Perspectives on Financial Inclusion from Mexico

Keynote Address by

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Good evening to everyone. I would like to thank the SWIFT Institute, the Ash Center for Democratic Governance and Innovation, and the Mossavar-Rahmani Center for Business and Government of the Harvard Kennedy School for organizing this conference and for inviting me to participate in this important event. I want to give a special acknowledgement to Mr. Peter Ware, Director of the SWIFT Institute, who has driven this project from the outset and played a central role in coordinating tonight's event. Thank you very much Peter.

Information and Finance[1]

Financial inclusion is today a fundamental issue in terms of economic growth and a basic concern for poverty alleviation. Roughly speaking, half of the world's adult population (around 2.5 billion adults) does not have access to formal financial services. [2] The "unbanked" are disproportionately located in low-income countries. It is estimated that 80% of the adult population in Sub-Saharan Africa is unbanked, while the mean in the developed world is 8%. The equivalent figures are 59% in East Asia, 58% in South Asia, 65% in Latin America, and 67% in the Arab States.[3]

These figures pose many challenges for both the researcher and the policy maker. The former must make sense of the magnitude of the financial exclusion phenomenon and assess its implication in terms of welfare costs and loss of economic potential. The latter must address what actions are warranted. In my talk tonight, I hope to provide some perspective on these issues by centering my comments on some experiences from Mexico.

Basic economic intuition suggests that social costs are high enough to warrant significant public action. Indeed, finance rests at the center of economic

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[1] I would also like to acknowledge Jorge Quintana for his competent assistance in the preparation of this paper, from where the speech is drawn.

[2] See Chaia et al. (2013)

[3] *Ibid*.

activity. Agents' decisions are always based on a dynamic balancing between resources available and consumption needs. The financial sector, ideally, provides the means necessary to implement the resulting program and to adjust it when unanticipated events occur. It may seem an oddity, then, that so many should be excluded from low-cost services which are welfare-increasing.

For some time there have been two contrasting views on this issue. On the one hand, some argue that at very low levels of income people do not engage in financial planning of their consumption or productive time profiles; because they live on an almost daily basis, poor people exhibit a sort of myopic economic behavior and simply do not demand the kind of financial services that higher-income individuals do. The other view argues that financial institutions have been unable or unwilling to provide the kind of financial services that low-income individuals require; financial exclusion would then reflect a problem of access rather than a lack of demand.

Today, substantial progress in data collection and much research on the subject has provided robust evidence on this issue. A broad consensus seems to be emerging: Repressed usage of financial services by the poor reflects limited supply much more than low requirements. So, why is the demand for formal financial services not being met on what needs to be a very large scale?

The first reasonable hypothesis corresponds to a standard case of market failure. In a classic paper,[4] Joseph Stiglitz and Andrew Weiss explained why banks limit the supply of credit to people willing to borrow at or above the market rate of interest. In the presence of information asymmetries, adverse selection and moral hazard lead banks' expected profits to decline past a certain level of interest, as higher interest rates charged on loans are steeply correlated with higher risk profiles of potential borrowers. Given the absence of enforceable collateral contracts, banks find it optimal to limit the amount of loans offered not

[4] Stiglitz and Weiss (1981).

by increasing interest rates, but by tightening lending standards. These policies are disproportionately skewed against the poor and can be reinforced by deficient regulatory arrangements which frequently stand at odds with socioeconomic realities.

However, while the influence of adverse selection and moral hazard on the rationing of credit to the poor is intuitively important, it has proven difficult to untangle its empirical relevance and the practical implications for effective policies.[5] Significant difficulties are involved in building reliable data bases; modeling behavioral interactions between lenders and borrowers is a challenge; and serious field experimentation is a daunting task. It should then not come as a surprise that we lack clearly defined and well-grounded guidelines for an effective design and implementation of policies able to mitigate the market failures intrinsic to financial contracts.

Finance and Growth

The positive link between financial development and economic growth is today well established. Ever since the seminal works by Shaw (1973), McKinnon (1973) and later King and Levine (1993) began to penetrate the question, researchers have been tracing out the channels through which financial development drives macroeconomic growth.

