

MAP Global Insights Series
Volume 3 | Note 2 | 2020



Next-generation segmentation

Building inclusive societies based on differentiated consumer needs and values



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

Financial inclusion does not exist in the isolation of a transaction but is born of a need created by real economic activities. This theme comes through strongly in Note 2, whose cover depicts the concept of a person's day-to-day activities and requirements being the drivers of the need for financial inclusion. Even those things we would normally perceive as being non-financial demand a level of financial engagement: from the utensils and ingredients used in cooking meals for the household, to the seeds, tools, water and transport for subsistence farming, the need for financial inclusion in some form still arises. Each of us can be characterised by our day-to-day economic realities (including our needs, priorities, activities and decisions), our resulting financial requirements and the range of financial mechanisms we draw on to make our lives work.

Making financing work for consumer priorities

That which is not...

Financial inclusion is not just about access to a transactional bank account but should be about giving people a stake in the market economy through increasing access to resources and to opportunities, in the process increasing levels of stability, wealth and social mobility.

The most enduring lesson from history is that, even in the direst circumstances and times, life goes on. People get married, babies are born and people die. While life and human needs have a universal tendency to be 'messy', when it comes to meeting their needs, people – including poor people – show resourcefulness and resilience: they make financial decisions that are rational considering their circumstances, and find financial mechanisms to allow them to satisfy their needs.

During times of crisis, it is access to resources that helps people deal with the crisis. And as they strive to achieve their goals, it is once again the access to resources in the pursuit of their goals that helps people attain them. Such resources can take many forms – but in terms of financial resources can come from a person's own cash flow or assets, or can be obtained through financial mechanisms (including in-kind mechanisms with real economic benefits) or the financial system.

That is to say, financial services, like most services, are not used for their own sake but because people have an underlying need (an economic need) that gives rise to a financial need – and financial services help them meet this need. In their daily lives, for instance, people need to purchase goods and services, or they might need to take care of family by sending relatives money; and people also need to make sure there is enough money over the course of their income cycles to do this. People plan for unexpected expenses but they also plan for the future: for particular events, to acquire durable goods or big assets, and for their old age. These are all real economic needs. They have nothing to do with financial services, yet they give rise to financial needs: a need to transfer value (geographically), manage liquidity, manage risks, and plan for the achievement of goals (transfer value over time). It is these financial needs that financial services aim to satisfy.

The demand for financial services is, therefore, a form of *derived demand*. Financial needs arise from underlying economic needs – needs that, because they are non-financial, can be termed real economic needs. Without a functional economic need, people would have no need for financial services. By the same token, financial services that barely, if at all, help people in the pursuit of their underlying economic needs will be actively discarded or simply ignored.

Therefore, how exactly, and to what extent (formal) financial services can contribute to the achievement of economic and financial goals will depend on whether the services match the *underlying demand* and the individual's/household's/small business's activities in their community, in the real economy and in the wider society.

The same principle applies to driving economic growth. There is growing critique of the role that the financial sector is playing in economies and of its ability to support economic growth, particularly where financial resources are mostly mobilised to fund further financial resources; this disintermediates finance and investment that support real economic sectors and activities, without which real economic productive sectors cannot grow (Mazzucato & Macfarlane 2017). In other words, the financial sector needs to contribute to building the physical and human capital available in the economy and/or support innovation in the methods of production (technology), which in turn could contribute to future growth in productive opportunities.

While Note 1 looks at the potential for financial inclusion that can allow people to more fully participate in economic growth at a country level, this note, by turning its attention to the economic activity already happening at ground level, homes in on the potential for low-income segments of the population to actively contribute to and benefit from economic growth.

Earlier versions of the MAP target market analysis illustrated how poverty disadvantages individuals, households and small businesses, impeding their capacity to access opportunities and both benefit from and contribute to economic growth. Clearly, being poor excludes many people, economically, socially and financially, making life harder and more precarious than it could be. And salaried people generally do seem to have higher levels of self-determination in the sense of having more options for fulfilling their economic needs for themselves, their households and their communities. That said, the departure point for MAP remains that everyone, whatever their income, has similar needs (e.g. survival and safety, family life and a sense of community, the ability to set and realise ambitions, and so on) – but that the mechanisms at people's disposal for meeting these needs differ, meaning that people juggle these mechanisms differently in order to meet their needs. This necessitates some prioritisation as well as trade-offs by consumers when it comes to fulfilling a collection of different needs at any given time.

Interdependence. When poor consumers prioritise meeting particular needs over others, and find different ways to meet these needs (e.g. through informal financial mechanisms, less-than-optimal mechanisms etc.), what underlying *values* do their choices manifest? It is these values that are important for policymakers, government and financial inclusion development partners to understand if they are to better leverage these economic drivers for growth. Better understanding consumers' priorities also helps business and service providers identify pockets/communities/groups that present promising business cases for strengthening existing provision or enabling innovation. Thus, a well-functioning system that can enable inclusive growth partly requires financial service providers to understand how to meet consumers' real economic needs. And where the financially excluded do not immediately present

viable business cases, identifying them enables government to determine and define better public-sector provision of services, based on need. Yet, the fact that there are large sections of a society without access to retirement savings, healthcare or education, for instance, is detrimental to that society – because the resulting ill effects are communal. In countries where a significant proportion of the population lack the means to access what MAP has come to term ‘the four crucial needs’ (basic services and infrastructure, education, healthcare, and entrepreneurship opportunities), economic growth is hampered partly because the inability to meet those needs has undermining consequences that are also communal and societal.

Needs are anchored in the social and the societal. The current note engages with questions of how financial inclusion can address the economic needs of individuals, households and small businesses more efficiently and effectively, helping to improve low-income populations’ levels of well-being and self-determination and increase their participation in the wider society and as beneficiaries of and contributors to economic growth. The needs and usage framework presented in this note helps MAP decode consumer priorities in terms of their underlying communal and wider societal dynamics, which are a significant determinant of market behaviour and its potential for evolution (within some target market segments more than others).

More unambiguously than in the previous two MAP volumes, the conceptual links between *financial*, *economic* and *social inclusion* are drawn, the argument being that societies become more inclusive not by attempting to modify or engineer poor consumers’ needs and choices but by offering solutions that simplify consumers’ complex economic lives. In order to tackle the many dimensions of poverty and exclusion, financial inclusion interventions need to meet low-income target market segments closer to where they are, what they do – and what they aspire to do.

