Making financial markets work healthily for the poor

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The financial sector has been an early site for the development and application of market development approaches, since the work of FinMark Trust in the early 2000s. But how does one know when a financial market is working well for the poor? Work to date has followed a clear theory of change based on increasing access to and usage of financial products through changing market systems. As poor customers use financial services, so they should be protected against shocks and enabled to climb out of poverty, in the process deepening and extending the financial system. However, as the goal of promoting financial inclusion has become mainstream policy in many countries, it has also become clearer that indicators of access and usage alone are necessary but not sufficient indicators of success. This paper seeks to highlight and present early results from an alternative application of a systemic approach which extends the linkages from access and usage to welfare changes which result, using the lens of financial health of users. This lens may have significant implications for focusing interventions and measurement in making markets work for the poor (M4P) programmes, emphasizing behaviour change over a narrow product focus only.

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The term ‘financial inclusion’ did not exist ten years ago. It first took hold following the UN International Year of Microcredit in 2005 out of a growing sense that there was a need to look beyond microcredit, which had become a recognized part of the development agenda, to how to build ‘inclusive financial sectors’, in the words of a UN publication of the time (UNCDF, 2006). These inclusive financial sectors would have a diverse range of products beside credit – such as savings, insurance, remittances – and a diverse range of providers of the services. The quest for diverse products and providers has become part of the modern financial inclusion agenda. Beth Porter, a UNCDF expert, has recently defined this agenda as ‘access for all to a wide range of financial services – savings, credit, insurance, and payments – provided responsibly and sustainably by a range of providers in a well-regulated environment’ (Porter, 2015).

At around the same time, early donor-funded programmes sought to apply the logic of the making markets work for the poor (M4P) approach to the financial sector. The financial inclusion framework suggests that a financial system works well for the poor when it provides access to products that are tailored to their needs, which in turn increases their financial health and is reflected in observable improvements in their welfare.

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sector. The M4P approach introduced the concept of thinking systemically about the impact of interventions; and in particular, embracing a flexible set of tools to get leverage for change so that more poor customers would be included in the formal financial sector. The 2004 FinMark Trust booklet, *Making Financial Markets Work for the Poor* (Porteous, 2004), summarized the early learning from applying the approach to financial inclusion in Southern Africa. Subsequent M4P programmes in the financial sector were started in Kenya, Tanzania, Uganda, Nigeria, Rwanda, and more recently, Mozambique and Zambia. All of these programmes, including FinMark Trust, have come to frame their core missions in terms of advancing financial inclusion.

From being perceived as a niche development approach, the financial inclusion agenda has taken hold in many places in the past 10 years. On the policy front, many governments and financial regulators have come to embrace the agenda as a core policy objective. The Alliance for Financial Inclusion, formed in 2008, now reports 90 developing-country members and 54 institutions that have made so-called Maya Commitments in support of the inclusion agenda. The interest and commitment to financial inclusion has not only come from government agencies. In late 2014, newspapers and journals with a large mainstream following in business such as the *Wall Street Journal* (Casey, 2014) and *The Economist* (2014) have featured articles on financial inclusion, often highlighting the role of mobile phones and technology to enable financial as well as social inclusion. This increased interest has culminated in the private sector making commitments, too: at the 2015 World Bank spring meetings, in support of Bank President Jim Yong Kim’s goal of universal financial access by 2020, large financial players such as MasterCard Worldwide and Visa International, joined by a phalanx of big banks, queued up to announce commitments which total well over a billion new account holders in the next five years.

Beyond mainstream interest and future commitments, we have also seen significant action aimed at widening access. Ten years ago, the UNCDF could bemoan that ‘Nobody knows the proportion of people in developing countries that use the services of financial institutions’ (UNCDF, 2006); now a wide range of surveys takes place regularly at country levels, capped at international level by the World Bank’s Global Findex survey which for the first time measures financial inclusion on a consistent basis across 142 countries. In April 2015, the second Global Findex survey reported that the proportion of adults banked in the world had risen from 51 per cent to 62 per cent since 2011, meaning that some 500 million more people were now financially included, at least at a very basic level. Even among the poorest 40 per cent of the population, inclusion had increased, though the survey showed that more than half of the adults in this group are still unbanked (Demirguc-Kunt et al., 2015). Commenting on these findings, Kelly and Rhyne (2015) of the Center for Financial Inclusion assert: ‘The world – every region, income level, and “slice” of the global population – is moving toward greater financial access.’