The essential function of the financial sector is to ensure an efficient intermediation of resources. Its *raison d'être* is to channel society's savings towards their most productive ends. As the financial sector develops and becomes more efficient, productivity gains drive greater investment and generate employment, supporting aggregate demand. The economy grows faster, which enables poverty alleviation and inequality reduction. So the story goes…

[5] A notable effort in identifying the weight of adverse selection and moral hazard in limiting access to low-income groups is Karlan and Zinman (2009), which finds moral hazard to be the more significant factor.

although many may argue that the financial sector has not performed in recent years as efficiently as theory would suggest.

The precise connection between financial inclusion and macroeconomic growth is less well-understood. Early studies on financial development proxied this concept though measures of financial depth, most commonly credit to the private sector as a percent of GDP.[6] But deep financial sectors are not necessarily inclusive ones.[7] And credit is not the only financial service from which poor people are excluded: saving instruments, payment systems and insurance products may be as important.

The lack of systematic data on financial inclusion has greatly encumbered quantitative analysis and the question of whether the incorporation *per se* of the world's poor into the formal financial sector necessarily increases an economy's productivity is one that still lacks conclusive evidence. Likewise, the pathways which drive the process to accelerate economic growth, alleviate poverty and reduce income inequality are still to be universally identified.

All this notwithstanding, it is becoming increasingly apparent that the process of financial inclusion, when adequately carried out, can have a positive effect on people's welfare and on economic development.[8]

Policy

It is widely acknowledged that expanding access to formal finance represents an extremely efficient means towards increasing individual welfare.

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[6] Wachtel (2003) lists four measures conventionally employed by early studies in financial development and economic growth relating to depth (ratio of liquid liabilities of the financial system to GDP), credit (ratio of bank credit to bank credit plus central bank credit), private credit as proportion of total credit (claims on the nonfinancial private sector to total domestic credit) and total private credit (gross claims on private sector to GDP).

[7] See Demirgüç-Kunt, Beck and Honohan (2008).

[8] See Demirgüç-Kunt, Beck and Honohan (2008) and Cull, Demirgüç-Kunt and Morduch (2013) for comprehensive reviews on these issues.

But, while the issue is steadily gaining importance in the policy agenda, we lack precise guidelines to direct the process of financial inclusion.[9]

Consequently, in many parts of the globe, we have seen the repetition at the local level of models considered internationally successful as if they were universally applicable. Unsurprisingly, their success has varied widely. Indeed, as Abhijit Banerjee and Esther Duflo have eloquently argued,[10] several public programs have failed to fulfill their objectives precisely because they failed to take into account the characteristics and context of targeted groups and did not evaluate programs' net impact on the welfare of their participants. This broad fact, professors Banerjee and Duflo suggest, should prompt a "rethinking" of the strategies policy makers rely on to alleviate poverty. The same applies for policies to expand financial access.

In this sense, financial inclusion is an extremely promising field study, not simply because of the several questions which remain unanswered, but because a better understanding can provide the necessary guidelines for an effective policy design.

While we commonly refer to the provision of financial services to low-income individuals as "financial inclusion," finance is somewhat of a *catch-all* term; and the expansion of services to the poor has been mainly achieved through business models which focus on a single financial service, rather than the formal financial system as a whole. In this sense, how to restructure this system to wholly incorporate the excluded population in a cost-effective way remains a puzzle.[11] We need to move beyond *ad hoc* models when their potential benefits have been exhausted.

[9] A recent effort in this vein has been the G20's *Principles for Innovative Financial Inclusion* launched in 2010. This is certainly an important cooperative effort, but it is important to note that it is far from representing clear policy guidelines.
[10] See Banerjee and Duflo (2011).
[11] See Demirgüç-Kunt, Beck, and Honohan (2008), pp. 133-139, for discussion.