The MAP needs analysis – a consumer-centric approach. Taking the basic segmentation methodology and characteristics of segments as given (see Volume 1, Note 1), the programme uses data mining and analysis to understand how existing financial products/services (whether formal or informal) are being used by a country’s consumers to fulfil particular economic needs, and how consumers are supplementing gaps in financial service provision. The needs analysis yields insights into patterns of *actual* financial product/service usage by the different segments, and from this data the segments’ financial needs are inferred, which allows MAP to unpack poor consumers’ financial choices and behaviour at a very granular level and as they link to their activities in the real economy.

As Note 2 in Volume 2 highlights, although the consumer financial needs on which the MAP research focuses must be susceptible to formal provision, they can be met through informal services, and often they are. In addition, the needs analysis flips the traditional product- and channel-centric view that financial service providers often take, to better inform a *consumer-centric* understanding of what drives demand for particular services – even if those services are sometimes applied in counter-intuitive or seemingly irrational ways.

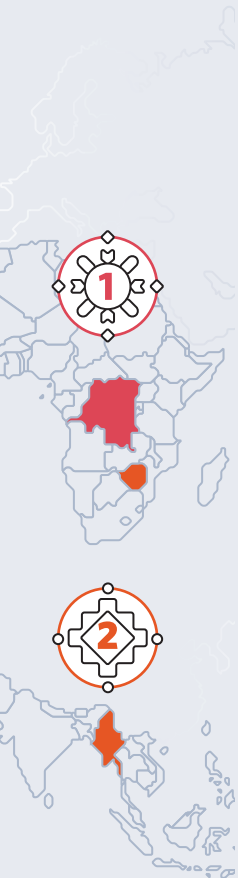
The MAP needs and usage framework

The MAP in-country work has always emphasised the importance of increasing citizens' access to opportunities in the form of formal jobs or of self-employment, in order for countries to benefit from nationally powered inclusive growth. A unique aspect of the UN Sustainable Development Goals (SDGs) – which focus on inclusive growth and social cohesion implicitly and explicitly (see Goal 8) – is that they are targeted at governments, the private sector and civil society collaborating for a shared solution to the intractable problems of poverty and exclusion.

The links between finance, economic growth and poverty are complex. Tyson and Beck (2018) argue that 'low-income countries' (LICs) need to mobilise greater quantities of and better-quality finance that is stable and long term, focusing on sectors crucial for inclusive growth. 'Ideally, LICs should focus on developing domestic financial markets' (2018: 7). However, such countries are mostly in the nascent stages of market development and thus, as MAP has found, developing their domestic financial markets requires an uncommonly sound grasp of consumers' real economic needs at ground level (see Note 1 for a discussion of countries' differing levels of market development).

MAP applied an inclusive growth lens to 16 least developed countries (LDCs), the outcome being 5 country clusters based on commonalities related to financial inclusion in the context of inclusive growth (see Note 1). The countries that are the focus of this note are the three most 'fragile' of the cluster states, falling into Clusters 1 and 2, which are those with the least enabling inclusive growth contexts (the DRC is in Cluster 1, while Myanmar and Zimbabwe are in Cluster 2).

The needs and priorities of the consumers in the different countries in which MAP works have distinguishing characteristics reflective of both the overall national macroeconomic context and country-specific social and communal values. With regard to the three countries that are the focus of this note, however, the similarities and overlaps found were sufficiently significant to merit aggregating the consumer data for the purposes of the cross-country comparisons. The low levels of social mobility in the three countries serve to further exacerbate reinforcing loops of intergenerational poverty. In terms of the four crucial needs, consumers in the three countries are trying to improve their social mobility by spending on education and investing their own money in their own businesses; but these financial activities and their results are generally not optimal.



A tool for exploring variations in consumer needs. In the interests of better understanding the data on the needs of different target market segments in the three countries, a needs and usage framework was designed and employed in the DRC (MAP DRC 2016), Zimbabwe (MAP Zimbabwe 2016), and Myanmar (MAP Myanmar 2018). The framework, linked to and extending Maslow's hierarchy of needs, depicts the relationship between financial and economic needs, offers suggestions for ideal financial mechanisms to be used to meet those needs, indicates actual financial mechanisms in use, and includes a continuum of consumer decision-making criteria.

American psychologist Abraham Maslow, who first introduced the concept of his hierarchy of needs in 1943, argued that in terms of psychological health/happiness humans are motivated by needs – but not all needs are equal and hence can be ranked in a hierarchy; needs can be categorised from lower order to higher order, with those lower down in the hierarchy (i.e. more basic needs) forming the foundation for the levels above them. In terms of Maslow's hierarchy, lower-order needs must be more or less satisfied before needs higher up can be satisfied.

Although Maslow's hierarchy of needs has been shown to be imperfect, it has had an undisputed impact on psychological thinking and research. Similarly, the MAP needs and usage framework provides a useful approach for studying consumer priorities, allowing meaningful conclusions to be drawn for policy provision and market development. By linking target market segment data on financial needs and financial services usage to a framework with a strong *psychological* dimension, the MAP needs and usage framework emphasises understanding the values that inform consumer needs and underlie actual choices and behaviour.

Different types of financial needs. In the MAP needs and usage framework (see Tables 1 and 2), economic needs underlie financial needs, thus reinforcing that demand for financial services is a form of derived demand. When an individual, household or small business has a financial need, they resort to strategies to get money, which passes through an institution and a channel and in a specific medium of exchange (inflow). This is used to pay for fulfilling the need (an outflow), which will also pass through an institution and a channel and in a specific medium of exchange. The mechanisms used to receive and spend money are not always the same. MAP groups the different types of financial needs into four categories:

- **Transfer of value:** refers to the inflow or outflow of money through a mechanism that could involve an institution, a channel and a specific medium. These inflows and outflows can be highly frequent (e.g. daily, weekly, monthly), and are the easiest to fulfil without the involvement of third parties, formal institutions or infrastructure.
- **Liquidity:** refers to people's ability to manage their liquidity and meet regular (e.g. daily, monthly) expenses for routine goods and services in each income cycle. (Liquidity is about making sure there is enough money to pay, rather



than a focus on the payments themselves.) This need usually has a time span that matches income cycles, which could be daily, weekly, monthly or longer. This need can also be fulfilled with some ease without the involvement of third parties or formal institutions.



- **Resilience:** entails the ability to deal with unexpected shocks that have a financial impact. Although there are different types of risks, the time span for risks to become apparent, on average, tends to be longer than any particular income cycle. While risks can be mitigated to some degree individually (e.g. through risk reduction or the use of savings and credit, or even collectively through risk sharing), the existence of market structures that allow for risk transfer generally leads to increases in efficiency in fulfilling this need.