For market system development advocates, these large increases are prima facie evidence of systemic impact – at least at the first rung of the theory of change.
ladder, namely access. However, for most, inclusion measured by access alone is not enough. As Beth Porter (2015) also clearly states it:

Financial inclusion is a means to an end – or many ends – rather than an end in itself. As an enabler, greater financial inclusion contributes to development goals of poverty reduction, economic growth and jobs, greater food security and agricultural production, women’s economic empowerment, and health protection, inter alia.

These development goals remain the stated headline reasons for governments and donors to support financial inclusion programmes. However, there has been conflicting evidence of the ways in which financial inclusion links to these goals.

In light of research into the impact of financial inclusion over the past 10 years, this paper first reviews evidence about the linkage of financial inclusion to development goals. Second, because the linkages are complex and the outcomes not always clear, the paper introduces the concept of financial health, following the groundbreaking work of the Center for Financial Services Innovation (CFSI, 2015), as a lens which focuses on a useful alternative way of thinking about the theory of change underlying the market development approach. This lens may allow intermediate outcomes to be viewed and used to appraise programming for more effective facilitation of pro-poor change in the financial sector. While CFSI has applied this lens to the topic of inclusion in its home market, the United States, this paper argues that the concept is relevant and can be helpful in developing countries, too, and tests this with an early and preliminary application to Kenya, using household data from the 2014 Kenya Financial Diaries dataset.

The M4P approach to financial markets

The M4P approach has been described eloquently elsewhere, including in previous editions of this journal such as the article by Elliott et al. (2008). The general characteristics are now well known, and still widely desired: systemic change on a sustainable basis, proven in part by large-scale impact over time. In an early paper, one of us proposed that:

the ultimate objective of (M4P) is the expansion of real choices offered to poor people by markets. Necessary indicators of this are:

- Usage by poor people of a service or product is increasing;
- Poor people have alternatives;
- A market in the service in question is considered acceptable (Porteous, 2004).

That paper explained that the second indicator above was necessary to test for monopoly or captive provision, which would not be market-based and may well not be sustainable; and the third, to rule out areas in which societal agreement precluded a market – for example, child labour or prostitution in many countries. But the core indicator isolated above was the first: active and increasing usage by the poor.
**M4P results chain in the financial sector**

In the financial sector, M4P results chains typically rely on the following links of inputs to tiered outcomes, shown also in Figure 1.

- First, interventions which reduce barriers on the demand and supply sides will enable access to appropriate financial services.
- Second, increased access will lead formerly excluded people to use the new financial services.
- Third, increased usage will have positive effects at the household or micro-economic level through either a risk-reduction or an opportunity pathway. For the former pathway, certain financial services (such as insurance and savings, but also conceivably credit and remittances) smooth household consumption in the face of income uncertainty and volatility as well as more substantial shocks, preventing a slide into destitution. For the latter, tapping ‘usefully large lump sums’ (whether accumulated through savings or via a loan or even a remittance) enables households to invest in income generation or wealth creation opportunities, such as their own micro or small enterprises but also education or housing. At this micro-level, there could also be extra-household effects through creating informal jobs for others in household enterprises.
- Fourth, at the systemic or macro-economic level, once enough formerly excluded people are financially included, then the financial system as a whole will broaden and deepen (through more deposits held in formal financial institutions and greater formal credit creation). This financial deepening will increase economic growth and, under particular economic structures, enable further job creation.