This should not suggest that alternative means to service the excluded population's needs are necessarily misguided; but it is a mistake to think of foreign experiences as "cookie-cutters" for local programs. While salient international cases have a lot to contribute to the design of effective policies around the globe, they must be tailored to local structures and institutions. Analytical tools should be developed to constantly evaluate programs' results on welfare-based criteria. This can only be done by truly understanding the decisions the unbanked face and the options available to them.

On the other hand, greater achievements will likely require a broader approach. Hence, we require clearer guidelines to give the formal financial system the means to service *all* segments of society. One would hope for a more universal approach, but we don't see it emerging yet.

In short, analysis strongly suggest that the "universalization" of financial access should be a welfare increasing shift; however experience has proved that this is more easily said than done. To expand on these issues, I would like to present two examples from Mexico, which will hopefully provide greater insight into these matters.

Mexico: Context

Mexico seriously lags behind in financial depth and inclusion by both international and regional standards. According to the World Bank,[12] in 2012 only 27.4% of adults had an account at a formal financial institution, just below Bolivia's 28.0%; a country with a GDP per capita one fifth that of Mexico. The average for Latin America was 39.2%.[13] In 2011, total credit to the non-financial

[12] Data from Global Findex Database; see Demirgüç-Kunt and Klapper (2012) for a description and assessment of the database.

[13] While Findex data is very useful, given its geographical coverage, the issue of accurately measuring access to finance is not without difficulty. In the case of Mexico, estimates of the financially excluded vary widely. For instance, Casanova (2012), by a *points of access* criterion, calculates that 30 million adults do not have access to finance, while the Global Findex datum

private sector was a meager 13.95% of GDP, the lowest level of the largest nine economies in Latin America.[14]

This extremely low level of financial penetration is largely the result of the severe financial crisis the country experienced in the mid-90s. Though not huge, bank credit over GDP at the beginning of 1995 was around 36%. This figure hit a low of 6.5% in 2002 but had been recovering steadily since then, until the global financial crisis occurred a few years ago.

As many of you may know, even though the impact of the great financial crisis in the United States had a severe effect on the Mexican economy, the country managed to ride out the crisis well by means of a strong macroeconomic framework and appropriate policies. Since then the country has reached a very good standing among investors.

This has facilitated a robust economic recovery, accompanied by a sustained expansion in the credit market. However, it has remained apparent that the financial sector continues to be under-developed, relative to its regional and income per capita level peers. Somewhat unsurprisingly, while gains in macro-management have been significant, total factor productivity has remained stagnant.

By any measure, Mexico's financial system is not realizing its basic role of supporting growth and enhancing efficiency. "Access to financing" is among the factors consistently cited as most problematic for doing business in the World Economic Forum's Global Competitiveness Report; the central bank's survey of lending conditions shows that more than half of firms report access to credit as a

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cited above implies 58 million adults are excluded. Measurement of financial exclusion is certainly an area with much potential for improvement. For discussion see Cull, Demirgüç-Kunt and Morduch (2013), pp. 43-133.

[14]Data from the Interamerican Development Bank. The nine largest economies in the region in 2009 were Argentina, Brazil, Chile, Colombia, Mexico, Paraguay, Peru, Uruguay and Venezuela.

"limiting" factor to their operations. It is, thus, a matter of paramount importance to further develop the financial sector towards a deeper and more inclusive system.

The progress done so far has been rather unimpressive. As in many other countries, several of the most popular models of financial inclusion have been imported to service the excluded population, while the formal banking sector has not been able to penetrate lower-income groups' demand for financial services. To restructure the system in line with a more growth-supportive role, this strategy should be reevaluated. Two examples which provide insight along these lines stand out: microfinance and mobile banking.

Compartamos **vs. Grameen Carso**

Although the practice of importing popular foreign models as if they were *one-size-fits-all* solutions is mostly associated with policy makers, Mexico provides a curious example of this phenomenon from the private sector.

The story begins in the spring of 2007, when Mexico came to international attention after the bank *Compartamos*, a microfinance institution, raised USD 467 million in an IPO in the Mexican stock market.[15] The bank had started out in 1990 as a non-profit NGO devoted to promoting economic development through mutually guaranteed small-value loans, a model common to many microfinance institutions. But as the institution grew, its model shifted towards profit maximization.

