

ECA Research Notes

OFFICE OF THE CHIEF ECONOMIST

EUROPE AND CENTRAL ASIA

May 2019



Hi everyone,

Last month during the World Bank's busy spring meetings, we issued our [ECA Economic Update](#) with a special focus on financial inclusion. Inclusive financial systems play a vital role in promoting economic development. This newsletter summarizes the main message of the update and provides links for further reading. We are also including several Bank research papers and blogs about financial inclusion that I hope you find useful.

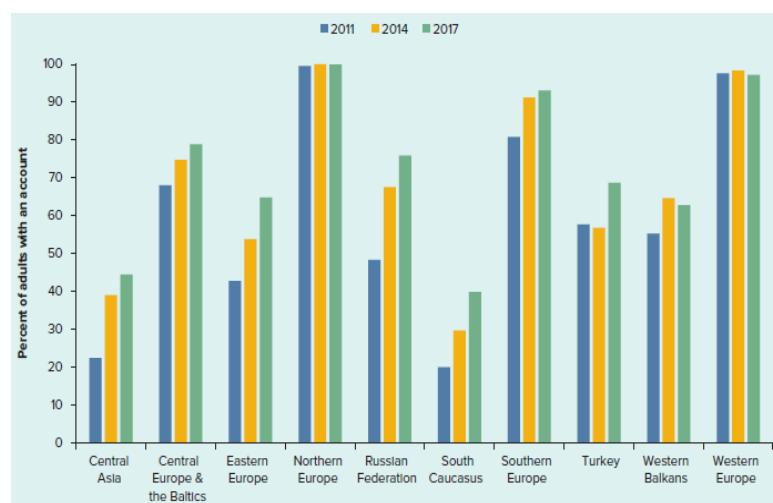
During the meetings, we also had a very interesting [ECA Talk](#) on the challenges of designing migration policies to maximize overall gains while addressing distributional issues and easing the pain of affected people. We will devote the next newsletter to summarizing this discussion and related research.

Finally, later this month on May 22, we are holding another [ECA Lecture](#) with none other than our own World Bank CEO, Kristalina Georgieva. She will share her perspectives on the development challenges of the region. I am sure that is a lecture you will not want to miss.

Happy reading!

Asli Demirguc-Kunt

Spring 2019 Economic Update - Financial Inclusion



Adults with an Account at a Bank or Mobile Money Provider

The Europe and Central Asia (ECA) region faces many long-run challenges to development. These range from worsening demographics, to declining productivity and investment, to climate change. Our Spring 2019 [ECA Economic Update](#) focuses on one policy — promoting inclusive financial sector development — to help economic growth and alleviate poverty.

Inclusive financial systems allow people to invest in their education and health, save for retirement, capitalize on business opportunities and confront shocks. In ECA, there is great variation in financial inclusion. In the euro area, most adults already own an account.

Account ownership, the first entry step into the formal financial system, has increased in ECA's developing countries to 65 percent of the adult population, up from 45 percent in 2011.

Tajikistan, Armenia, Moldova, the Kyrgyz Republic, and Georgia are among the countries that have seen the greatest increases globally, despite starting from a very low base. These experiences underline the potential role of digital payments in driving financial inclusion.

Nevertheless, almost 30 percent of ECA unbanked adults report lack of trust in banks as a barrier, which is nearly double the average in all developing countries.

Also, gender and income gaps in account ownership remain significant in some ECA countries. For example, the gender gap is close to 30 percentage points in Turkey, or triple the average gap in developing countries. In Romania, the gap between richest 60 percent of the population and poorest 40 percent is 33 percentage points, more than twice the average gap in developing countries.

But there are many opportunities to increase account ownership. Over 80 percent of the unbanked have a mobile phone, and simply moving public sector pension payments into accounts would reduce the number of unbanked adults in the region by up to 20 million, including 8 million in Russia alone.

Given the heterogeneity of experiences, there are ample opportunities for countries in the region to learn from each other. The new report lays out a rich research and operational agenda going forward.

[ECA Economic Update Report](#)

[Video](#)

[ECA Economic Update Webpage](#)

RELATED WORLD BANK RESEARCH

[**Can Regulation Promote Financial Inclusion?**](#)

Jan. 18, 2019 — Policy Research Working Paper 8711
Rong Chen and Raian Divanbeigi

Despite the commitments of the development community to broader access to finance, about 2 billion adults do not have access to basic financial services such as savings and checking accounts. This paper investigates the role of financial regulation in financial inclusion. The authors propose a broad index of regulatory quality for financial inclusion, then test the relationship between regulatory quality and financial inclusion outcomes.

Household Savings in Central Eastern and Southeastern Europe: How Do Poorer Households Save?

Feb. 19, 2019 — Policy Research Working Paper 8751
Elisabeth Beckman

This paper presents new and unique evidence about household savings based on a survey in 10 Central Eastern European and Western Balkan countries. The percentage of savers is low, and savings are frequently informal despite a high density of bank branches in the region. The author finds lack of trust in banks reduces the probability of formal savings, especially bank savings.