- **Meeting goals:** describes the need to meet foreseeable life objectives or life-stage or social obligations that would require a lump sum that usually exceeds disposable income in any given income cycle. Time spans will vary according to the goal but are usually longer than an individual income cycle (i.e. are longer term); for instance, a 'life event' is by definition a one-off event, occurring at some point in the future. Other goals, such as buying a home, are out of necessity put off given the size of the transaction involved (i.e. the need to save up first), and thus also occur at some point in the future. While people can still save on their own for such goals, it is very difficult to save large amounts over longer periods at home. Safety and other factors (e.g. inflation) impact on the efficiency and effectiveness of saving by oneself for large amounts of money or for very long time spans. In addition, productivity or value can be unlocked earlier if financial mechanisms are used, which brings the use of productive assets forward in time; that is, overall productivity can be increased through the use of financial mechanisms to meet goals.

As depicted in Tables 1 and 2, these four main financial needs derive from specific economic needs. For instance, the transfer of value consists of methods for receiving income, paying expenses, and transferring money to others in the form of remittances.

Consumer decision-making criteria when prioritising which needs to meet.

Unlike Maslow's hierarchy, the MAP needs and usage framework does not presuppose a linear sequence (or hierarchy) of needs; that is, it does not assume people must satisfy lower-order needs before they can attend to higher-order needs. In fact, the MAP findings show there is not necessarily an *order* of needs in the first place. Rather, there is a discernible logic in terms of how consumers decide which needs to prioritise, with the decision-making criteria falling on related and often-overlapping continuums: periodicity, the amount of money involved, and the degree of formality/sophistication of the financial mechanism required.

Periodicity, amount of money, level of sophistication of financial mechanism.

The needs that Maslow's hierarchy classifies as lower order, in the MAP framework present with the following characteristics: they arise on a daily, weekly or monthly basis, in other words have short time horizons (i.e. higher periodicity); they involve moderate amounts of money; and they are

relatively straightforward to satisfy (i.e. are fairly easily fulfilled where more sophisticated/formal or appropriate mechanisms are lacking). By contrast, what Maslow classifies as higher-order needs are, in the MAP framework, linked to needs with longer time horizons (i.e. lower periodicity), involving larger amounts of money, and proving more challenging for the consumer to meet using simple financial mechanisms or in the absence of more formal structures.

In order to fulfil financial needs such as the transfer of value, for instance, the most basic possible mechanism (apart from bartering) is the use of cash, meaning that the transaction can proceed even where there is very little formal infrastructure or oversight and there are very few institutions in place in a market. (Note 5 in Volume 1 explores the ongoing allure of cash, including why digital payments have been slow to replace cash in low-income contexts.) But where there are few formal structures in place it is more difficult to efficiently manage risks, for instance; one can resort to savings or credit instead, or participate in risk sharing with peers, but these are less efficient alternatives to risk transfer.

Similarly, financial needs involving the longest time spans and very large amounts, such as the purchasing of property, are very difficult to fulfil efficiently in the absence of robust financial ecosystems, as is evidenced by severely constricted mortgage markets in most MAP countries despite relatively functional financial sectors in these countries. This does not mean that poor people, or people in these markets in general, do not have the need to access mortgages. It does, however, tend to lead to people resorting to alternative, less efficient solutions and mechanisms to fulfil this need (e.g. shorter-term and more expensive credit for renovations, instead of mortgages).

The down sides of 'making a plan'. Contrary to Maslow's hierarchy assumptions, a high proportion of consumers manage to satisfy all four financial needs; poor people do not, after all, miss out on meeting goals and other 'higher-order' needs simply because they are poor and struggle to meet their more immediate and basic needs. People find a way: they use their ingenuity and the mechanisms available to fund their priorities. Nonetheless, the use of less-than-optimal mechanisms to meet specific needs will tend to contribute to the hardship people experience in managing their daily lives, and likely keep them in poverty for longer than would otherwise have been the case had more efficient mechanisms been used; this is why a crucial aspect of the MAP needs analysis is identifying the *gaps* between consumer needs and the mechanisms available to serve those needs. In addition, the use of less-than-optimal mechanisms, by a large enough proportion of the population, deprives that market or economy of the additional benefits (externalities) that more optimal mechanisms may have produced (such as mobilising capital for investment).

The application of the needs and usage framework yields new insights into consumer economic and financial needs and the trade-offs consumers make between available financial mechanisms based on their perceived value. These real needs of poor consumers also link to the ability of an economy to include the broadest possible portion of its population in the benefits of growth (shared prosperity).

Consumer decision-making criteria

Maslow's hierarchy of needs

Economic needs

Financial needs

Low High High
 ↑ ↑ ↑
 Periodicity
 Level of sophistication/formality of financial mechanisms required
 Amounts of money involved
 High Low Low
 ↓ ↓ ↓