Its lending model is basically no different from the conventional microfinance institution. As lower-income groups do not typically have physical collateral to pledge, loans are extended to groups, employing "social capital" to

[15] See Banerjee and Duflo (2011), p. 166.

mitigate moral hazard and adverse selection. This simple model has thrived worldwide and proved particularly profitable for *Compartamos*.

Since 2000, the bank's loan portfolio has averaged an annual growth of over 50%, its repayment rate has remained impressively high, around 98%,[16] and its market cap has increased to by 16% (in MXN terms) since its initial listing in 2007 to the end of 2011.[17] However, *Compartamos'* success story can be explained not so much by the microfinance institution model *per se* than by the firm's specific characteristics.

As you may recall, *Compartamos'* IPO set off an intense public debate regarding the prime objective of microfinance institutions. Some postulated that microfinance should always be socially oriented and forgo making and distributing profits in benefit of the "social good"; others argued that a sustainable expansion of financial access should not be based on public subsidies or private charity but requires the development of profitable models accountable to their stockholders.

Of the former camp, the most engaged advocate was certainly Muhammad Yunus, the pioneer – even the inventor – of microfinance and winner of the 2006 Nobel Peace prize. After *Compartamos'* IPO, Mr. Yunus argued that the bank was a damaging example for microfinance and financial inclusion at large; he called the bank's executives the "new usurers" for the high interest rates charged by the bank, which averaged over 70% since 2003.[18]

To prove his case, Mr. Yunus established in 2008 Grameen Carso, a non-profit microfinance institution faithful to the original socially-oriented model.[19]

[16] Data obtained from MixMarket.
[17] Data reported by Bloomberg.
[18] Data from MixMarket.
[19] The tendency to think particular models universally implementable was expressed in Grameen Trust's newsletter announcement of the launching of Grameen Carso in Mexico through the following phrase (emphasis added): "Grameen Carso will provide collateral-free

His associate in this enterprise is Carlos Slim, the world's wealthiest individual, according to *Forbes Magazine*.

When Grameen Carso was established, it set out the explicit goal to issue microcredit loans at interest rates lower than those currently offered by other microcredit providers in Mexico.[20] But, so far, Grameen Carso's performance has apparently not been any different from the average microfinance institution in Mexico.[21] Arguably, Grameen Carso represents the best proponent of the socially-oriented microfinance institution in Mexico (given both the enterprise's origins and its financial backstop). Why, then, has it failed to out-perform the "usurious" *Compartamos* bank?

I would suggest that the institution's underwhelming success owes to a fundamental misreading of the county's credit market and illustrates the model's limitations given Mexico's characteristics.

As Grameen Carso placed much emphasis on the need to lower interest rates, presumably, Messrs. Yunus and Slim regarded *Compartamos'* commercial success as resulting from its operating in a monopolistic market structure. Thus, by increasing competition in the sector, Grameen Carso likely thought, it could reduce rates and disproportionately gain market share.

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microcredit at reasonable terms to the poorest in Mexico *following the successful Grameen Bank Approach (GBA).* See http://www.grameentrust.org/dialogue/dialogue71/countryreport4.html

[20] See Maggio (2009).

[21] ProDesarrollo (2012), employing a sample of 85 microfinance institutions (MFIs), reports that at the end of 2011 *Compartamos* Bank, with 2.4 million clients, represented 37% of the sector; MFIs with less than 50,000 clients (Grameen Carso's category if it were in the sample) represented 9%. While Grameen Carso does not report historical data or data on returns on assets, the figures on members, loans and portfolio available at http://www.grameentrust.org/bot.html for November 2012 allow a comparison with similar MFIs in 2011. On average, Grameen Carso has more clients (although the difference in dates plays to its favor) than MFIs of the same size (28,000 vs. 20,000) and age (28,000 vs. 10,000), but consistently gives smaller loans (USD 217 vs. USD 341 and USD 217 vs. USD 399, respectively).

