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Financial Inclusion, Women, and Building Back Better[1]

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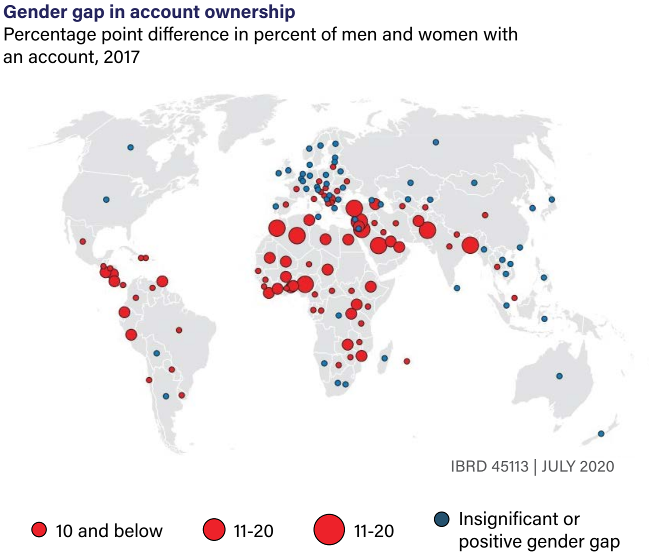
INTRODUCTION

Financial inclusion occurs when adults have access to appropriate, affordable, and well-regulated financial services to meet their needs effectively and improve their lives. Financial inclusion is a growing global phenomenon. Since 2011, more than one billion adults have opened an account at a financial institution, such as a bank or a mobile money provider. Despite the progress, however, women continue to lag behind men. In low- and middle-income economies, men are 9 percentage points more likely than women to have an account, a gender gap that has stubbornly persisted. And there is considerably variation among countries (map 1).

Responding to the COVID-19 pandemic, governments across the world are providing relief payments and financial support to citizens and businesses. If such transfers could be transacted digitally, this might help unbanked people—especially women—obtain accounts for the first time. Digital government payments are a proven way to boost women's financial inclusion. Globally, roughly 140 million people—of which 80 million are women—opened their first accounts to receive digital government payments, such as safety net subsidies, public pension funds, or public sector wage payments, according to the Global Findex (Demirgüç-Kunt and others 2018). Government COVID-19 relief and recovery payments create opportunities to rectify the gender gap in financial inclusion, mitigate the pandemic's economic fallout, and build resilience against future emergencies. In addition, the momentum brought on by the policy responses to the pandemic offers opportunities to tackle long-standing challenges to financial inclusion. This note outlines critical priority areas toward this goal.

Map 1: The gender gap in account ownership



FINANCIAL SERVICES BUILD RESILIENCE AND CAN ADDRESS GENDER INEQUALITY

There are signs that women are disproportionately suffering from COVID-19 economic effects. In terms of income opportunities, women-led firms have been hit harder compared to male-led firms (Torres et al. 2021) and likewise in terms of jobs (Kugler et al. 2021). These impacts reflect a combination of factors: the sectors in which women were working or operating firms before the crisis, how women benefit from assistance during the crisis, and norms in terms of domestic care work (especially out of school children).

The United Nations documents 992 measures taken by 164 countries and territories in response to COVID-19. This includes 177 measures taken in some way to address women's economic security (UN Women and UNDP 2020). Many governments have responded to COVID-19 by giving money to citizens through digital channels. In Sub-Saharan Africa, cash transfers make up more than 80 percent of relief programs announced since the pandemic.[2] Contactless digital relief payments are especially welcome in this era of social distancing.

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[2] See Policy Responses to COVID-19: Policy Tracker (dashboard), updated October 24, 2020, International Monetary Fund, Washington, DC, https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19.

Digital government transfers have several benefits for women. They can provide a safe way to store money, and they can create opportunities for women to explore other digital financial services beyond accounts, such as remittances. Research shows that financial services help people manage economic risk. Mobile money accounts—which are operated on simple phones using text messages—make it much easier for people to receive remittances from relatives and friends, not least during an economic crisis. The use of mobile money has been shown to improve the ability to protect households against unexpected shocks in Kenya (Jack and Suri 2014) and in Tanzania (Riley 2018) and increased food security in Uganda (Wieser et al. 2019).

Women have distinct financial needs that make them especially likely to benefit from the cost savings associated with mobile money. Financial diaries suggest that women typically handle daily household expenses and risk management and tend to make high-frequency, low-value transactions. Women also collect a disproportionate share of their incomes from person-to-person remittances from family and friends. While men often focus on earning money and investing for the future, women are often expected to look after older relatives, take care of children, run family farms, organize side businesses to raise extra money, and finance family events, such as weddings and funerals (Zollmann and Sanford 2016).