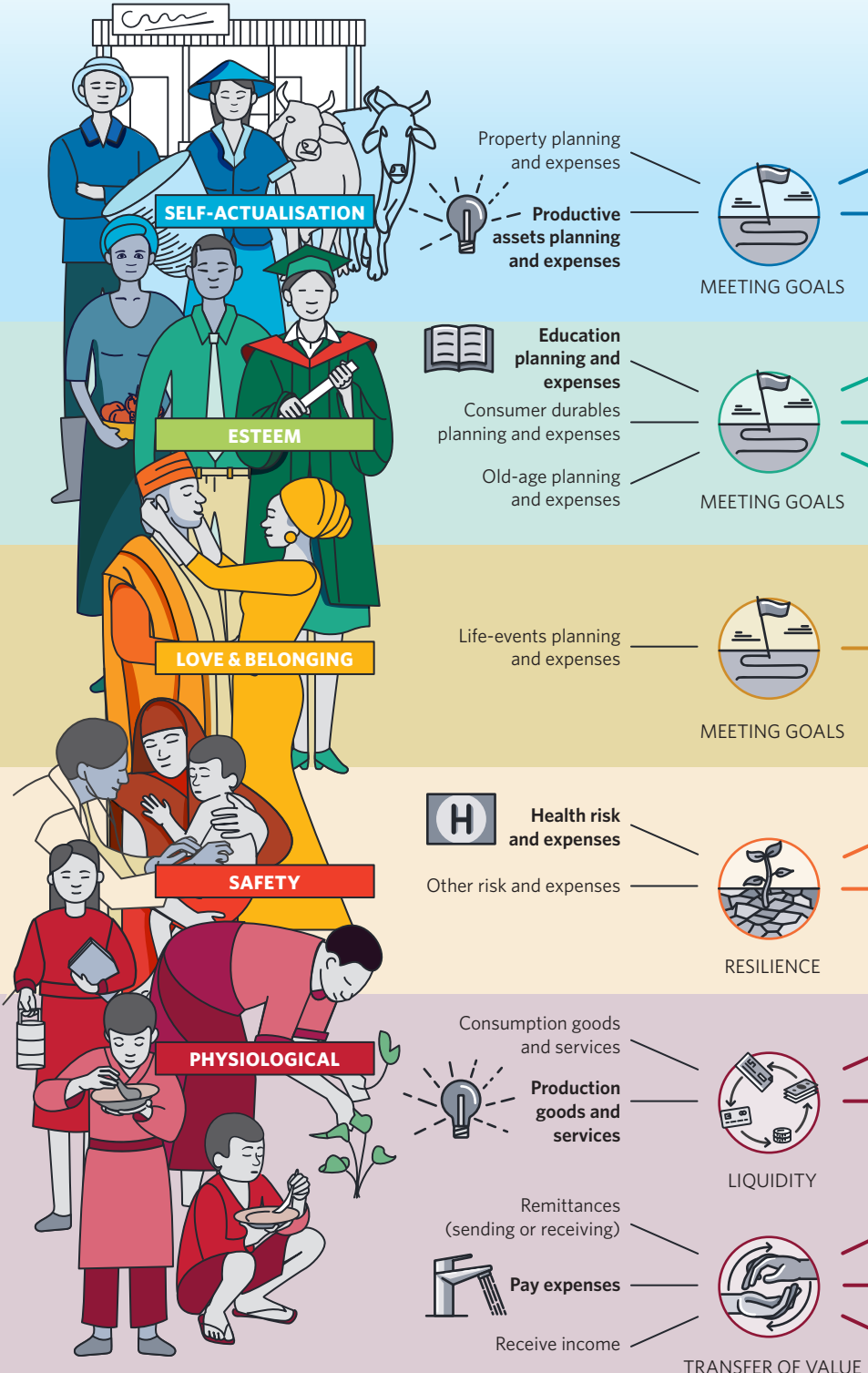


Table 1: MAP needs and usage framework (based on Maslow's hierarchy of needs)

Source: Authors, using Quiñonez (2015).

Examples of economic needs	Actual financial mechanisms used (formal/informal)	Ideal financial mechanisms (formal/informal)
Buying a home, buying land, renovating a home	Mostly savings, some credit	Credit, savings, cash flow
Purchasing livestock, agricultural or small-business (MSME) equipment, investing in another's business	Savings, credit	Cash flow, credit, savings
Paying school fees, buying school clothes and stationery, saving for tertiary education	Mostly cash flow, some savings, credit	Savings, cash flow, credit
Purchasing household goods (e.g. fridge) or means of transport (e.g. bicycle, car)	Mostly cash flow, little savings	Cash flow, credit, savings
Setting aside resources to draw on in old age, planning to rely on others in old age	Mostly no mechanisms, remainder mostly savings and non-financial mechanisms	Pensions, savings, investments
Weddings, coming-of-age celebrations, religious events	Mostly cash flow, some non-financial mechanisms and savings	Savings, cash flow
Buying medicine, paying for emergency health costs (hospital), paying for a funeral	Mostly cash flow and savings, some credit, some insurance	Social safety, insurance, risk sharing, savings
Coping with loss due to non-health or non-life risks (e.g. crop failure, theft)	Mostly non-financial mechanisms (risk sharing), some insurance	Insurance, risk sharing, savings
Paying utility bills, buying food and clothes, paying for transport	Mostly cash flow, substantial savings, some credit	Cash flow, savings, low-interest/no-interest credit
Covering operating costs for businesses, purchasing agricultural inputs or small-business (MSME) stock	Cash flow, credit, savings	Cash flow, savings, credit, equity
Receiving: to buy food, pay for healthcare and/or education, buy household goods, buy property, start a small business Sending: to support family and meet family obligations	Mostly bank/digital channels	Low-cost digital payment mechanisms
Paying for food, basic services and infrastructure (utilities)	Mostly cash	Payment mechanisms, cash, in kind
Receiving wages, salaries	Mostly cash, some in kind	Income, payment mechanisms, cash, in kind

Table 2: MAP needs and usage framework: examples, actual mechanisms across the three countries
Source: Authors, using Quiñonez (2015) & MAP DRC (2016), MAP Myanmar (2018) and MAP Zimbabwe (2016).

Consumer needs and usage

– what are we finding?

The data for the three countries makes it possible to analyse the degree to which people make use of particular financial mechanisms (e.g. cash flow, savings, credit and insurance) and non-financial mechanisms (e.g. family and community support) in order to fulfil specific economic needs such as education, healthcare or the consumption of goods and services. However, unlike the more traditional view, which takes as given the application (or 'use case') of specific financial services, the MAP needs analysis is agnostic about the intended use or the functionality of a financial service based on its design. Instead, the needs analysis takes as its departure point the real economic needs of financial service users, and considers what financial mechanisms are being used to meet those needs. The finding is that people in fact most often use financial products and services for reasons other than those traditionally intended.

What mechanisms are people using to meet their financial needs?

Figures 1 and 2 are based on an analysis of actual usage of financial mechanisms (as reported by FinScope Consumer Survey respondents), thereby suggesting consumers' needs. The focus in Figure 1 is on the financial need 'transfer of value' (receiving income, paying expenses, and remittances), and how consumers in the three countries meet those needs. Transfer of value is shown separately from the other needs because it is fulfilled by fundamentally different mechanisms (by a medium of exchange as opposed to a financial mechanism or service).

FinScope, a nationally representative survey of adult consumers' perceptions of financial services in their country, is based on a comprehensive questionnaire that makes it possible to draw out, compare and consolidate insights related to consumers. The questionnaire is customised based on financial inclusion stakeholders' understanding of the unique country context and livelihoods realities. The tool is very robust in its ability to provide in-depth, nationally representative data on individuals: their life stages, attitudes, incomes, and financial livelihoods sources. This, combined with a comprehensive stakeholder and sampling approach, yields a very large dataset, which can be analysed along a number of dimensions and unpacked in fine detail, allowing for nuanced understandings, from both a market and human-behavioural perspective, of people's daily livelihoods activity and financial services engagement.

Figure 1 shows that 93% of the adult population receive an income and pay expenses. However, 13% of adults receive their income not in cash or via a bank/digital account but in kind; that is, in the form of some real economic benefit such as food, accommodation, agricultural inputs and the like. The vast majority

of the remainder receive their income, and make payments, in cash (76% and 89%). A tiny minority (4% and 3%) use banks or digital channels to receive income or make payments.