But, as it turns out, there is a great deal of competition in the microcredit market in Mexico. Microenterprises constantly receive funding from suppliers,[22] informal lenders, and family and friends. [23] Additionally, it is estimated that there are over 1,000 microfinance institutions in the country.[24] And, these institutions do a relatively poor job in competing with alternative sources of credit. Repayment rates vary widely within the sector and very few borrowers are able to "graduate" to access individual loans.[25]

It is much more likely that *Compartamos'* success is due, not to a monopoly status, but to some other characteristic of its business model. Perhaps the bank's orientation towards profit maximization has allowed it to reduce operation costs drastically.[26] Also, the bank may employ dynamic incentives very efficiently, as illustrated by the steady increase in the size of the average loan per borrower, which went from USD 66 in 1998 to USD 450 in 2008.[27] It may even be the case that the common association of the bank with the *Legionnaires of Christ*, who reputedly have a large stake in the company,[28] play to firm's favor in an overwhelmingly catholic country as Mexico. Certainly, religious ties among the borrowers could serve as a form of social capital, contributing to low default rates.

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[22] Banco de México (2013), reports that in 2012Q4 only 25.2% of small and medium enterprises received credit from the formal banking sector, while 84.2% received credit from suppliers. It is not unlikely that this pattern is replicated for informal and microenterprises.

[23] The first edition of the National Survey on Financial Inclusion (CNBV and INEGI [2012]), conducted in 2012, documented that 33.7% of the adult population receives informal credit, while only 27.5% receives credit from the formal financial sector. Note: the survey was carried out exclusively to households; data are those reported by the CONDUSEF (available at http://www.condusef.gob.mx/index.php/prensa/comunicados-2012/840-como-usamos-los-mexicanos-los-servicios-financieros) as the survey is not publicly available yet.

[24] Only 83 microfinance institutions report data to MixMarket; Grameen Carso is not among them.

[25] According to MixMarket data, write-off rates in 2011 were, on average, 6% but the reported figures vary from a low of 0% to a high of 47%.

[26] According to MixMarket data, in 2011 *Compartamos*' operation costs / assets was 29.3%, while that of the average microfinance institution was 39.6%.

[27] Data reported by MixMarket. For a discussion on dynamic incentives in microfinance, see Demirgüç-Kunt, Beck, and Honohan (2008), pp. 118-132.

[28] This is an association frequently stated in the Mexican press, but also made by foreign sources such as the New York Times (http://www.nytimes.com/2010/05/13/world/americas/13maciel.html?_r=0).

Any or all of these examples could help explain the organization's success. The main point is that any one microfinance institution's success is more a matter of special factors than general logic. If this is indeed the case, one more microfinance institution, its social good directive notwithstanding, is unlikely to make the difference in terms of financial inclusion in Mexico.

The microfinance model was largely created with the aim of providing loans to capital-constrained microentrepreneurs, whose business growth potential was believed to be greatly under-utilized. The success of the model worldwide has, to some extent, vindicated this original purpose as low-income borrowers have consistently proved their capacity to repay high interest rates; a feat which owes much to the steep return on investment small businesses in poor regions typically face. But in Mexico, small enterprises are not "starved for capital," strictly speaking. The principal problem is that information asymmetries seem to be so significant, that only a limited number of firms have access to formal banking services.

The implications for policy are important. Several microfinance institutions in Mexico receive a public subsidy.[29] This policy is largely based on the experience of other lower-income countries, where microfinance institutions provide the only alternative to money lenders which commonly operate as monopolies in regions geographically isolated and technologically underdeveloped. In these contexts, it makes sense to provide public funds to facilitate financing investments at a lower cost and try to spur regional growth and development.

In Mexico, however, this is not typically the case and it is not clear what the aggregate effects on welfare are or how public money distorts incentives for

[29] The *Programa Nacional de Financiamiento al Microempresario* (PRONAFIM), for example, is a public fund specifically designed for this purpose. In 2012 (data up to September), PRONAFIN granted 722.3 million pesos to microfinance institutions. (See http://www.pronafim.gob.mx/temp/pws1220.asp)

loan repayments. In these circumstances, public intervention may be more beneficial if it could help small enterprises transit to more formal business models, which would certainly increase their chances of accessing formal credit from the banking sector. This is a step which has yet to be accomplished.