Financial services also help people build the savings they need to recover from an economic setback and reduce their reliance on expensive or risky tools, such as credit. Women in Chile who received free savings accounts reduced their reliance on loans and improved their ability to make ends meet during an economic emergency (Kast, Meier, and Pomeranz 2018). In Kenya, researchers found that women who received mobile savings accounts were less likely to use transactional sex to raise money during a financial emergency (Jones and Gong 2019), and woman-headed households increased their savings when they adopted mobile money (Suri and Jack 2016). COVID-19 relief payments might help women develop savings if they are made digitally. In India, weekly payments resulted in significantly higher savings among a group that received the payments into accounts, but not among a group that received identical payments in cash (Somville and Vandewalle 2018).

FOCUS AREAS FOR BUILDING FINANCIAL RESILIENCE THROUGH DIGITAL SYSTEMS

Policy responses to COVID-19 economic shocks are critical in assisting households and firms hit hard. But they are also an opportunity to build financial inclusion through digital approaches. The analysis here highlights six priorities for governments and stakeholders looking to harness the COVID-19 recovery to expand financial inclusion through digital technology and build resilience to future crises.

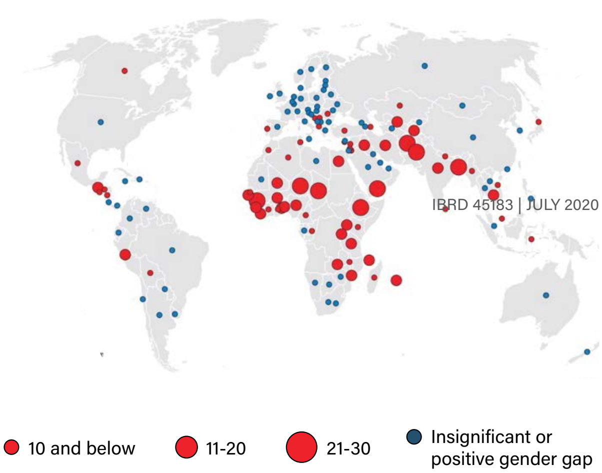
Digital connectivity

Digital technology—such as mobile phones—is key to making effective COVID-19 relief and recovery payments. While it is too early to assess the impact and effectiveness of digital government COVID-19 relief payments, preliminary information speaks to the opportunities and challenges at hand. In Togo, the government has used mobile phones to rapidly disburse cash transfers. In April 2020, the authorities created a new cash transfer payment worth at least 30 percent of the minimum wage, with amounts ranging from US$18 to US$34. About two-thirds of the recipients were women, according to official data. Overall, nearly 1.5 million individuals registered, and more than half a million had received a payment as of autumn 2020. Starting in April 2020, Morocco disbursed monthly mobile payments of US$80 to US$120 to households that qualified for subsidized health insurance, covering 85 percent of eligible households in the informal sector.[3] Argentina rolled out relief payments to more than 9 million households. The payments were targeted at the unemployed, domestic workers, and informal workers, and women were often designated as the beneficiaries (UN Women and UNDP 2020).

Women are at risk of missing out on support delivered digitally if they lack access to digital technology. In almost all low- and middle-income economies, women are significantly less likely than men to have a mobile phone (map 2). In some countries, the gap is especially large. As of 2019, according to the Gallup World Poll, only 42 percent of women in Pakistan had a mobile phone, compared with about 80 percent of men.[4] Conservative social attitudes help explain these gaps. Field research in India found that many people believe that, if women had mobile phones, they would be less likely to remain chaste before marriage and less attentive to their children and husbands after marriage (Schaner and Theys 2018). Research has also found that improved access to mobile phones does not automatically improve women's well-being (Highet, Singh, and Salman 2021).

Map 2: The gender gap in mobile phone ownership

Gender gap in account ownership
Percentage point difference in percent of men and women with a mobile phone, 2019



[3] See Policy Responses to COVID-19: Policy Tracker (dashboard), updated October 24, 2020, International Monetary Fund, Washington, DC, https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19.

[4] See Gallup World Poll, Gallup, Washington, DC, https://news.gallup.com/topic/world_poll.aspx.

In economies with large unbanked populations, it is still possible to make digital relief and recovery payments without relying on accounts. Guatemala, for example, has used a unique code payment through a mobile application. People who qualify for the program receive a note on their electricity bill that provides registration instructions; beneficiaries are required to supply a mobile phone number and a national ID number. Eligible participants then receive text messages with payment codes that can be used at point-of-sale terminals and ATMs (Gentilini and others 2020). Of course, big challenges remain for people who lack national ID numbers or are not enrolled in such non-banking programs with digital accounts.

