Financial Inclusion for the Roma: Banking As a Key to Social Progress

Overview

For many people across the world, using financial services is a simple part of their daily routine. Depositing salary checks, paying bills, withdrawing cash from ATMs, using credit and debit cards, and applying for consumer loans are banking activities that have become basic and essential features of life in contemporary society.

Yet despite the crucial role that financial services and banks play in our daily lives, there are large numbers of people in the world who have no access to banking services. In Central and Eastern Europe, a significant number of those who make up this "unbanked" population are from marginalized Roma communities. The lack of access to financial services further exacerbates the already dire economic conditions found in many Roma communities. A number of related factors—low levels of savings, limited understanding of household finance, exposure to the predatory financial practices of loan sharks or subprime lenders—indicate that efforts to promote Roma inclusion without ensuring access to financial services will overlook a major barrier that can be addressed relatively easily and effectively.

What is financial inclusion?

Empirical evidence indicates that access to basic financial services such as savings, payments, and credit can make a substantial contribution to improving poor people's lives[1]. It has also been confirmed that lack of access to finance is often the main obstacle to growth for micro-, small-, and medium-sized enterprises[2] that can provide self-employment for many people. Financial inclusion addresses these issues by providing financial services for disadvantaged and low-income groups. Financial inclusion is part of an increasingly global agenda that is

[1] Caskey, J., C. R. Duran, and T. M. Solo (2006), *The Urban Unbanked in Mexico and the United States.* Policy Research Working Paper 3835. World Bank, Washington, DC.

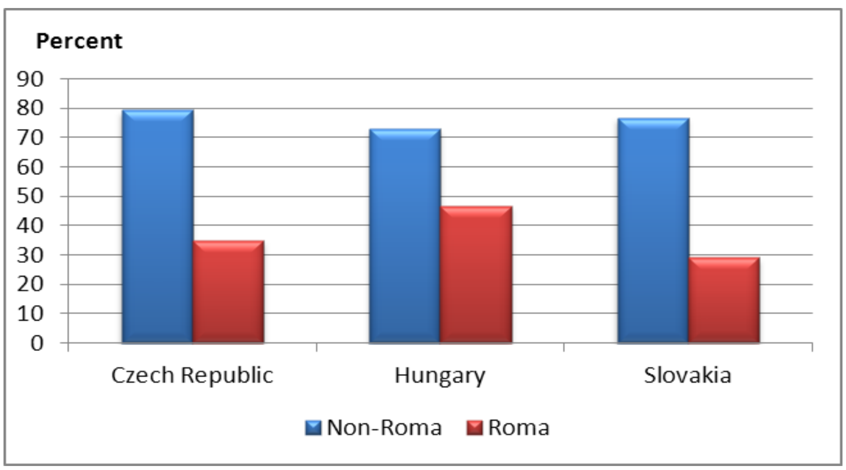
[2] Dupas, P., and J. Robinson (2009), *Savings Constraints and Microenterprise Development: Evidence from a Field Experiment in Kenya.* NBER Working Paper 14693. National Bureau of Economic Research, Cambridge, MA.

gaining more attention and support from the international community, national governments, and civil society.

Marginalized Roma Communities: The Unbanked of Europe

Financial systems in Europe are generally regarded as highly developed with a broad and deep reach across the population. However, among new EU member states, the percentage of unbanked households is relatively high compared to old member states. Anecdotal evidence, confirmed by a forthcoming study by the World Bank (2012) on financial inclusion of Roma in Eastern Europe, indicates that there is a very significant overlap between the Roma population in marginalized communities and the number of people who have no access to financial services in new member states. The study is based on the 2011 EC/UNDP/WB regional survey of Roma households in the Czech Republic, Bulgaria, Hungary, Romania, and Slovakia. The household survey provides strong evidence that Roma households face more challenges in achieving financial security than the general population, and that this is closely associated with how Roma households access and use banking services. The survey revealed that in new member states Roma households use fewer banking services compared to the typical household, as well as non-Roma neighbors living in the same community.

Table 1. A comparison of access to accounts in three new member states



Source: World Bank (Forthcoming *Report on Financial Inclusion of Roma in Eastern Europe, 2012)*[3]

[3] Presentations at Autonomia Foundation in Budapest and Ministry of Labor, Social Affairs and Families of the Slovak Republic in Bratislava (February 2012).

Country-specific issues

The Roma household survey findings highlight a number of challenges in new EU member countries. In Slovakia, for example, retail bank networks have very low outreach: the physical distance from bank branches makes rural communities' access to banking services very difficult. In Bulgaria, on the other hand, the branch network density of banks is higher than the European average, albeit with a lower-than-average presence of ATMs and payment terminals. There are also some country factors that are not as obvious as the location of banks or ATMs, but can nonetheless contribute to financial exclusion. For example, the household survey data revealed that Romani-speaking families (which constitute the majority of Roma households in Slovakia and Bulgaria) are significantly less likely to use banking services.

Few loans for Roma entrepreneurs

The household survey also found that Roma entrepreneurs face a number of barriers in qualifying for business loans. In general, the new EU member states have very few microfinance suppliers. The ones that are reaching out to (potential) Roma entrepreneurs are usually small-scale and face a broad spectrum of challenges. The result is that currently microcredit plays a very limited role in facilitating Roma self-employment in Central and Eastern Europe.