The Global Findex Database 2017 – Measuring Financial Inclusion and the Fintech Revolution

April 19, 2018
Asli Demirguc-Kunt, Leora Klapper, Dorothe Singer, Saniya Ansar, and Jake Hess

Financial inclusion is rising globally, accelerated by mobile phones and the internet, but gains have been uneven, according to country-level data gathered by the Global Findex. The dataset shows how people in 144 economies use financial services. It found 69 percent of adults — 3.8 billion people — have an account at a bank or mobile money provider, a crucial step in escaping poverty. Only 51 percent had accounts in 2011. The World Bank created Global Findex with partners Gallup, Inc. and the Bill & Melinda Gates Foundation.

Financial Outreach and Working Poverty in Developing Countries: New Evidence from Bank Penetration

Dec. 21, 2018 – Policy Research Working Paper 8687
Aissata Coulibaly and Thierry Urbain

This is a cross-country empirical analysis of the relationship between access to financial services (measured by bank penetration) and the proportion of working poor. The paper uses a panel of 63 developing countries over 2004-13 to demonstrate that improving financial access reduces the proportion of poor workers, especially in countries hit by macroeconomic instability.

Banking with Agents: Experimental Evidence from Senegal

April 19, 2018 — Policy Research Working Paper 8417
Sinia Buri, Robert J. Cull, Xavier Gine, Sven Harten, and Soren Heitmann

The authors use a randomized controlled trial in Senegal to compare consumer behavior at traditional banks and at banking agents, which are typically small shops that enable customers to make deposits, withdrawals, money transfers, and loan payments. Individuals who went to a banking agent made more transactions and paid less per transaction than those who went to a bank.

Making it Easier to Apply for a Bank Account: A Study of the Indian Market

Sept. 26, 2017 – Policy Research Working Paper 8205
Asli Demirguc-Kunt, Leora Klapper, Saniya Ansar, and Aditya Jagati

This paper uses individual-level survey data from India to study the costs of opening a bank account and the efficiency of the process. The data show a recent increase in account ownership, especially by women and poor adults. The data also suggest that India's flagship financial inclusion program, the Jan Dhan Yojana scheme, made it easier and less costly to get a bank account.

Financial Inclusion and Inclusive Growth: A Review of Recent Empirical Evidence

April 25, 2017 – Policy Research Working Paper 8040
Asli Demirguc-Kunt, Leora Klapper, and Dorothe Singer

Growing evidence indicates that appropriate financial services have substantial benefits for consumers, especially women and poor adults. This paper provides an overview of financial inclusion around the world and reviews empirical evidence on how the use of financial products — such as payments services, savings accounts, loans, and insurance — can contribute to inclusive growth and economic development.

RELATED BLOGS

Financial inclusion in Europe and Central Asia — the way forward?

April 5, 2019
Asli Demirguc-Kunt and Cyril Muller

If you are unbanked, there is a high likelihood you are living on the edge of poverty, exclusion and vulnerability. If you struggle to attain or maintain a secure, well-paying job, you probably do not have a bank account or access to financial services. You are completely reliant on cash, which is unsafe and hard to manage. And, should you or a family member experience a serious illness or another unexpected financial burden, you could quickly fall deeper into poverty and despair. Unfortunately, this is the reality for millions of people in the developing countries of Europe and Central Asia.

3 ways to advance usage and drive impact in financial inclusion

Feb. 4, 2019
Dan Salazar and Carlos Monteverde

Unprecedented technological advancements and corresponding innovations in business models have helped financial inclusion evolve beyond merely connecting people to a bank account. It is, for instance, helping level the playing field for small farmers by providing access to buyers, more efficient pricing, and speedier payments. It is replacing unwieldy paper voucher systems used amid humanitarian crises with prepaid cards for food and supplies. And it is helping small and micro-merchants expand their businesses by leveraging purchase data to enable credit scoring.

The gender gap in financial inclusion won't budge. Here are 3 ways to shrink it

May 23, 2018

Kristalina Georgieva

I opened my first bank account as a new student at the London School of Economics in 1987. This seemingly small act meant that I could manage my own finances, spend my own money, and make my own financial decisions. It meant freedom to decide for myself. That financial freedom is still elusive to 980 million women around the world. And, worryingly, this does not seem to be improving.

A call to Turkey to close the financial gender gap

April 26, 2018

Asli Demirguc-Kunt and Ceyla Pazarbasioglu

Financial inclusion is on the rise globally. The third edition of the [Global Findex data](#) released last week shows that worldwide 1.2 billion adults have obtained a financial account since 2011, including 515 million since 2014. Why do we care? Having a financial account is a crucial stepping stone to escape poverty.

CALENDAR OF EVENTS

May 22	ECA Lecture : Kristalina Georgieva, World Bank CEO
June 11	ECA Lecture : Susan Lund, McKinsey & Company partner
June 24-28	2019 Overview Course of Financial Sector Issues: Financial Systems in the Era of Data and Technology

The **ECA Research Notes** newsletter is produced by the Europe and Central Asia (ECA) Chief Economist's Office. Please send comments, suggestions, and feedback to ECACEoffice@worldbank.org

Want to keep up with ECA activities?

- Follow us on Twitter @WorldBankECA and @ademirguckunt
- Explore economic reports and data on the [ECA Chief Economist web page](#)
- Read the ECA blog, [Eurasian Perspectives](#)