4 has strong institutions of government yet a relatively undiversified economy. Human development, health and education metrics are significantly better in Cluster 4 than in Clusters 1–3. In addition to high levels of unemployment and inequality there are low levels of asset building and entrepreneurship (self-employed adults – 7%). However, government efficiency and effectiveness, access to basic services and infrastructure, and levels of social protection compare favourably with other clusters (although levels of access to electricity and the Internet are surprisingly low).

Among the cluster countries, Cluster 4 is relatively affluent ('middle-income') and has a high proportion of salaried employment: almost 30% are formally employed (with a further 22% informally employed as irregular earners). Of all the clusters, Cluster 4 has the highest proportion of dependants. In Cluster 4, household reliance for primary income on entrepreneurial activities (self-employment) is around 7% and on small-scale/subsistence farming activities is around 3% – that is, very low.

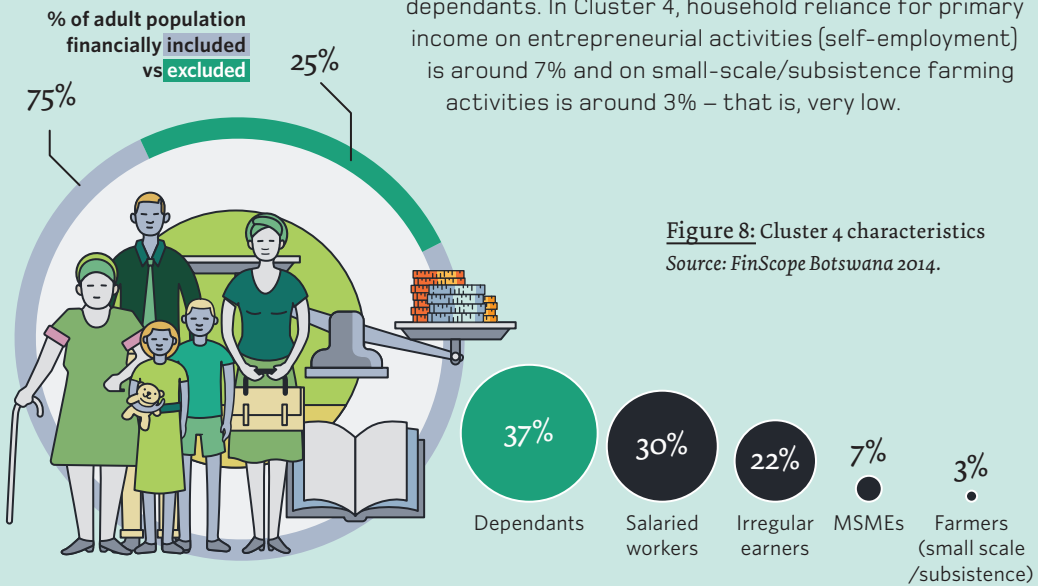


Figure 8: Cluster 4 characteristics
Source: FinScope Botswana 2014.

Financial product usage				Indicators of economic development	
	Banked	Other	Excluded		
Insurance	25%	5%	70%	HDI	0.72/1
Credit	14%	11%	75%	GDP per capita	USD 7,523
Remittances	12%	26%	62%	Mobile penetration	141%
Savings	30%	32%	38%	Internet access	41%
				Asset ownership	35

(Ownership of a car, furniture and microwave)



CLUSTER 5:

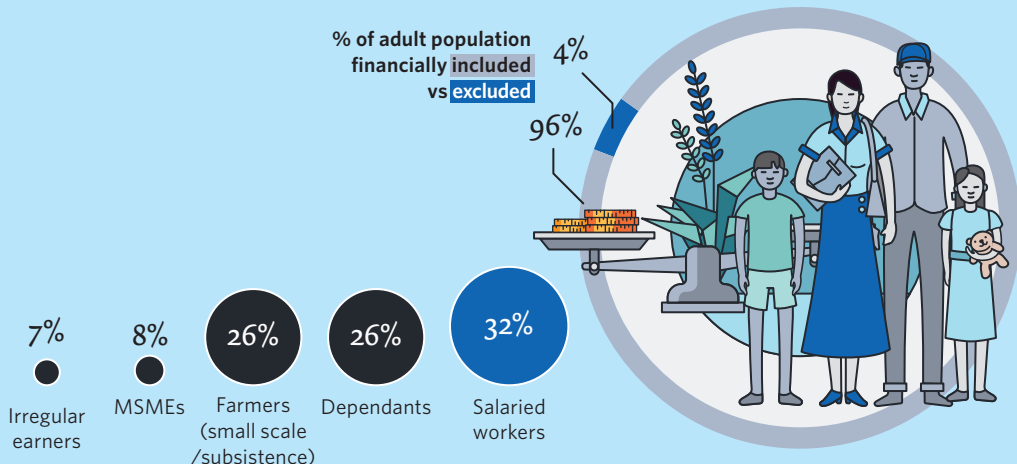
**Middle-income,
low inequality**

High proportions of salaried (i.e. formal) employment, small-scale/subsistence farming and dependants. Very low proportions of irregular (i.e. informal) employment and small business enterprise.

Cluster 5 (Thailand) has the highest level of human development of the 16 MAP cluster countries. Overall, Cluster 5 performs relatively well. It has a slightly lower GDP per capita than Cluster 4 but income is much more evenly distributed (i.e. levels of inequality are relatively low) and there is almost 100% employment. Government efficiency and effectiveness is high, institutions are relatively strong, people have access to basic services and infrastructure, and the financial sector is reasonably well developed. Levels of basic literacy are high and primary schooling teacher-to-learner ratios (16:1) are very good.

Of all the clusters, Cluster 5 has the highest proportion of formal employment (salaried workers – 32%), while the proportion of irregular employment (7%), is much lower than in any of the other clusters. Just over a third of households (34%) still rely for their primary source of income on small-scale/subsistence farming (26%) or entrepreneurial activities (8%).

Figure 9: Cluster 5 characteristics
Source: FinScope Thailand 2013.



Financial product usage			Indicators of economic development	
	Banked	Other	Indicator	Value
Insurance	56%	15%	HDI	0.76/1
Credit	18%	10%	GDP per capita	USD 6,126
Remittances			Mobile penetration	176%
Savings	55%	8%	Internet access	53%
		37%	Asset ownership (Ownership of a car, furniture and microwave)	50

Working with differing contextual realities and levels of market development

Combining data on the inclusive growth context, the way households earn their income/livelihoods, and the current state of financial inclusion brings the household, institutional and broader societal contexts into sharper focus and highlights factors to consider when designing financial inclusion interventions to promote inclusive growth.

Figure 10 is the consolidated cluster analysis, showing the relative values of HDI and financial inclusion across the 16 MAP cluster countries within the 5 clusters. It summarises the data on inclusive growth context, household livelihoods segmented according to primary source of income, and financial inclusion (measured simply as percentage of the population that are ‘banked’ – i.e. own a bank account).