![Figure 1 M4P typical results chain](http://www.developmentbookshelf.com/doi/pdf/10.3362/1755-1986.2016.001 - Helen Taylor <ben.taylor.cambridge@gmail.com> - Saturday, May 07, 2016 12:00:34 AM - IP Address:213.55.105.16)
Financial sector deepening-type logframes

The logframes of financial sector deepening (FSD)-type programmes in Africa usually employ core logic similar to this. Most have economic growth or poverty reduction as headline goals, yet their most direct and measurable headline objectives are usually expressed through relatively large numbers of formerly excluded people who get access, assuming the existence of the links in the results chain. For example, FinMark Trust’s first logframe set the then impossible seeming number of 2 million more people with access, a figure easily exceeded before the original target date, and, since 2004, the South African banking system has expanded to include some 13.7 million people to reach the level of 75 per cent banked by 2014 (FinScope, 2014: 22). Equally, EFInA in Nigeria has exceeded its targets of reducing the number of excluded in that country – the most recent large-scale national survey in 2014 showed that 45 million adults were now using at least one formal financial product, more than double the 20.5 million recorded in 2008 at the start of the programme (EFInA 2014).

In terms of largest national percentage increases, the star performer is still FSD Kenya: the proportion of people using formal financial services more than doubled between 2006 and 2014 from 27 per cent to reach 67 per cent. This was largely due to the success of mobile money in that country; the percentage of adults banked rose from 15 per cent to only 33 per cent over the period, although the lines of distinction between bank accounts and mobile money accounts have blurred. In many ways, Kenya represents the high-water mark of what market enablement can achieve; regulatory openness combined with some support for suppliers has meant that for the first time in a low-income country, reaching almost universal financial access by 2020 is a realistic – even likely – goal.

However, while Kenya is regarded as a leader in financial inclusion, its general development indicators have not kept pace with this apparent progress. Of course, financial inclusion never promised to be a panacea for complex and widespread societal ills, but the juxtaposition in Kenya of inclusion success with ongoing developmental challenges is striking, and the same could be said of Nigeria and South Africa among countries with M4P programmes.

So, in the light of evidence accumulated since 2005, beyond the first link in the inclusion results chain, how strong are the higher-order links?

Link 2: access to usage

Traditional microfinance assumed that, because of repressed demand, once excluded customers were offered a useful financial service, they would use it on an ongoing basis: indeed, successful microfinance programmes experienced a high incidence of repeat borrowers. However, the conversion of access to usage has been one of the most vexing links for providers over the last decade. The signs of this can be seen in the high proportion of dormant basic bank accounts – the GAFIS project reported a range of 25–90 per cent among large banks in five developing countries (BFA, 2013) – but the problem is not restricted to banking: 70 per cent of registered mobile money accounts recorded no activity in the preceding 90 day period in
2014 according to the industry body GSMA (GSMA, 2015). In the insurance sector, too, there is evidence of the equivalent problem: a high proportion of low value policies which either are never taken up or else lapse within short periods after take up.

To be sure, the reasons why this link may fail are many and varied – including poor product design and poor execution of a service. One lesson drawn from the great success of the M-Pesa mobile money service introduced in Kenya in 2007 remains that, provided a formal product really can address customer pain points better than an informal one, then scale usage is indeed possible. In this case, mobile person-to-person remittances supplanted previous informal transfer methods such as using bus drivers as couriers. It is striking that M-Pesa is now actively used by 67 per cent of adult Kenyans from across all economic strata; but it is also worth noting that digital payments using M-Pesa (still mostly for domestic remittances and airtime purchases) as yet make up a very small proportion of the transactions of poor households – less than 1 per cent in a typical year (Zollmann and Cojocaru, 2015).

However, transaction counts alone are not a direct proxy for meaningful usage. A financial service need not dominate a user’s transactional profile to provide levels of usage that deliver value. If M-Pesa’s main value proposition is helping deliver remittances efficiently, just two or three transactions per month could be very meaningful.

While a slightly more complicated issue than access alone, this conversion of access to activity is an issue with which M4P programmes are familiar, and actively grappling.