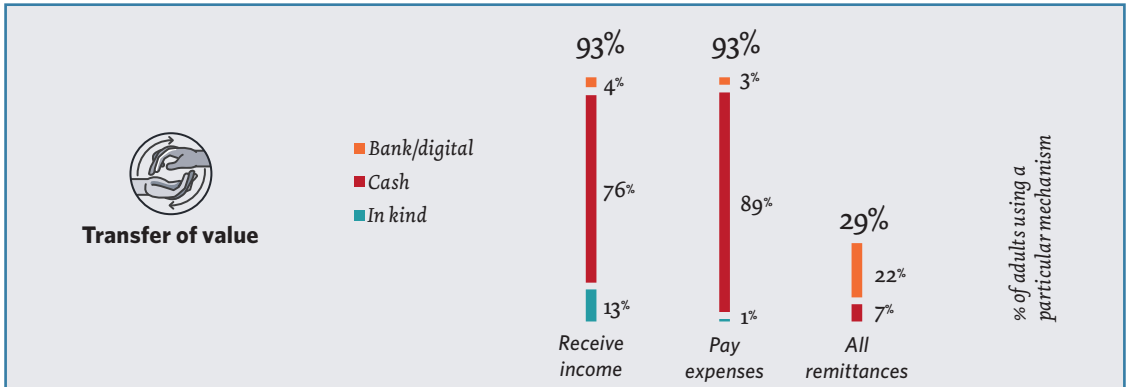


Figure 1: How consumers meet the financial need ‘transfer of value’

Source: Authors, using MAP DRC (2016), MAP Myanmar (2018) and MAP Zimbabwe (2016).

Note that in some cases of financial need *more than one* financial product might be used to meet the same need. In these cases, only the top-most financial mechanism on the figure legend in Figures 1 and 2 is shown. For instance, where someone uses cash flow and credit to meet

their liquidity needs, only credit is shown. This is similar to the methodology used for financial access strands. Therefore, the number of individuals that use a particular financial mechanism to meet a need might, in reality, be more than is reported in the figure – but it cannot be less.

In Figure 1, *more than 13%* of the population receive their income in kind, but 13% receive their income *only* in kind. The latter includes respondents that indicated they receive their income in kind or in goods – for instance, a farm worker that gets paid with some of the produce of the farm.

The data on the transfer of value across the three countries confirms what MAP started to see and commented on in previous volumes, and provides further interesting nuances.

Cash is still king. As covered extensively in Volume 1, most people receive their income or meet their expenses in cash. In Myanmar and the DRC, only 1%–2% of adults are paid (or pay expenses) digitally or through a bank account. The figure for Zimbabwe is substantially higher, though, with 24% receiving income and 15% paying expenses through non-cash mechanisms. This is attributable to the rapid and coordinated expansion of the reach of mobile money platforms in Zimbabwe since 2011. The fact that low volumes of earners receive their income through digital channels presents a potential opportunity, with bulk payments by employers and government (e.g. salaries and social grants) highlighted as a specific area of growth for digital payments. As Note 5 in Volume 1 argues, this is especially so because of the ‘high degree of bargaining power these payers have over the recipients of these payments’. The opportunity presented, however, would need to be weighed against accurate assessments of any possible unintended negative consequences of moving people closer to receiving their income in new ways (see similar considerations discussed in detail in Volume 1, Note 4).

Digital favoured for remittances. Remittances are already far more digitised than other financial products, with almost 75% of remittances sent and received digitally or through bank accounts. This is consistent with the findings reported in Volumes 1 and 2, with payments over a distance being made through digital channels for the tangible cost, security and convenience benefits such channels provide. The use of cash does not require any regulatory compliance (e.g. KYC), has a marginal cost of zero, is immediate, and can be flexibly applied for any type of payment. For remittances, however, the marginal cost of cash is in fact higher than that of digital channels. In addition, digital channels offer reduced risk (of money being lost/stolen, or the intended recipient not being located), and facilitate far quicker payment than a physical transfer of cash. Remittances are, therefore, an instance of economic needs that are *not* more easily fulfilled by simpler mechanisms (e.g. cash); and thus more sophisticated and appropriate (formal/digital) mechanisms are used to a greater extent than for other (similar) lower-order needs (in terms of Maslow’s hierarchy) such as receiving income or making (local) payments.

Figure 2 shows the different mechanisms used to meet the other three financial needs (liquidity, resilience and meeting goals) across the three countries. The horizontal axis represents the underlying discrete economic needs, while the vertical axis shows the percentage of adult consumers that reveal (through their product/service usage) that they use a particular type of financial service to meet a particular financial need. For instance, 96% of people manage their liquidity to meet consumption expenses, but most (55%) do so through their cash flow, while many also use savings for this purpose (26%).

Widely differing financial mechanisms used to meet needs. As can be seen, for each category of financial need, meeting particular economic needs is prioritised. People draw on financial mechanisms ranging from the non-financial

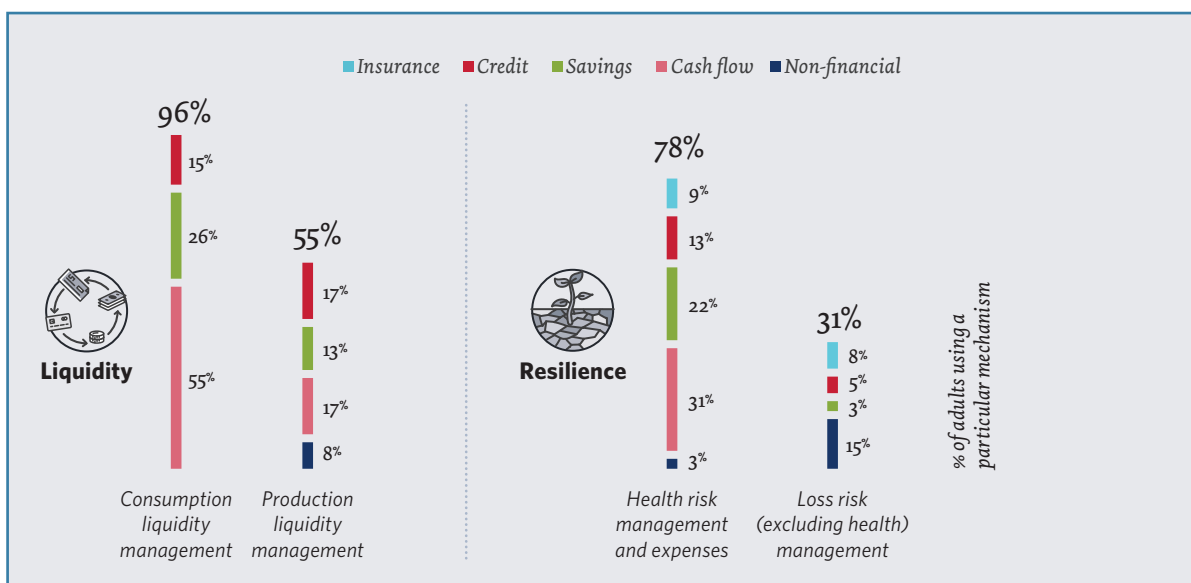


Figure 2: Mechanisms used to meet the financial needs ‘liquidity’, ‘resilience’ and ‘meeting goals’