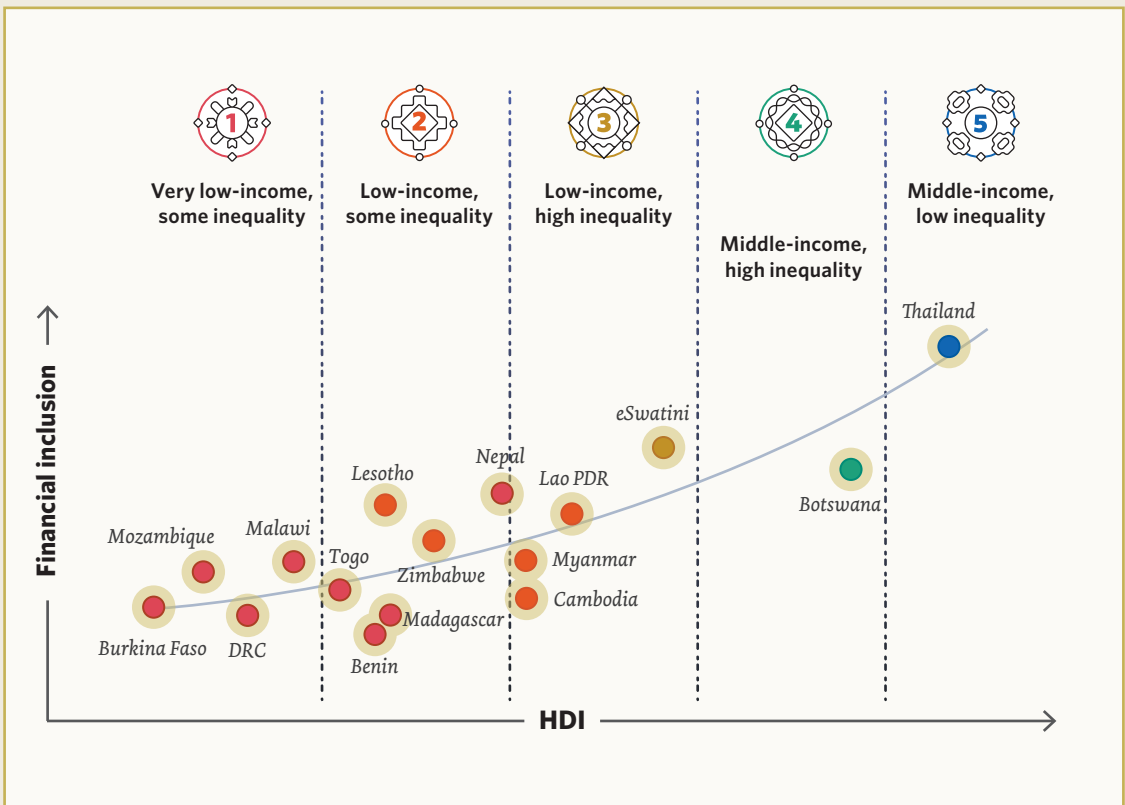


Figure 10: Consolidated cluster analysis: inclusive growth context, livelihoods and financial inclusion across the clusters.

The 16 MAP countries are plotted in terms of increasing HDI on the horizontal axis, and increasing financial inclusion on the vertical axis. Figure 10 illustrates that countries in Cluster 1 have the lowest levels of HDI and financial inclusion and that this increases almost linearly from Cluster 1 to Cluster 5 in line with improvement scored in terms of the nine inclusive growth focus areas.

While the countries in each cluster tend to fall within a similar HDI range, there are some exceptions: Nepal, for instance, which falls into Cluster 1 but has an HDI higher than that of either Lesotho or Zimbabwe (both Cluster 2 countries); however, when all 14 indicators are used to cluster the countries, Nepal emerges as more closely resembling its other Cluster 1 counterparts, specifically in terms of GDP per capita, GDP growth and inequality.

Sharpening the focus. The country clustering is a useful tool for analysis that can be sharpened by further adjusting the inclusive growth lens. This can be done, for example, by adding more livelihoods data, or data on overall access to financial services and access to specific product categories, and so on. Each addition and turn of the lens provides powerful fresh perspectives and insights with regard to the country clusters and the possibilities for optimal financial inclusion intervention work towards human development.

In addition to livelihoods composition, across the clusters the differing stages of economic development indicate different levels of market development and variations in the ecosystems available to enable functioning markets. Consequently, market-development work can range from improving government effectiveness, increasing access to basic services and infrastructure, and supporting asset building and entrepreneurship (in the lower-end clusters), to tackling inequality, financial sector development, access to tertiary education and social protection (in the higher-end clusters).

A powerful new lens for financial inclusion?



Development is about countries becoming prosperous, democratic and capable, like being able to deliver the mail, having police forces that work and children who get educated. Charity work is helping people cope with the fact that they live in places where they don't have those things. (Adams 2012, citing Prof. Lant Pritchett, tenured professor at Harvard's Kennedy School of Government)

Focusing on financial inclusion as a policy instrument enables countries and their governments to grow inclusive market-based systems that increase capacity to self-generate solutions into the future, encouraging human capital development through boosting the real economy: better agricultural productivity; diversification of the industrial base; employment creation (especially for youth); improved quality of jobs and greater income sustainability; reduction in gender disparity; and empowerment of women and their enterprises.

Money is first and foremost a social phenomenon. While the concept of financial inclusion is relatively new, the concept of money has been woven into the fabric of society from time immemorial. The concept of 'money' comes with hefty political, socio-cultural and economic baggage that influences its role in the lives of individuals, households, communities and countries. Money belongs in markets but is also a social and cultural concept; to talk about finances is to go to the heart of businesses, households and individuals and the ways they earn and spend their money. Given that everything is traded in modern life, money is to our lives what food is to our bodies – crucial for survival. Thus, while money has traditionally been considered as operating in the abstract – in financial markets – it is surely first and foremost a social phenomenon; its role and relationship to the range of players involved are qualitatively different in marriage, family businesses and banking (Singh 2013). In a globalised world, Western values coexist with Asian, African, Latin American and other values around money.