Link 3: usage to poverty reduction (micro-level)

For testing the third link from usage to household benefits such as increased income, randomized control trials (RCTs) represent the ‘gold standard’ proof of attribution, but issues of price and practicality for a flexible and iterative programme all but prohibit their use in an M4P context.

However, RCTs can help calibrate the strength of this link to indicators of poverty reduction. Recently, Banerjee et al. (2014) provided an overview of the results from a battery of RCTs conducted on different microcredit programmes in six countries. These RCTs notably failed to find evidence of any systemic impact on indicators relating to income or poverty reduction. However, they also found no evidence of systematic harm either, an outcome which has some value in M4P thinking in which unintended consequences can prevail. These results are contested owing largely to the single intervention variable.

Cull et al. (2014) summarize evidence from RCTs on other specific types of financial services. There is some evidence, for example, that Malawian tobacco farmers with access to formal savings not only saved more but also cultivated more land and produced higher outputs on it. When offered access to a village bank account, with fully subsidized opening fees and no minimum balance, self-employed micro-entrepreneurs in Kenya increased not only their daily bank savings, but also their
investment in their businesses and their private expenditures. Jack and Suri (2014) found that formal mobile money users were better able than non-users to smooth consumption in the face of shocks.

On this third link, therefore, while there is some evidence of impact on poverty, there is also cause for caution in postulating the connection between financial usage and poverty impact as self-evident or proven. In particular, there seems to be a need to look beyond narrow individual services to consider more integrated effects on households. We return to this theme in the next section.

Link 4: household to macro-level

In contrast with the third link, evidence supporting the fourth link – to the macro-level – appears to be strengthening as recent CGAP research summarizes:

At the macroeconomic level, the evidence has to rely on cross-country comparisons. The well-established literature ... suggests that under normal circumstances, the degree of financial intermediation is not only positively correlated with growth and employment, but it is generally believed to causally impact growth. The main mechanisms for doing so are generally lower transaction costs and better distribution of capital and risk across the economy. Broader access to bank deposits can also have a positive effect on financial stability. However, there are some caveats. Some research indicates that the positive growth impact from financial intermediation does not hold in economies with weak institutional frameworks ... such as poor or nonexistent financial regulation, or in extremely high-inflation environments ... Evidence also indicates that the positive long-run relationship between financial intermediation and output growth co-exists with a mostly negative short-run relationship (Cull et al., 2014).

Note that some of the mechanisms described here do not necessarily link causally to poverty at all – for example, better financial intermediation may lead to faster economic growth which is not necessarily pro-poor. This is why it is important for M4P programmes which do care about the link to find new ways to re-conceptualize and measure the weaker third link in particular.

Financial health as a lens or metaphor for micro-outcomes

Pursuing quality in financial inclusion

There have been great advances in the standardization and measurement of the dimensions of financial inclusion over the past decade. In particular, international bodies of regulators like the Alliance for Financial Inclusion (AFI) recognize clearly the distinction between indicators of access and of usage, and now undertake to collect these indicators on an ongoing basis. They also make provision for a third dimension, described as quality, which aims to capture the experience of customers in respect of factors such as their financial capability, degree of choice, and form of recourse. Quality in this sense is also embedded in the second condition for markets
to work for the poor which was proposed back in 2004 – namely, that the consumer has alternatives as the basis for choice of provider or service. However, these quality indicators are much harder to define and collect: they often end up focused on measuring the effectiveness of consumer protection (such as number of complaints and disputes received, the number resolved, time to resolve) or on more general measures of customer centricity of the provider.

While progress can and no doubt will be made to measure quality better *ex ante*, ultimately, quality is defined by its effect on outcomes, rather than its inputs – a quality financial service will be one which yields good fruits in the lives of its users. However, this leaves us wrestling not only with circularity but also with the inadequacy of individual quality measures to capture what these good fruits might be. Developing and applying the concept of financial health may offer a constructive alternative to the proliferation of fragmented quality measures which may end up missing the main reason for collecting them in the first place.