Source: Authors, using MAP DRC (2016), MAP Myanmar (2018) and MAP Zimbabwe (2016).

to cash flow, savings, credit and insurance (whether formal or informal) to satisfy their economic needs. While some economic needs (viz. consumption liquidity, consumer durables, and education) are mostly covered through cash flow, others (viz. property, productive assets, loss mitigation, and old-age planning) are hardly covered through cash flow at all. Cash flow and current incomes can only take people so far – and hence financial inclusion’s heightened emphasis on inclusive growth through more resilient livelihoods and increased equality of opportunity.

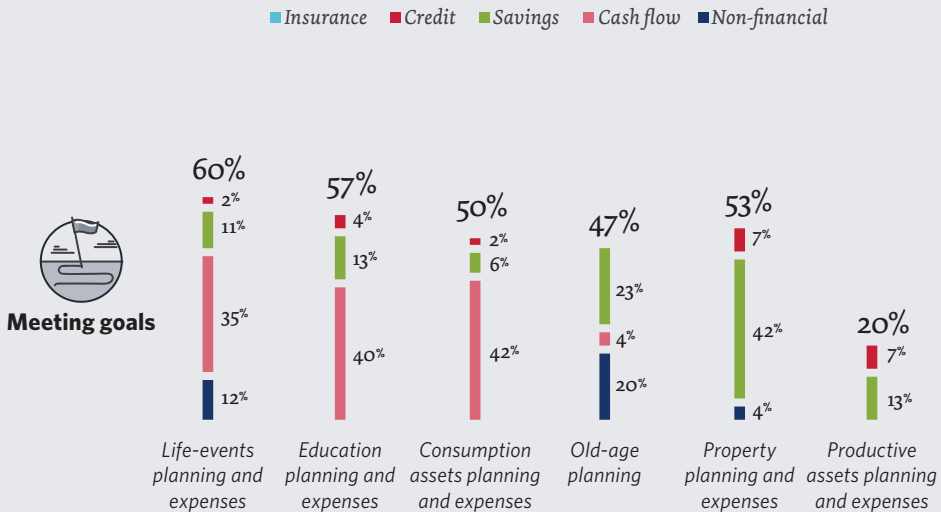
Link to the four crucial needs. In Figure 2, the four crucial needs (which are discussed in detail in Note 1) also come out strongly across the broader set of needs demonstrated by FinScope respondents, with healthcare, education, and production (entrepreneurship) all featuring among the top needs. The only one of the four crucial needs not explicitly demonstrated is basic services and infrastructure (utilities), which is captured within consumption liquidity more broadly, along with a broader set of consumption expenses.

In the needs analysis, the strong emphasis on livelihoods – how different segments make a living – helps unpack the evolving facilitation role of financial services for real economic activity. By being both sector- and product-agnostic, the needs analysis helps sharply delineate the different market segments through highlighting their financial choices, which manifest underlying realities and distinct and specific needs. The livelihoods emphasis allows MAP to identify different segments’ actual strategies-in-use for both surviving and attempting to close opportunity gaps in their daily lives and for the longer term.



Use of credit for consumption smoothing needs to be appropriate.

Consumption liquidity emerges as the highest need (at 96% of adults) across the three countries, with 26% using savings and 15% borrowing for this purpose.



% of adults using a particular mechanism

While the use of savings and credit to manage liquidity is appropriate, a careful balance needs to be struck between using credit for this purpose (i.e. 'borrowing to buy food' – as reported in Note 2 of Volume 2) and using it to unlock productive capabilities and/or investing in areas such as education, property or productive assets.

The *cost* of credit used for liquidity will also impact on its appropriateness; ideally, credit used for consumption liquidity should be low cost or even interest free. MAP has, however, repeatedly demonstrated that such credit is in fact quite expensive, especially when informal sources are used. (However, as Volumes 1 and 2 both argue, the true costs to low-income consumers of formal financial services often exceed their usefulness. And where consumers opt for informal services, the numerous significant benefits account for the enduring popularity of informal.) It is perhaps encouraging then to see that more people are using credit for productive liquidity (17%) than for consumption liquidity (15%), and that the majority of people across the three countries in fact manage consumption liquidity via their cash flow, or via savings.

Risks are largely managed reactively, without risk-transferring mechanisms. Even though health risk management is the second-highest need (at 78% of adults) across the three countries, very few people use risk-transfer mechanisms such as insurance to manage these risks. Most people use cash flow or savings when a health risk occurs, with some also using credit. Similarly, the majority of people that experience a material loss (non-health or life) deal with this without the use of a financial mechanism (15%), or through the use of savings or credit – although, compared to health risk, a larger proportion of these consumers do use insurance to mitigate material losses. This largely reactive response to risk results in high inefficiencies, in the sense that money/resources that could have been otherwise applied are being channelled to mitigating risks.

Goals are met by using various mechanisms, depending on the nature of the goal. Shorter-term goals such as funding life events or education or buying consumer durables are largely met through cash flow, and some savings, whereas the funding of property and productive assets is largely through savings, and some credit. People mostly rely on savings and on others in their old age, although the majority of people across the three countries do not plan for their old age at all. Credit is used to a very limited degree for education, property and productive assets, which illustrates how capital is largely misallocated in the retail and even small-business markets in these countries.

Using credit for production liquidity, rather than productive investment, can undermine growth. It is worth noting that far more people use credit to manage production liquidity (i.e. consumption) than to invest in their business or buy productive assets; and such credit usage, which potentially detracts from overall investment in productive endeavours, represents an obstacle to economic development and growth more broadly.

Target market needs

– how consumer priorities and values must shape inclusive markets

The needs and usage framework used in combination with the existing target markets framework (see also Volume 1, Note 1) is a sophisticated segmentation tool, allowing MAP to understand the differentiated needs and values of consumers and factor these into efforts to make societies more inclusive. By better serving the needs of low-income sectors, countries can leverage a broader portion of the population in developing their domestic financial markets, while also unlocking new opportunities for financial service provision and real economic activity. Financial services can thus, in helping different segments meet their real economic needs, facilitate greater real economic activity, at the same time reducing opportunity gaps between low-income segments and the rest of the population. The MAP cross-country comparisons highlight a number of significant findings at the nexus between low-income target market needs and new opportunities for provision.