The personal and market dimensions of globalisation and money are intertwined. Money in markets and money in personal lives is connected, both locally and globally. Understanding money in markets and in personal lives means considering not only financial markets and their regulation but also the ways in which people of different genders (whether banked or unbanked) across different cultures manage and control money and negotiate commitment, power and sharing at a household level.

Financial inclusion increases social inclusion. By accommodating the personal and the communal, financial inclusion encompasses multiple areas of society and is pertinent across different country circumstances – hence its power as a policy mechanism suited to societal complexity and its potential to drive inclusive growth in countries. Defining a workable development solution around money thus requires demonstrating a deep respect for the critical role it plays in society – not just as a means of livelihoods but as a mechanism that enables social cohesion.

The importance of a ‘non-power’ approach. The era of the digital economy calls for governments to nurture market development through supporting and enabling rather than seeking to conduct and direct. The contemporary development context calls for financial inclusion development partners to make a similar shift, adopting a ‘non-power’ approach in working with stakeholders to meet consumer needs with authentic solutions characterised by local, real-world effectiveness.

While the industrial era was characterised by supply-side economies of scale and organic growth of markets via mergers and acquisitions, the era of the digital economy sees a switch in focus to demand-side economies of scale, growth driven by asymmetric and network effects, and a shift away from linear production models and value chains to value networks. Increasingly governments, policymakers and financial inclusion development partners are called upon to play a supporting and enabling role for market development – co-shaping markets.

Financial inclusion levels as a mirror of inclusive growth. A country’s level of progress towards inclusive growth (as scored on the inclusive growth focus areas) will often be mirrored in its levels of financial inclusion, including levels of access to and usage of financial services and products. For example:

- As countries that fall into Clusters 1 and 2, the DRC, Madagascar and Myanmar score low in terms of their inclusive growth context. They are relatively underdeveloped and their levels of financial inclusion are commensurately low; there is thus a strong need to establish a regulatory environment that is more supportive of financial inclusion and to focus financial inclusion interventions on increasing people’s access to basic services and infrastructure.
- Compared to the DRC, Madagascar and Myanmar, Lesotho (another Cluster 2 country) and eSwatini (Cluster 3) not only score higher on inclusive growth context but score much higher on financial inclusion. The focus there could be on improving the *breadth* of financial inclusion (i.e. increase the number of people who use at least one financial product class, whether formally or informally) and/or the *quality* of financial inclusion (the value that people derive from the financial products and services they use).

Across clusters, the following trends in terms of overall access to financial services and products, as well as access to specific product categories, can be seen:

- **From excluded to included.** Almost consistently across all the products, from Cluster 1 to Cluster 5 the proportion of the population with access to formal financial services and products increases in line with the improvement in overall inclusive growth context (and level of economic development).



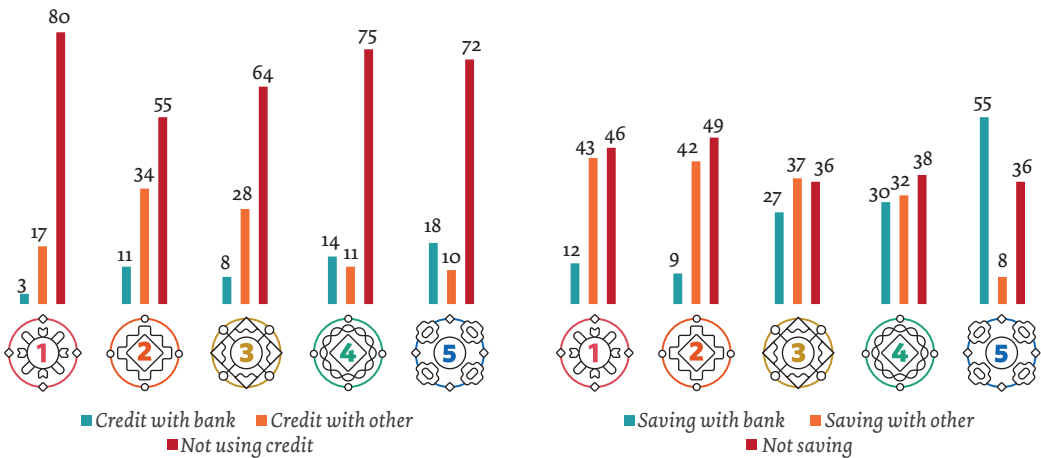
• **Credit – usage of formal channels increases with economic development but informal credit remains popular.** There is no clear correlation between the level of economic development and access to credit across clusters; the overall proportion that access credit varies between 20% and 45% across all the clusters. The proportion of people that access formal (bank and other formal) credit increases as countries become more developed, although people appear to substitute away from non-bank formal credit and towards bank credit as the inclusive growth context in a country improves. Credit from informal sources (e.g. moneylenders, community savings clubs) remains robust across clusters but reliance on family and friends for credit reduces as economic development improves.