The Case of *MiFon*

The considerations on microfinance illuminate the difficulties faced by any broad attempt to incorporate people into the formal financial sector in Mexico. Specifically, if it is difficult to explain why some microfinance institutions are successful, it is still more challenging to identify the specific needs of the unbanked population. This is a dimension for which mobile banking has large potential benefits.

As mentioned above, a recent survey[30] indicates that in Mexico only a small fraction of the population employs the formal financial sector. More revealing, however, is the amount of financial services being provided outside the formal financial sector. Policies aimed at promoting financial inclusion tend to envision the financially excluded as lacking any means to satisfy their financial needs. This may be the case for some services and countries or regions, but in reality there is a great deal of variance in the informal financial services available to the unbanked around the globe.

In Mexico, the figures point to a strong presence of the informal sector in the provision of financial services to the general population. This may be a dimension of the problem which is missing from the agenda on financial inclusion. If informal businesses and unbanked individuals have developed mechanisms outside the formal financial sector to manage their finances, it is not clear that they perceive as great a benefit as we tend to attribute to their incorporation into the formal financial system.

[30] CNBV and INEGI (2012).

Alternatively, they may estimate a net benefit when comparing formal versus informal service providers, but it is unclear whether the "transition costs" are so high as to be prohibitive. After all, informal arrangements typically rely on an element of trust to establish long-term relationships. So, it is possible that the financially excluded would be reluctant to lose the "credit history" they have established over time in the informal sector and start from scratch in the formal sector.

In short, what is missing is an evaluation of the real marginal benefits people stand to receive from accessing the formal banking system. And, more specifically, which services are they most likely to benefit from? It may well be the case that the formal banking sector in Mexico has been unsuccessful in incorporating the low-income groups because it lacks the adequate means to compete with the informal sector. Repeatedly, the formal banking sector has tried to penetrate the lower-income segment of the population and failed.

A recent and ongoing attempt to increase our outreach to low-income households at Banorte is a mobile banking product called "MiFon." Mobile banking, it is commonly thought, provides large benefits for its users while giving transactions information to its providers, and so may be an efficient strategy towards overcoming information barriers.

From the users' perspective, the system greatly facilitates both transfers and savings. Without the alternative of saving in electronic money, individuals without access to the formal financial sector commonly rely on "under the mattress" type strategies. Also, as mobile banking greatly reduces the cost of money transfers for the financially excluded, it serves to stimulate the trade of goods and services as it becomes much easier and risk-free to make and receive payments. The service also has large potential benefits to people who depend on remittances, especially in rural areas, and reduces the transaction costs of informal risk-pooling mechanisms, which the poor typically develop in their social networks.

From the provider's perspective, supposing it is a financial institution, mobile banking helps to attract potential customers of banking services and accumulate information cheaply which could help sort individuals based on their level of risk, thus potentially mitigating adverse selection barriers.

To test the feasibility of our product at Banorte we carried out a pilot project in Santiago Nuyoó, a very poor and secluded rural village in the state of Oaxaca with 900 inhabitants. Working in association with Telecomm Mexico, MasterCard, RêvWorldwide and CGAP (Consultative Group to Assist the Poor), we documented the program's potential.

The original intention was to assess the product's feasibility and its likely reception by the general population. However, the behavior of the mean consumer has turned out to be very different from that of the pilot project's participants and this experience offers some perspectives on the difficulty of expanding the formal financial sector's coverage.