Digital SME financing

As governments begin to recover from the devasting impacts of COVID-19 on small and medium enterprises (SMEs), the crisis presents an opportunity to address the gender gaps in SMEs. Many SMEs, especially woman-owned firms, lack the credit and insurance tools they need to both grow their business and build resilience. Woman-owned firms have been severely affected by the pandemic (Torres et al. 2021). Digital tools and approaches can help address such challenges. COVID-19 recovery should leverage new fintech approaches and alternative sources of information, such as digital transaction histories, airtime purchases, internet browsing habits, and payments of rent and utility bills.

An example of an alternative credit lender is JUMO, a South African technology platform that uses artificial intelligence and machine learning to analyze mobile usage data to create financial identities for underserved SMEs. JUMO collects data from mobile network operators across South Asia and Sub-Saharan Africa. It has more than 15 million unique SME customers and has disbursed more than US$1.5 billion in funding. JUMO analyzes more than 10,000 behavioral signals to gauge creditworthiness and offer customized savings and loan products directly to SMEs over mobile phone. Such products might be especially relevant to women because women are less likely than men to have the collateral, formal documentation, and formal employment needed to qualify for loans, which means women stand to benefit from alternative credit information disproportionately (GPFI 2020b).

Wider use of digital merchant payments could help women gain access to credit by building an alternative credit history. In Indonesia, for example, millions of women earn a living using apps, such as GoFood and Grabfood, that connect small food vendors with buyers over digital platforms (GPFI 2020a). A challenge for the private sector is to offer digital payment products that can outcompete cash and are relevant to women's financial needs. A common view is that cash is more convenient and reliable than the digital alternatives.

The public sector can galvanize digital SME finance by addressing several shortcomings. This includes revisiting regulations. In Bangladesh, for example, merchants are barred from simultaneously serving as cash-out agents and accepting digital merchant payments because of concerns about tax arbitrage. Agents can be designated as essential workers and be permitted to stay open during lockdowns. There is also a need to improve core infrastructure, including electricity and internet.

Digital financial capability

Women need financial training as they rapidly take up digital payments and formal financial services for the first time. Although many countries have achieved gender parity in schooling, women still lag behind men in basic numeracy and literacy among the population of adults. There are different ways to address the financial literacy gap between men and women. Evidence suggests that traditional classroom-based approaches to the teaching of financial skills are generally ineffective (IPA 2017). Technology can help. In Colombia, rural recipients of conditional cash transfers—most of them women—were loaned computer tablets loaded with entertaining content to boost their financial capability, which proved to be beneficial to financial health (Attanasio and others 2019). It might be more effective to provide financial education during teachable moments when people have a specific need for learning the skills. For example, researchers found positive results in savings and remittance outcomes if they trained migrants and their families together (Doi and McKenzie 2014).

People also gain financial education through experience. In Bangladesh, workers who were paid through mobile accounts were more likely to send home remittances without obtaining help from agents, which suggests that the experience of receiving digital wage payments made the workers savvier financial users (Breza, Kanz, and Klapper 2020). Information delivered through text messages can have positive impacts on outcomes such as savings (Karlan and others 2016). As women (and men) become newly enrolled in COVID-19 relief and recovery payment schemes, governments and banks can use technology informing them clearly how much money they should be receiving, the closest operating cash-out point, and the expected fees. Governments can also provide basic information about operating accounts. In Jordan, people who receive COVID-19 relief payments have the option of using a demonstration e-wallet to build trust and comfort using digital payments (Gentilini and others 2020).

A supportive regulatory framework

Regulations help create the conditions that let fintech, including mobile money, thrive. A forthcoming analysis of Global Findex and GSM Association data finds that mobile money penetration is significantly greater in Sub-Saharan African economies with supportive legal frameworks. Regulations on know-your-customer (KYC) requirements, authorization, and consumer protection are especially significant. KYC refers to the regulations that customers must fulfill—such as providing documentation—before being able to open an account. Excessive KYC rules create administrative hassles for financial institutions and place undue burden on underserved customers—such as women and the poor—who pose no systemic or integrity threat to the financial system. More flexible, risk-based KYC requirements can make it easier to expand financial inclusion without threatening financial stability and integrity. Authorization requirements—such as allowing nonbank agencies to offer mobile money services, the existence of legislative/regulatory frameworks governing mobile money, and guidelines around capital requirements or international remittances—are also key to effective mobile money regulation, and ensuring that their design and implementation is risk based and proportionate and does not impede financial inclusion as a priority.

Recent research confirms that supportive mobile money regulations can be especially useful among women. Researchers at the GSM Association analyzed the relationship between mobile money adoption and regulations in 46 countries. They found a positive correlation between good regulations and mobile money uptake, noting that tiered KYC requirements and laws allowing mobile agents to register customers could be significant in enabling mobile money use among women and the poor (Bahia, Sánchez-Vidal, and Taberner 2020).