• **Savings – reliance on formal channels increases with economic development, informal saving retains popularity.** The proportion of the population that access savings products remains fairly constant across the clusters, at roughly 50% in the least developed clusters (1 and 2) and 60% in the more developed clusters (3–5). The proportion of people that access savings products with a bank increases sharply and consistently from Cluster 1 (12%) to Cluster 5 (55%).



• **Remittances – economic context not a factor in choice of remittance products/channels.** A significant new insight is that the proportion of the population that remits is not related directly to a country’s level of economic development but depends more specifically on the prevalence of migrancy. Economic context also does not seem to impact remittance channel preferences. Regardless of cluster rank, remitting through other (non-bank formal) channels consistently outranks remittances through a bank. Usage of remittance services usually stands at between 31% and 38%. The exception, though, is eSwatini, where the proportion of remitters stands at 77%, reflecting the reality that many Swazi people work in South Africa and send money home.



Credit by type and cluster

Savings by type and cluster

Figure 11: Credit and savings use by type and cluster
 Source: Nova Economics (2019), using FinScope data for 16 MAP countries.

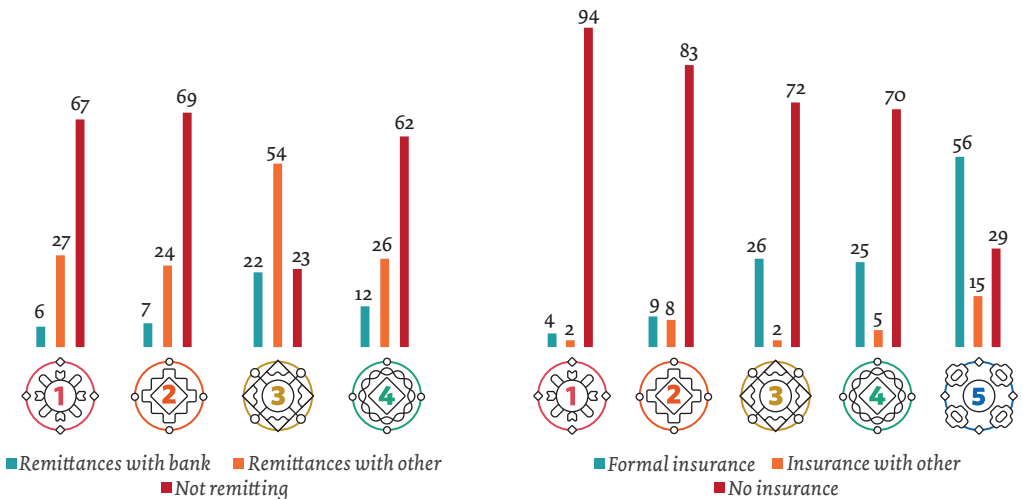
• **Insurance – positively correlated with economic development.** People living in Cluster 1 and 2 countries have very limited access to insurance products (between 6% and 17% of the total adult population). Access to insurance products (formal and informal alike) appears to be very strongly and positively correlated with a country’s level of economic development, although uptake of formal insurance products increases more than that of informal insurance with economic development. Almost 60% of the adult population of Cluster 5 have access to formal insurance – that is, more than double the insurance penetration proportion (roughly 30%) of Clusters 3 and 4. There are no clear trends for insurance access channels across clusters.