The people in Santiago Nuyoó benefited most from many more points of access to make withdrawals, through agents authorized (with this operation representing 41% of total usage), while the wider population continues to prefer ATM's for this purpose (36% of total use of the product). This is probably due to the fact that points of access in the state of Oaxaca are much lower than the country average and so the marginal benefit from increasing them was much higher than in other parts of the county.[31]

[31] CNBV (2012) reports that in 2011 there were 1.3 bank branches per 10,000 adults in Oaxaca, while the national figure was 2.0. In terms of ATMs per 10,000 adults, the corresponding figures were 2.0 and 4.6, respectively. It is likely that both these figures were much lower in Santiago Nuyoó.

SMS transactions, also, have been almost unutilized by the general population (6% of total use), while they were highly employed in the pilot project (28% of use). This too can be explained by the village's characteristics: since its transportation infrastructure is very poor in comparison to the national average, the service provided larger reduction in transaction costs than for the general population.

Interestingly, the average balance held in the service by the general population (US$ 30) resulted much higher than what the pilot project suggested would be the case (US$ 10). This was unexpected and probably indicates that the demand for saving products of the general population is not being adequately met. Perhaps this owes to the fact that, intuitively, the informal sector is not well equipped to provide savings products. In the formal sector, high commission charges, or a perception thereof, may put people off using the banking sector, but in the informal sector the barrier is greater as there is no instance to appeal to in case of theft of savings.

In this case, it seems that the unbanked population has much more to gain from a low-cost means of secure savings than lower transaction costs. The 2012 National Survey on Financial Inclusion lends some support to this diagnosis, reporting that only 35.5% of adults save through the banking system, while 43.7% do so outside the formal financial sector, mainly by storing their money at home. Tellingly, the main vehicle through which individuals save in the formal sector is payroll accounts (60.5%).[32] This suggests that informality plays a large role in the usage of formal services. In Mexico, this paints a dismal picture for the formal financial sector. INEGI (the national statistics bureau) estimates that, at the end of 2012, 59.9% of the workforce was employed by the informal sector.[33]

[32] See CNBV and INEGI (2012).
[33] See INEGI (2013).

Two lessons stand out from this experience. The first is that an adequate strategy to incorporate of the unbanked population into the formal financial system must take into account *all* the costs people face. In countries with a large informal sector, one needs a greater understanding of the services provided outside the formal sector and why the informal sector may have a competitive advantage.

The second lesson is that regulation should support the development by commercial banks of products which help to better identify the specific needs of the unbanked population. In this area, mobile banking, while probably not a definite solution, represents a promising example. In the case of MiFon, the program is still in experimental mode as we have yet to fully understand the specific services which unbanked households demand. But, the case exhibits the importance of adequately identifying the areas where the unbanked population has most to gain from transitioning to the formal system. This dimension should be incorporated into the design of policies for greater financial inclusion.

Perspectives

The examples developed set out more questions than solutions. But they also draw attention to aspects which the agenda towards financial inclusion in several countries is missing or should avoid.

Some tentative conclusions are that the success of internationally salient experiences is based on how they resolve particular characteristics of the context in which they operate and it is a mistake to think them universally exportable; as was the case with microfinance. The strategy of importing models to provide specific financial services is unlikely to get the financial inclusion agenda very far.

Significant progress towards greater financial inclusion requires the development of clear guidelines to expand the coverage of the formal sector and appropriate welfare-based tools to evaluate programs. Policy makers should pursue financial inclusion by employing these tools to allocate public resources where they are likely to have the greatest marginal benefit and not towards the most internationally salient examples.

As the general guidelines to direct policy design are still missing, a constant and rigorous evaluation of on-going programs is required to identify the avenues which entail the greatest benefit to the financially excluded. Banks have long tried to surmount the information barriers which limit the provision of financial services to the general population and failed. Progress in this direction means helping the informal sector transition to a formal operation and also finding a way to endow the financial sector with the means to service the informal population in a cost-beneficial way. This can only be done when the needs of the unbanked population are properly identified and the correct services offered.

Policy makers rightly favor the expansion of access to the formal financial system. Yet, little emphasis is placed on accurately identifying the cost associated with the transition for the unbanked population. This is an area where more work could prove fruitful. There is much to gain from expanding the coverage of the formal financial sector, but it is certainly true that not all the ways to get there imply the same costs.

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