Consumer protection has a major role in shoring up trust in the financial system. Deceptive practices are widespread in the financial services industry. A mystery shopper audit of microfinance institutions in Uganda found that loan officers failed to provide consistent information on costs. Inexperienced borrowers received less information than experienced borrowers, and printed materials on borrowing costs were missing or failed to meet guidelines. Evidence of differential treatment by sex was also found. For example, 58 percent of men customers received information on the total cost of credit, while only 41 percent of women received the same (Atuhumuza and others 2020). An example of a straightforward and effective consumer protection is requiring banks to present clear, simple facts about their products. Studies in Mexico and Peru found that, compared with financial literacy, clear statements of key facts were more strongly correlated with good financial decisions (Gine, Cuellar, and Mazer 2017).

Some COVID-19 response measures raised consumer protection issues. For example, governments have had to adjust regulatory frameworks to disburse digital relief payments quickly and accurately during COVID-19. Some have enacted reforms that allow public authorities to gather data to identify accounts at payment service providers. Colombia and Peru, for example, issued emergency measures allowing the public sector to access and share such information with key stakeholders (Gentilini and others 2020). In such cases, it is vital for authorities to protect the confidentiality of customer data vigorously.

Governments have also adopted various policies to encourage digital payments during the pandemic. Egypt, for instance, raised daily limits on transactions made via mobile phones. Tanzania made similar changes, increasing daily transaction limits on mobile money operators from about US$1,300 to US$2,170, while the daily balance limit was doubled, to US$4,340. Burundi asked private banks to cut fees for mobile money and private bank transfers to reduce the need for people to withdraw cash at banks, while Rwanda instructed mobile network operators to waive fees on transfers and payments; given that women are generally poorer than men, such measures may disproportionately help women. Some economies have relaxed KYC requirements for opening digital accounts, such as Guinea and the Philippines, or created new flexibility such as remote account opening, for instance Morocco. Others have taken measures to encourage lending, such as Egypt, which eased KYC requirements for micro borrowers and suspended the blacklisting of debtors.

Invest in complementary infrastructure

Ensuring that women have access to IDs is vital to ensuring digital COVID-19 relief and recovery efforts. In Chile and Thailand, for example, governments have used identification to rapidly enroll eligible beneficiaries in payment relief programs. Pakistan leveraged biometric identification to provide emergency assistance to about 67 million individuals. But women often lag behind men in ID ownership. According to Global Findex-ID4D data, 74 percent of men and 65 percent of women have ID in Sub-Saharan Africa—a gender gap of 9 percentage points.[5] Such gaps can put women at a disadvantage as governments link COVID-19 relief and recovery to ID ownership.

Identification has been central in verifying eligibility for relief programs and combatting fraud. With the rapid rollout of digital payments during COVID-19, authorities have occasionally struggled to reach beneficiaries. Some payment recipients provide incorrect, inconsistent, or incomplete data. Fraud attempts are legion. Identification data can be crucial in addressing such issues. In South Africa, for instance, authorities validate account numbers by cross-referencing social security records and rely on the support of banks and taxation authorities.

People will only use digital payments if these are safer and more convenient than cash and are relevant to their needs. In economies with weak digital payments infrastructure, recipients have withdrawn their full COVID-19 benefits in cash. Service providers have struggled to keep up with the sudden increase in demand because of the sanitary challenges, shortages of paper currency, limited branch hours, and staffing problems. Rapidly expanding agent networks and onboarding merchants to digital payment acceptance are critical to expanding digital financial inclusion (Gentilini and others 2020). Offering women a choice on how they access government payments might make program implementation smoother (Chen and Mai 2021). These investments will help economies become more resilient beyond the COVID-19 crisis and into the future.

CONCLUSION

Digital government payments play a vital role in helping people manage economic crises. They also increase financial inclusion as previously unbanked adults open accounts to receive the payments. Many economies have leveraged mobile phones and national identification systems to provide relief to citizens. But women are at risk of missing out because they are less likely than men to have access to these tools. Strengthening digital connectivity, building financial capabilities, investing in financial infrastructure, and introducing regulations that enable the development of a healthy financial system will not only help address the digital divide between men and women, but also build financial resilience to mitigate future economic crises.

[5] See Global Findex (Global Financial Inclusion Database), World Bank, Washington, DC, https://globalfindex.worldbank.org/; Global ID4D Dataset (Identification For Development Global Dataset) (database), World Bank, Washington, DC, https://datacatalog.worldbank.org/dataset/identification-development-global-dataset.

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