Measuring financial inclusion beyond access. Globally, the focus of financial inclusion surveys has tended to be on *access* (usually to a single financial service from a formal financial institution – also sometimes termed ‘account ownership’), and use of the financial access strand has become increasingly common, as is evident across numerous demand-side survey instruments.

MAP argues the need for metrics that go beyond financial inclusion’s traditional access focus, and Volumes 1 and 2 (Note 2 of each of them) provide detailed discussion of the distinctions between ‘access’, ‘usage’, ‘depth of usage’, ‘breadth of usage’, ‘transactions’ and the ‘value derived by the consumer’. For the purpose here of comparing degrees of financial inclusion between the different clusters, though, *access* is an appropriate and useful metric.

However, as we see financial access across the clusters grow for the most part, clearly the next stage of focus will be on actual *usage* and *value* of financial services as they relate to people’s lives, assisting people out of poverty and supporting people’s capacity for self-determination.



Remittances by type and cluster

Insurance by type and cluster

Figure 12: Remittances and insurance use by type and cluster

Source: Nova Economics (2019), using FinScope data for 16 MAP countries.

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MAP GLOBAL INSIGHTS SERIES VOLUME 1

The MAP Global Insights series Volume 1 consolidates and synthesises the learnings from MAP across the six MAP pilot countries. Volume 1 was the first of the MAP Global Insights products, and comprises five thematic cross-country notes, based on the initial round of findings from the country diagnostic studies, which were conducted in Thailand, Myanmar, Swaziland, Mozambique, Lesotho and Malawi.



NOTE 1 unpacks the target market segmentation approach that is central to the MAP methodology of putting the client at the core of the analysis. Note 1 provides a window into the emerging cross-country segments, and the implications for providers, policymakers and donors in this regard.



NOTE 2 explores the shift in financial inclusion measurement away from focusing solely on access to more closely match the realities of how adults live their financial lives and explores the policy implications of moving away from a linear, one-dimensional view of financial inclusion.



NOTE 3 looks at the nature of informal financial services. It shows that it is the local nature of these financial services, rather than their informal nature, that makes them valuable for the majority of consumers in these countries.



NOTE 4 considers the gap between ownership and usage of bank accounts. The note queries whether bank accounts are always the appropriate product for increasing customer welfare, and argues the need for a paradigm shift away from focusing on ownership to a focus on usage in the context of a wider, systems approach.



NOTE 5 focuses on cash as a payment instrument to explore the largely undiminished popularity of cash. The different payment needs of consumers are introduced, analysed and compared with regard to the use of cash versus digital instruments.



NOTE 6 draws together the findings from this volume of the Global Insights series. It shows that the MAP evidence calls for a rethink of conventional financial inclusion assumptions, based on a consumer decision-making framework that emphasises economic incentives, cost and value.

MAP GLOBAL INSIGHTS SERIES VOLUME 2



The MAP Global Insights series Volume 2 looks at the thinking, strategies and processes that have enabled national delivery in financial inclusion, and codifies the operational approach taken in the 18 'MAP countries', including 9 where the programme has been working with governments to implement the national roadmap on financial inclusion. Key learnings using the country-specific consumer data drive the national implementation approach at country level.



NOTE 1: More bread on the table: The promise and the potential of financial inclusion. In a changing and uncertain global order, financial inclusion – with its close linkage to the real economy – promises to become a means of supporting growth and contributing to poverty eradication. Using detailed consumer data, this note demonstrates the potential for financial inclusion to play a stronger role in lessening vulnerability to poverty, keeping up with shifting national demographics, nurturing small business growth and addressing food security challenges, among others.



NOTE 2: Humanising data: The MAP toolbox for fine-tuning and calibrating national metrics and optimising consumer delivery. Applying the MAP data analysis tools to the extensive consumer data gathered in-country enables accurate understanding of actual consumer behaviour and needs, both country-specific and in terms of patterns identifiable across developing countries. Findings from the use of the MAP tools have challenged a few of the conventional financial inclusion assumptions, in the process contributing to the global pool of financial inclusion metrics. The tools are central to supporting government and stakeholders in evidence-based decision-making towards smart, consumer-focused solutions.