**Financial health as a metaphor**

We are all personally familiar with the concept of physical health – what it means by its presence or absence, how it varies by age or gender, and even how to improve it, or address illnesses or accidents which undermine it. This familiarity comes from centuries of medical experimentation and learning about the relationship of treatment or behavioural inputs to outcomes. Even then, our understanding remains limited in some areas of disease or illness, and consequently, diagnoses and courses of treatment for some health maladies continue to adjust and evolve.

Using this metaphor, let us then consider a concept of financial health for individuals and households which is:

- the result of factors both under one’s control and out of it, just as physical health is the product of genetics and environment as well as individual choices;
- different across different ages and life stages: to be physically healthy at age 85 is not the same as when 30 and working, just as financial health for a household with dependants and a long expected working life ahead is different from that of single people at the end of their working lives;
- useful *ex ante* in that there are known links between indicators and outcomes (for example, high blood pressure materially increases the risk of cardiac problems which undermine health and may even shorten life).

So far, however, these parallels suggest nothing more than a useful metaphor. Can the concept of financial health be made operationally useful, for policymakers and providers?

**The work of CFSI in the USA**

The CFSI functions in many ways like an FSD programme in the context of the United States. A non-profit entity established in 2004, CFSI undertakes a range of interventions, including research, advocacy, and support for providers. CFSI's
original goals were focused on reducing the level of unbanked and underbanked people in the United States. In an environment with generally low barriers to access, CFSI had come to realize that the problem did not lie in promoting access and usage alone – it mattered what types of products were used and how they were used. There appeared to be many Americans who were using financial products and yet who were not in any sense financially healthy. For example, CFSI observed that, while the proportion of un- or underbanked adults ranged from 15 to 20 per cent, as many as half of Americans could not cover three months of expenses in case of emergencies such as sickness or job loss; and over a third could not meet basic monthly expenses on time. Consequently, CFSI decided in 2014 to adopt and promote the lens of financial health as a central pillar of their approach to increase the financial well-being of American households and individuals.

CFSI distinguishes financial health from financial capability, which it has also championed, in this way:

Financial capability is a set of consumer behaviours that lead to tangible improvements in consumer financial health. Being financially capable will help consumers move closer to achieving financial health. In short, ‘Financial Literacy is what you know; Financial Capability is what you do; Financial Health is what you achieve’ (CFSI, 2015).

In this way, CFSI proposes that financial health is an outcome of an intertwined set of factors: the structure of financial services markets as well as behaviours around money within and outside of financial products.

CFSI has so far made progress on two levels.

**Conceptual.** CFSI has distinguished three foundational elements of financial health:

- day-to-day management – the ability to manage your finances on a day to day basis;
- resilience – the ability to cope in the face of inevitable ups and downs; and
- opportunity – the capacity to seize opportunities that will lead to financial security and mobility over time.

Each of these categories has associated indicators as shown in Table 1.

**Empirical.** In 2014, CFSI commissioned a major nationally representative survey of more than 7,000 US adults to collect data about these health indicators as well as the attitudes and patterns of usage which would enable a ‘health census’ on the US population. The results were released in 2015. In the main report (Gutman et al., 2015),

### Table 1: Financial health indicators by category

<table>
<thead>
<tr>
<th>Day-to-day</th>
<th>Resilience</th>
<th>Opportunity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monthly cash flows</td>
<td>Savings habits</td>
<td>Retirement savings</td>
</tr>
<tr>
<td>Monthly debt obligations</td>
<td>Planning for large expenses</td>
<td>Planning horizon</td>
</tr>
<tr>
<td>Keeping up with bills</td>
<td>Ability to handle job loss</td>
<td>Credit score</td>
</tr>
<tr>
<td>Budgeting</td>
<td>Health and life insurance</td>
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*Source: CFSI (2015)*
CFSI uses the data to define seven roughly equal sized consumer financial health segments based on a combination of behaviours and attitudes, ranging from ‘thriving’ (very financially healthy) to ‘at risk’ (very unhealthy). Overall, the survey suggests that 57 per cent of Americans were struggling with their financial health in different ways.