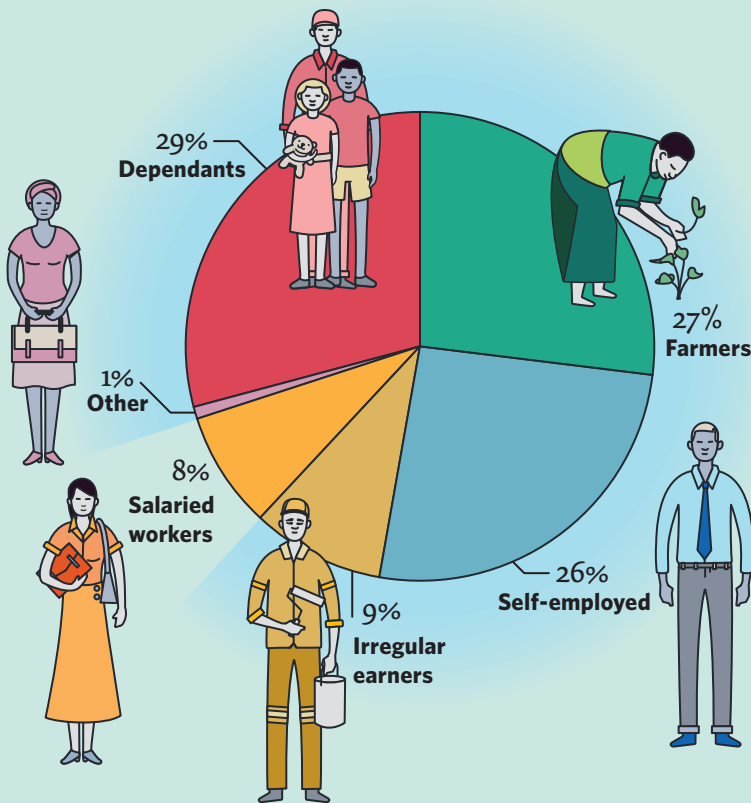


Figure 3: The five target market segments as proportion of the population
Sources: MAP DRC (2016), MAP Myanmar (2018) and MAP Zimbabwe (2016).

92%
HIGHLY
VULNERABLE

29%



Dependants

27%



Farmers

26%



Self-employed

9%



Irregular earners

63%
FINANCIALLY
INCLUDED

Four of the target market segments in particular are highly vulnerable. Across the three countries, 29% of respondents rely on someone else for an income, whether that be a formal government grant or contribution from a relative (i.e. they fall into the target market segment ‘dependants’). Similar proportions of people rely on farming (27%) or their own business (26%). A further 9% are irregular earners (relying on piece work), while only 8% receive a salary or a consistent wage (see Figure 3). This segmentation suggests that, in terms of both level and consistency of income, most individuals are in fact highly vulnerable; the four biggest segments all have lower and less consistent income than salaried workers do. These four segments – farmers, the self-employed (MSMEs), irregular earners and dependants – are also more rurally based and have lower levels of education, which makes them harder to reach either geographically or through formal information/education initiatives.

Despite the prevalence of vulnerability, all of the target market segments engage with all four financial needs. Applying the needs and usage framework across target markets makes it clear that consumers, regardless of their income level and income consistency, typically have a wide range of economic needs, and satisfy these needs through using different types of financial products/services (whether formal or informal) – that is, through a portfolio approach. This is in line with general MAP diagnostics and research findings that poor individuals, households and businesses lead active lives and make rational choices; across all target market segments, most adults engage with all four financial needs.

Economic needs differ by target market, and are met through distinct portfolios of financial mechanisms. Despite similar engagement with all four financial needs, both the underlying economic needs and the manner in which segments meet these financial needs differ substantially. The nature of specific segments’ income source would obviously have an impact on their economic needs; the needs of farmers, for instance, are in many ways distinct from those of the self-employed (MSMEs) or of irregular earners. Both level and consistency of income also have an impact on the economic needs of the different segments; for instance, groups with lower, less consistent income are more vulnerable, with less capacity to mitigate risks.

Substantial use of financial services across most segments. While economic prospects in the three countries in question can be considered adverse at times, access to and usage of financial services looks promising relative to the country contexts and to financial access in other LDCs: 63% of adults are financially included, and 46% are *formally* financially included. In the segment ‘salaried workers’, 60% make use of non-bank formal financial services and 48% have a bank account. This group is easiest to reach, and salaried workers have demonstrated demand for formal financial services; provision can therefore be further expanded. Banks are also doing well at serving farmers (21%) and the self-employed (20%), while usage of non-bank formal financial services for these groups stands at 29% (farmers) and 41% (self-employed).

Segments with irregular income demonstrate viable business case for inclusion. While the target market segments with irregular income would typically be assumed to offer less commercial viability for providers and products, the reality is more encouraging in the three countries in question.

Significantly, in terms of overall bank customers and non-bank formal customers, salaried workers are only the fourth largest segment, behind farmers, the self-employed, and dependants – meaning that by far the largest portion of retail bank and non-bank formal customers are *not* salaried workers. The retail business case for financial service provision is, therefore, much more reliant on the segments with less consistent income, at least when it comes to number of customers. The fact that substantial portions of target market segments with less consistent income are being served by bank and non-bank formal financial services not only demonstrates the viability of the business case for serving these groups (and such provision can be further expanded) but also suggests possibly viable groups for providers to consider with regard to increasing existing provision or developing more relevant products and services through innovation.

Linking consumer values and priorities to financial products. The way in which people, in different countries and different target market segments, use financial services offers insight into their values and priorities, as well as the means at their disposal for meeting their needs. The MAP needs and usage framework provides product-level data across different target market segments, as detailed below.

Credit usage very constrained, but varies by local country context. Levels of borrowing vary significantly between the two African countries and Myanmar, but remain low overall. In the African countries, credit usage stands at 8% of respondents when formal and informal are included, but only 3% for formal credit. If Myanmar is included, credit usage jumps to 24% when formal and informal are included, but still stands at only 16% for formal credit – and even in this case bank credit is only 8%. The greater reliance on credit in Myanmar is largely due to the availability of state-provided agricultural credit, as well as an active and growing non-bank formal credit sector and a historically pervasive (and functional) informal credit market.