NOTE 3: 'Begin at the beginning': Giving development initiatives political teeth and boosting government capacity to deliver on the SDGs. The single greatest challenge facing development is turning research and strategies into implementable solutions: improvement initiatives that deliver a positive impact. This note unpacks how the MAP programme is working with governments and development partners to boost countries' capacity for self-determination and delivery on the national financial inclusion roadmap vision and promises, in the process accelerating inclusive growth and making progress towards the UN 2030 Agenda for Sustainable Development.



NOTE 4: There and back again: Harnessing data, developing collaborative platforms and enabling governments to deliver on the SDGs. This concluding note pulls together the power of the consumer data, its role in driving improvement interventions at country level and the importance of the MAP platform in bringing together country governments and stakeholders in evidence-based decision-making. Picking up on the key findings from the consumer data in other notes in Volume 2, this note also provides insight into the systematic operational approach of the global MAP programme and reiterates the efficacy of the MAP approach in working with governments to deliver on the SDGs.

MAP GLOBAL INSIGHTS SERIES VOLUME 3

The MAP Global Insights series Volume 3 explores the role of financial inclusion in the context of an inclusive growth agenda, using inclusive data as evidence base. The volume explores the linkages between financial inclusion at the micro level of individuals, households and small businesses, and macroeconomic growth. The evidence demonstrates the crucially important intermediation role of financial inclusion, along with its role in firming the social contract, towards inclusive growth.



NOTE 1: Financial inclusion through an inclusive growth lens. This note presents MAP's five 'country clusters', derived from countries' ranking on a set of inclusive growth indicators. Financial inclusion helps formalise the large proportion of informal expenditure while increasing consumer access to resources and opportunities, thereby supporting governments' responsibility for boosting inclusive growth while demonstrating progress on the UN SDGs.



NOTE 2: Next-generation segmentation: Building inclusive societies based on differentiated consumer needs and values. In pointing out that peoples' economic needs, and how they go about meeting them, reflect their personal values in the wider context of social and societal values, the note argues the role of inclusive financial services in increasing economic inclusion (especially of those in the informal sector of the real economy) and social mobility.



NOTE 3: The millions and billions...and the 1%: Targeting funding to spark the real economy's engine. The MAP MSME methodology, informed by the need for a longer-term productivity and growth emphasis, argues for a more active role by country governments in supporting the small pool of SMEs with the potential to grow and become engines of the real economy, creating better linkages with the larger financing system.



NOTE 4: Inclusive data for a world that counts: Enabling multisectoral collaboration for challenging exclusion. Inclusive data highlights how a lack of access to resources – particularly basic services and infrastructure, education and healthcare – preserves the status quo of inequality and exclusion, making it harder for vulnerable groups to access opportunities and chart pathways out of poverty.



NOTE 5: Cracking the code: Opening up pathways out of poverty. In pointing out that peoples' economic needs, and how they go about meeting them, reflect their personal values in the wider context of social and societal values, the note argues the role of inclusive financial services in increasing economic inclusion (especially of those in the informal sector of the real economy) and social mobility.

About UNCDF

UNCDF is the UN's capital investment agency for the world's 47 least developed countries (LDCs). With its capital mandate and instruments, UNCDF offers 'last mile' finance models that unlock public and private resources, especially at the domestic level, to reduce poverty and support local economic development. This last mile is where available resources for development are scarcest; where market failures are most pronounced; and where benefits from national growth tend to leave people excluded.

UNCDF's financing models work through two channels: savings-led financial inclusion that expands the opportunities for individuals, households, and small businesses to participate in the local economy, providing them with the tools they need to climb out of poverty and manage their financial lives; and by showing how localised investments - through fiscal decentralisation, innovative municipal finance, and structured project finance - can drive

public and private funding that underpins local economic expansion and sustainable development. UNCDF financing models are applied in thematic areas where addressing barriers to finance at the local level can have a transformational effect for poor and excluded people and communities.

By strengthening how finance works for poor people at the household, small enterprise, and local infrastructure levels, UNCDF contributes to SDG 1 on eradicating poverty with a focus on reaching the last mile and addressing exclusion and inequalities of access. At the same time, UNCDF deploys its capital finance mandate in line with SDG 17 on the means of implementation, to unlock public and private finance for the poor at the local level. By identifying those market segments where innovative financing models can have transformational impact in helping to reach the last mile, UNCDF contributes to a number of different SDGs and currently to 28 of 169 targets.



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