A key question is whether these health segments merely mirror personal income or are also determined by additional factors. It is obvious that higher income people are more likely to be financially healthy; the converse is also true. If financial health were mainly correlated only with income, there would be little additional benefit in collecting more data simply to reinforce the finding: to be more financially healthy, earn more income. However, CFSI’s segments do reflect some variety in income profile, although this view is calculated based on household annual income in total rather than on an individual or per capita basis. While it is obvious that the top ‘thriving’ segment will have the largest share of the top income bracket, 7 per cent of households in the segment come from the lowest income band, showing that the segmentation reflects habits and practices beyond income alone. Conversely, households in the highest income bracket comprise 8 per cent of the lowest ‘at risk’ category, suggesting again that high income does not guarantee financial health, though it clearly aids it. This aligns with our intuitions about income and physical health.

However, segmentation alone doesn’t drive policy or product: the question of course is how can a household improve its financial health? The CFSI survey showed some interesting results: for example, having a budget does not appear as a significant factor in the clustering of apparently healthy segments; the ‘striving segment’ budgets more assiduously than the more comfortable ‘thriving’ group. But ‘planning ahead’ for expenditures and having a time frame of more than five years for thinking about savings appear to be factors with a big influence on ending up in the financially healthy segments. Equally, being able to come up with US$2,000, less than 5 per cent of average US gross income per capita, if an unexpected need arose in the next month, was also a key resilience measure which contributed to CFSI’s financial health segmentation.

CFSI’s work is therefore the first known attempt to operationalize the concept of financial health. While recognizing that this concept is still early work in progress, CFSI believes that these findings will help to develop an understanding of factors leading to improved financial health, so that they can be tracked by policymakers and providers. In particular, CFSI aims to apply the lens in future to assess which features and types of financial products contribute to and detract from improved health the most. This is akin to processes in the medical world which, for example, suspected then causally established the link between smoking and diseases causing ill health, resulting in a range of policies and programmes to discourage smoking as a way to build physical health.

**Preliminary evidence in developing countries**

For all the promise of CFSI’s early work on financial health, the United States is a financial environment in which there is an overwhelming quantity of consumer
data (for example, robust credit scores which draw on a wide range of available information and may help proxy for opportunity) and in which access or usage are not the main obstacles to meaningful financial inclusion. How well does this new concept travel into developing countries?

**Resilience globally measured by Findex**

Although the World Bank’s global Findex survey is primarily concerned with measuring access and usage, the 2014 survey contains one question relating to financial resilience, which is very close to one of CFSI’s indicators of resilience in the US: ‘how possible is it to come up with X [an amount equal to 5 per cent of gross national income per capita (GNI pc)]?’. Only 63 per cent of Americans told CFSI researchers that they could come up with a similar lump sum, although this national average masks considerable underlying variation, from 100 per cent in the ‘thriving’ segment to only 4 per cent in the least healthy ‘at risk’ group. By contrast, Findex reports that 83 per cent of adults in high-income OECD countries answered that they found this possible (i.e. well above the US proportion found by CFSI) and a lower 74 per cent in developing economies. Findex also tracked the sources on which respondents would draw to find the amount: in high-income countries and East Asia Pacific, the money came mainly from own savings whereas in other regions, friends and family were the largest single source of emergency funds (Demirguc-Kunt et al., 2015). While this is a useful indicator, resilience alone by this or any other measure is not a sufficiently clear picture of financial health which goes beyond ability to absorb shocks. However, because the concept of financial health is new and not yet well established, outside of the USA, no surveys have to our knowledge yet been designed specifically to apply the concept.

**Data from the Kenya Financial Diaries**

Although not designed as a means of measuring financial health, the recently completed Kenya Financial Diaries (Zollmann, 2014) provide a wealth of data which may be used at least in a preliminary way to consider some possible measures of financial health. The financial diaries tracked all monetary flows and significant events over an entire year for some 300 poor and near-poor households in five key areas of the country, both urban and rural. While financial diaries are not intended to be statistically representative of a national population, they do provide a depth and precision at the household level, resulting in the ability to understand better the dynamics of the financial lives of the poor.