Credit usage varies greatly by target market segment. In the African countries, the majority of those making use of formal credit are salaried workers, who comprise 60% of those accessing bank credit and 29% of those accessing non-bank credit. Conversely, only 13% of those accessing informal credit are salaried workers. If Myanmar is included, though, this picture changes dramatically, with only 6% and 7% respectively of those accessing bank credit and non-bank credit being salaried workers, and with most of the formal credit going to farmers and the self-employed; the situation with regard to informal credit remains similar, though, with only 5% of those accessing informal credit being salaried workers (when Myanmar is included). With credit penetration being so low even for the segment with the highest and most consistent income, the retail credit markets in all three countries remain severely constrained.

In the absence of credit, people save if their income allows. Reliance on savings is higher than on credit, and more consistent across the three countries. However, most people save informally or at home. Usage of formal savings products/services is at 12% of respondents, rises to 34% if informal saving is included, and rises further to 52% if those who only save at home are included. Similar to the

situation with credit, formal usage is much higher for salaried workers (26% for banks and 19% for non-banks). However, overall usage of savings products and services is largely correlated with income, with dependants and irregular earners saving the least (60% and 54% respectively not saving).

Insurance cover remains low, but most insurance customers are not salaried workers. Formal insurance usage remains low, at 6% of respondents, and differs substantially across the three countries (the lowest being the DRC at 1%; the highest being Zimbabwe at 25%). When informal usage is included, insurance penetration rises to 11% across the three countries. Formal insurance uptake is driven in the case of Zimbabwe by mobile insurance, and in Myanmar by the partial deregulation of the state-owned monopoly on insurance, while informal insurance uptake in Zimbabwe is driven by burial societies and in Myanmar by microfinance institutions (MFIs). While formal insurance penetration across the three countries is substantially higher for salaried workers (19%), only 24% of formal insurance customers fall into this segment, with most insurance customers being the self-employed (26%), dependants (24%) and farmers (16%). Again, this demonstrates that formal (retail) providers are actually reliant on groups with lower and less regular income for most of their retail insurance business, which in turn underscores the viability of serving these more vulnerable groups.

High remittances service usage is due to mobile solutions and the pursuit of economic opportunity. Of respondents across the three countries, 29% send or receive domestic or international remittances, with 23% doing so through bank or other formal (e.g. digital/mobile) channels. In Africa and Myanmar alike, the rise of mobile channels and increasing numbers of lower-cost mobile alternatives for remittances contribute significantly to the high formal usage numbers. The large need for remittances services in the first place stems from the fragility of these three economies, which see high levels of migration domestically and internationally in the interests of pursuing opportunity and/or fleeing risk.

Informal financial services meet needs and are used to complement formal financial services. Reliance on informal financial services is prevalent across all three countries, where 38% of respondents use some type of informal financial service (compared to 46% that use formal financial services). Interestingly, access to and usage of informal services is also comparable across all five target market segments (ranging between 33% and 44%). Perhaps surprising is the finding (which shows up repeatedly in the MAP research across different countries) that the target market segments with higher and more stable income, such as salaried workers and the self-employed, are also the most enthusiastic users of informal financial services. For instance, 44% of salaried workers and the self-employed respectively use informal services, versus 37% of farmers and 36% of irregular earners. In addition, it is the salaried workers segment that most uses formal financial services *in combination with* informal, complementing their formal financial services usage with informal services depending on which best meet their needs. Only 9% of salaried workers use *only* informal financial services, though, compared to 17%–19% in the case of farmers, irregular earners and the self-employed.



A new deal, new opportunities for the next generation

– based on real needs and priorities

In most LDCs (particularly Cluster 1 and 2 countries), foreign aid tends to be the dominant source of capital. Thus, the availability of capital in the country is often impacted by factors such as the internal political environment, changing global donor priorities and local relationships with donors (Tyson & Beck 2018). Furthermore, the impact is often cyclical; but given that such cycles are not based on sound market principles, policy priorities or the needs of consumers, they tend to cause high levels of market instability/volatility, which hampers progression of any sort, let alone growth. With financial inclusion increasingly emphasising the role of national financial systems as *enablers* for or *lubricants* of the real economy, policymakers need to take a long-term view with regard to developing inclusive markets that can lead to growth.

Needs are anchored in the social and the societal, which are not always formal.

As humans, meeting our needs is not possible without social connection and collaboration. 'Our reliance on each other grows as societies become more complex, interconnected and specialised. Connection is a pre-requisite for

survival, physically and emotionally' (Rutledge 2011). In developing countries, high levels of economic activity are concealed within the informal or 'shadow' economy, within which much of the country's livelihoods activity takes place. At the same time, governments are under pressure to demonstrate economic growth and raise tax revenues. For these reasons, formalisation of the informal sector is often a policy directive. MAP explores the value of informal financial services as a sector, as well as the potential for and risks of formalising this sector. As the MAP research illustrates, informal financial service provision adds value – not only where formal is not available or accessible but also because often informal meets people's needs better, and is less costly if non-financial costs of access (e.g. transport, time, lost opportunity) are taken into account.

Boosting people's productive capacity. The needs analysis and needs and usage framework highlight the importance of increasing poor people's access to and usage of more appropriate financial services to meet more productive needs – such as production liquidity, productive assets, education and property. Credit can play a larger role here, while access to better insurance can divert credit and savings away from risk-mitigating needs such as health, life and other losses. More can also be done to increase the proportion of people that engage in meeting productive needs (e.g. productive assets), which is low compared to production liquidity, for instance.

The need for social security nets. Across all three fragile states, the findings emerging from the use of the needs and usage framework highlight an urgency for country governments and the private sector to address the gaps between consumer needs and the available mechanisms to serve those needs. Given the demographics and income sources across these countries, it is clear there is a huge burden on the state and private sector to unlock more productive opportunities. In each country, a large proportion of the population are locked into low-productivity sectors such as small-scale/subsistence farming, or informal small businesses, or are dependent on others for their income. Along with having social inclusion-exclusion implications, this links to issues of geographic and educational inclusion-exclusion, with clear roles for government and the private sector to expand infrastructure and facilities, improve access to quality education and healthcare services, and focus on industry development that ensures more equal distribution of employment and income-earning opportunities.

Enabling domestic capital and local markets to power countries' growth.

Now, more than ever, a key task of financial inclusion is to design policies and interventions that boost the capacity of low-income individuals, households, small businesses and communities to reduce precariousness and increase control over their lives. Support from the global financing system combined with that from the development system, bringing together international financing institutions, public-sector funding and private financing as they relate to the realities of citizens' needs and priorities in their day-to-day lives, will allow us to move from the 'billions' to the 'trillions' needed to make the SDGs a reality – making a positive impact for generations to come.

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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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