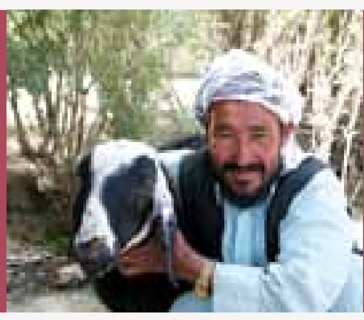
Financial Services for the Poor
A strategy for the Australian aid program 2010-15

Goal: Increased access to financial services by the poor in developing countries		
Outcomes		**Performance indicators**
1	A policy and regulatory environment that allows institutions offering financial services for the poor to enter the market and grow	> Identification of regulatory and legal barriers that limit poor people's access to financial services in target regions > Reforms to regulatory and legal environment in target regions > Entrance of new microfinance service providers into the market and performance of institutions in areas where regulatory and policy changes have been made
2	Financial service providers and infrastructure that have greater capacity to provide high quality financial services to the poor	> Financial and social performance of targeted financial service providers > Capacity of targeted institutions within the broader financial infrastructure
3	Innovative models of financial service provision that are used effectively to extend outreach to underserved regions and groups	> Level of access to financial services resulting from the integration of new technology into the market > Number and nature of new partnerships between formal financial service providers and non-traditional stakeholders to deliver microfinance services > Establishment of replicable demonstration projects to expand outreach and improve efficiency
4	Increased client capacity to understand and utilise financial services effectively	> Level of client awareness of protection mechanisms in target regions > Level of integration of financial education into national governments' strategies and plans > Number of poor attending financial education programs in targeted regions



For the poorest of the poor, providing access to productive assets such as goats may be more appropriate than other financial services until they are able to generate a more sustainable livelihood.

Photo: Microfinance Investment Support Facility for Afghanistan.

Guiding principles

These principles are based on CGAP's *The Good Practice Guidelines for Funders of Microfinance.*

1. **Complement, not crowd out private capital and stakeholders:** Support will be demand-driven and catalytic and will endeavour not to distort markets or create dependency.
2. **Support provision of a range of financial services in addition to credit,** including savings and deposit products, payment and transfer services and insurance.
3. **Work with microfinance providers that demonstrate potential to become financially self-sustainable.** Support to highly underdeveloped markets will be underpinned by comprehensive risk management strategies.
4. **Strongly encourage partners to measure and report on both their financial and social performance,** including gender-disaggregated data.
5. **Work with partner governments to develop enabling environments for microfinance** that allow the commercial sector to effectively delivery financial services.
6. **Pursue the advancement of gender equality through provision of financial services.** Australia is committed to understanding the impacts of microfinance on women, to ensure no harm results and development impact is maximised.

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Financial services provide people with a greater ability to plan for their family's future, helping to improve their quality of life and reduce their vulnerability. *Photo: Lorrie Graham*

Financial Services for the Poor

In a world driven by the cash economy and international flows of capital, the majority of poor people still remain excluded from financial services. There are as many as 2.7 billion adults in developing countries – or almost three quarters of the adult population – who still do not have access to banking services. For the poor, this exclusion exacerbates the challenges of living on very low incomes. Their inability to borrow or save money makes finding a way out of poverty even more difficult and they are more vulnerable when adversity hits.

Financial Services for the Poor: A strategy for the Australian aid program 2010-15 sets out how Australia will broaden its focus on expanding access to financial services to help poor people improve their standard of living.

Financial services are increasingly being seen as important to poverty reduction and achievement of the Millennium Development Goals. By borrowing, saving or buying insurance, poor people can plan for their future beyond the short term. They can build up assets, set up small businesses, insure against crop losses and invest in their children's education and their family's health.

Over the next few years, Australia will double spending to increase access to financial services and broaden our efforts in line with the geographic reach of the aid program.

What is financial inclusion?

The expansion of financial services to poor or disadvantaged people previously unable to access banking is commonly known as *financial inclusion*. It focuses on providing poor clients with a choice of affordable and transparent financial services, supported by an appropriate legal and regulatory environment and sustainable financial service providers. Financial inclusion builds on the concepts of *microcredit* – small loans for poor people to help them develop small-scale businesses – and *microfinance*, which also includes savings and deposit services, payments and transfer services, and insurance.

Members of a savings and loan group in the Kathmandu Valley, Nepal, borrowed funds to establish a flour and spice mill. Profits have helped purchase additional equipment and expand operations.

Photo: James Le Compte / WEAL

The strategy recognises the many layers involved with building financial systems that serve the poor. Australia will focus on four outcome areas, working with governments, financial institutions and clients. As appropriate, Australia will partner with others working in this field, to leverage off their expertise and avoid duplication.

Outcome 1: A policy and regulatory environment that allows institutions offering financial services to the poor to enter the market and grow

Governments play a crucial role in creating a policy, legal and regulatory environment that facilitates the expansion of financial services while protecting consumers against predatory service providers. Australia will work with governments and their regulators to develop policies that promote a broad range of financial services, foster competition amongst providers, minimise barriers to entry into the market, encourage interest rate disclosure, support adoption of new technologies and effectively oversee the financial services sector. The protection of clients' rights and interests will be paramount.

Outcome 2: Financial service providers and infrastructure that have greater capacity to provide high quality financial services to the poor

It is important that financial service providers, including commercial banks, have the capacity to deliver demand-driven, well targeted services at a lower cost to clients, including to those who have not previously had access to banking.

Access to financial services is helping women set up small businesses, giving them greater control over their household income as well as new skills, self-confidence and greater leadership ability. *Photo: IFC*

This requires good governance, systems for management information and risk management, and performance measurement. Australia is committed to building this capacity, while strengthening the infrastructure that supports pro-poor financial services, such as credit bureaus, secured transaction frameworks, microfinance rating agencies and training institutes, and advocacy groups.

Outcome 3: Innovative models of financial service provision that are used effectively to extend outreach to underserved regions and groups

New technology is creating opportunities to transform the financial services industry. Mobile phones and branchless banking allow people in remote and rural communities and with low literacy to access services securely, quickly and cheaply. Australia will support the adoption of these and other technologies and promote partnerships between bank and non-bank institutions and technology companies to encourage innovative service delivery.

Outcome 4: Increased capacity of clients to understand and utilise financial services effectively

Financial education can improve people's ability to make informed decisions so they can take advantage of financial opportunities and plan for their future. Without this, it is hard for people to use financial services appropriately and with confidence. They are also more vulnerable to exploitation and at risk of going into too much debt, which can push poor people further into poverty. Australia will support financial education for the poor and will undertake research to understand the impact of targeted financial literacy programs.