For example, the Kenyan diaries clearly show the reliance of Kenyan households on financial resources obtained from friends and family, in common with the quantitative finding of Findex. Families in the study supplemented their incomes with regular and occasional remittances, and those remittances were able to surge during many moments of stress, boosting income when it was low, and helping families stretch to meet extraordinary costs, such as unforeseen hospitalizations.

The diaries data also add context and depth to national level statistics: for example, almost all the diaries households had a mobile phone and used mobile
money services, as expected from national penetration levels. Though ubiquitously used, mobile transactions comprised less than 1 per cent of all household transactions during the year studied (Zollmann and Cojocaru, 2015). However, as noted earlier, despite this low level of daily relevance of mobile money, it may still be welfare-enhancing for these families by making faster and more reliable those transfers which before came in person and through bus routes (Jack and Suri, 2014).

**Defining financial health by its absence**

The diaries did not collect the same data used in CFSI’s US survey so they cannot be compared directly. However, they did collect a number of poverty indicators. Rather than extrapolating what health looks like by clustering households or individuals by their current behaviours and attitudes, we have experimented with using available indicators as proxies for ‘morbidity’; that is, for failures to successfully navigate the three areas of financial health suggested by CFSI.

For example, in the category of day-to-day management, financial health may be proxied to some extent by whether the household experienced hunger during the year. The reason for this is that hunger, which results from failure to have enough to eat day to day, may be largely prevented in areas with markets by having consistent access to relatively small sums of money which in part comes from strong day-to-day money management practices. Equally, resilience may be proxied by whether the household had to forgo necessary health care treatment: in this case, the shock occasioned by illness needing treatment tests whether the household has the financial health to mobilize a sum of money sufficient to pay for timely treatment which may include consultations with providers and buying medicine as prescribed. Finally, opportunity may be proxied by whether the households ever had a child sent home from school as the result of the non-payment of school fees. Since schooling represents an investment in the future income and well-being of children, if a household cannot make these payments resulting in children being denied schooling, then this is a likely sign of financial ill health.

To be sure, these three indicators can be at best thin proxies, but they are conventional poverty indicators which at least correspond to the ability to marshal different cash flows at different times for different purposes which are likely to have a large effect on household well-being. If we posit financial health as the absence of one of these defined indicators of ill health, then 75 per cent (according to the day-to-day measure), 62 per cent (in resilience), and 56 per cent (in opportunity) of the households in the Kenyan Financial Diaries may be considered at least ‘not unhealthy’. However, the same households may not be strong in all three areas at the same time. Allowing for households to be strong or weak in each category creates eight distinct permutations for the segments shown in Table 2 with the corresponding proportion of households fitting each. Unlike the CFSI segments, these vary in size, with 17 per cent of the 300 households ‘unhealthy’ in all three categories and 30 per cent ‘healthy’ in all, and a range of options in between.
Findings so far

As with the CFSI study, we also face the question arising from this analysis: so what? And in particular, what clues do the diaries data give about what leads to health or its absence, apart from the known overriding force of lack of income? Might there be any strong, measurable financial activities or behaviour patterns that appear to indicate a stronger probability of avoiding some of these financially unhealthy outcomes, or rather that inclusion is ‘working’ in improving individuals’ financial health?

First, Figure 2 shows the percentage of households in each group who live on less than $2 per person per day, the commonly accepted international poverty line. It is clear that, as with CFSI’s segmentation, there is a strong relationship of health to income – 94 per cent of the unhealthy first group are poor, whereas 58 per cent of the healthy overall group (#8) are. There is also considerable variation in the middle: for example, all of those in group 4 were poor – called risk managers because they did not miss health treatments, although they went hungry at times, and had children sent back from school due to non-payment.
Using these measures of financial health, we have been able to explore the extent
to which demographics matter (they do: rural households and those with higher
dependency ratios are more likely to be unhealthy but this happens through the
income effect) as well as financial product usage patterns, where there is little
significant difference. As expected, the unhealthy have a much higher share of
liabilities to income than the healthy, but the higher borrowing may result mainly
from poverty rather than their financial practices; and lower borrowing levels for
those households may lead to even more missed meals or treatments which would
not necessarily improve health. Owning property, especially an improved house,
correlates with financial health, but owning of property in Kenya is more a function
of inheritance than a sign of necessarily having seized opportunities. While healthy
and unhealthy poor households receive about the same proportion of their income
in transfers from friends and family, the unhealthy do tend to have a larger number
of people who gave in response to circumstances – perhaps reflecting a recognition
of their needy status. Interestingly, we did not find that asset diversification
(measured by number of financial assets) or liquidity levels (measured in absolute
terms or relative to income) differed significantly across the segments.

Ultimately, we run into the limits of the diaries data for this purpose in that
the small sub-segment sizes constrain the search for statistically relevant relation-
ships: for example, it would be very useful to understand better those households
which were both healthy and poor, breaking the strong correlation with income,
to understand whether their financial instrument usage or balance sheet structure
differed – but there were only 59 households in that category. The diaries also
did not collect attitudinal data as a basis for further segmentation. Our ability to
link even these health outcomes with strong health indicators was constrained
ultimately by the limits of this data set. Although the financial diaries data does
not permit us to fully explore the concept, it does at least suggest that further
analysis is warranted.

Conclusions

This paper has argued that the very success of early M4P financial inclusion
approaches over the last 10 years has led to the need to raise the bar for defining
and measuring outcomes in future. As the notion of financial inclusion has entered
the mainstream, it has moved beyond the relatively sheltered waters of microfi-
nance, in which a narrow set of financial providers at least professed to care about
the welfare of their clients, into more turbulent seas. In these deeper waters, not all
commercial providers will have the long-term interests of clients at heart, any more
than all borrowers will be adequately motivated to repay their loans. Expanding
financial access can bring new risks – as witnessed in the Indian microfinance crisis
of 2010. Simply assuming that financial usage of any sort will necessarily lead to
improved well-being at a household level is no longer an adequate basis for policy
or practice. After all, the past 10 years has also witnessed the damage which can be
caused on a systemic level by financial practices which are not healthy in various
ways. While the financial crisis of 2008 was primarily experienced in developed
countries, the other more isolated financial crises in developing countries more
closely related to inclusion, like the Indian one, show that a large number of
poor clients served is no longer sufficient on its own as an indicator of systemic
impact. Credit is always easy to vilify as a risk, but by the same token, practitioners
need better tools to interrogate the effects of other types of financial products on
the lives of users. And of course, to be able to balance the risks which may come
from using a product badly with the risks of not having it at all.

In this context, the lens of financial health could offer M4P approaches an
integrating vision by introducing an intermediate outcome approach which looks
to the effects of usage on the lives of target groups. This concept should allow for a
better appraisal of whether M4P type interventions in finance are indeed facilitating
welfare improvements or simply access to dormant financial products or even usage
of financial products that may actually exacerbate poverty or dependence. In doing
so, this alternative application may help M4P programmes redesign their strategy
and interventions to focus more clearly on those most likely to achieve their higher
order objectives. The tighter emphasis on quality-related factors need not displace
the concern for ultimate scale. After all, health agencies collect national public
physical health indicators to assess where best public resources, including donor
resources, can be deployed to ‘move the needle’ on a national and international
level in battling diseases and the conditions which breed them.

However, to make this lens of financial health useful will require much further
careful research, using a full range of methodological approaches. It will still be
complex to separate out causes even for intermediate outcomes, just as it remains
tricky to separate the effects of a medicine on curing an illness, while also watching
for side effects. However, as financial access expands and even accelerates in much
of the developing world, the time has come, especially for those concerned about
the effects on the poor, to be more deliberate about understanding and measuring
its real effects.

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