No savings account—no rainy day fund

The 2011 Roma household survey data indicate a strong correlation between a household's use of financial services and its ability to cope with unexpected expenses. Roma households with a savings account are significantly more likely to be able to cover unexpected expenses or build collateral for a micro-loan than those without savings accounts.

Loan sharks and usury

Limited levels of financial literacy and the low reach of consumer protection in the poorest Roma communities contribute to the growth of loan sharking and usury. The Roma household survey found[4] that a large number of Roma households in Central and Eastern Europe borrow from informal lenders and shopkeepers, which suggests a high prevalence of loan shark activity in Roma communities. The problem is likely to be even more significant than what the survey revealed since people are often reluctant to disclose their sources of credit and level of indebtedness due to shame or fear of retribution.

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[4] Presentations at Autonomia Foundation in Budapest and Ministry of Labor, Social Affairs and Families of the Slovak Republic in Bratislava (February 2012).

Finding a Sustainable Solution

The Roma household survey statistics have confirmed what the field experience has long suggested: few Roma households have access to financial services, few Roma households have savings, and a significant share of Roma households are likely to have fallen prey to usury. The need to provide and expand financial inclusion for Roma, communities, households and entrepreneurs is given additional urgency by the following factors:

- **All Europeans have the right to access financial services.** In its recently published *Recommendation on Access to a Basic Payment Account,*[5] the European Commission has defined the right of access as the guiding principle behind financial inclusion, and has specified the characteristics of a basic bank account. The recommendation aims to promote financial inclusion for consumers across Europe, and the Commission has invited member states to ensure that bank accounts become available free of charge, or at a reasonable rate to consumers. The Commission is expected to transform the recommendation into law, which will require compliance from service providers in all EU member states.
- **Financial inclusion is a smart business decision.** Declining populations in new EU member states will inevitably lead to a shrinking client base for banks. The percentage of Roma within the general population, however, continues to grow. If banks want to preserve their client base, financial inclusion is an obvious response. For example, a hike of 10 percentage points in Roma households with a bank account in Slovakia (from 29 to 39 percent) would bring in approximately 12,000 new bank customers. Over the next few years, and without any further financial inclusion efforts, simply maintaining a level of 39 percent coupled with demographic changes would increase the Roma client base to an estimated 15,000 by 2016[6]. Moreover, by becoming active on financial inclusion as a demonstration of corporate social responsibility, banks may be able to use financial inclusion programs to reduce their sectoral taxes and create new marketing and public relations opportunities for themselves.
- **Financial inclusion will decrease the costs of government payments, and will support the broader Roma inclusion policy agenda.** Improving Roma households' access to and understanding of finance are prerequisites to achieving the economic and fiscal benefits of social inclusion. Policy efforts to reduce poverty or support

[5] 2011/442/EU. Commission Recommendation of 18 July 2011 on Access to a Basic Payment Account.

[6] Calculations are based on the Roma Regional Survey (2011) and demographic estimates from UNDP's *Atlas of Roma Communities.* See also Marcincin and Marcincinova (2009), *The Cost of Non-Inclusion—The Key to Integration Is Respect for Diversity*.

labor market integration can only make a significant difference if Roma households can routinely deal with household finances and cope with unexpected expenses through savings. Households that can access and understand basic financial services and handle a savings account are likely to use social benefits and subsidies more effectively and productively. In addition, policymakers can link financial inclusion with human development outcomes by creating innovative financial access solutions. Leaders from government, the private sector, and civil society could work together to use good savings practices to promote Roma access to early childhood development and secondary school completion through commitment savings initiatives like the "Kindergarten-to-College" model in California, the commitment savings accounts for girl's education in India or individual development account microsavings models administered by NGOs in Slovakia (ETP) and Hungary (Autonómia Foundation). Financial inclusion can also help government savings efforts.[7] Disbursing grants and funds electronically to beneficiaries with newly established bank accounts helped reduce the administrative costs of Brazil's conditional cash transfer program *Bolsa Familia* from 14.7 percent to 2.6 percent of the disbursed grant value. A recent McKinsey report suggests that the government of India could save $22.4bn annually by switching to electronic transfers.

Lessons from the field

Several small-scale initiatives are addressing financial inclusion in new EU member states. ETP, an NGO in Slovakia has used its individual development accounts model since 2006 with hundreds of households in Eastern Slovakia. The model teaches Roma families how to resist loan sharks, how to better manage limited funds through the month, and—most importantly—how to do financial planning for the whole family. In Hungary, the Kiút program provides microcredit for entrepreneurs, most of whom are of Roma origin, with the goal of enabling these entrepreneurs to become self-employed. Unfortunately, programs such as these have very limited reach and resources, but their years of field work give them deep knowledge about financial inclusion and strong networks within marginalized Roma communities that would be crucial resources for the development and scaling up of financial inclusion projects.

How to best scale up?

One option for reaching the next level of financial inclusion is to establish a working alliance of NGOs and banks. Banks may be interested in financial inclusion for a variety of reasons, including enhancing their public image through corporate social responsibility activities;

[7] Johnson, C., and P. Jaisinghani, *We Must Do Better Than Cash*. USAID Impact Blog, 2012. http://blog.usaid.gov/2012/02/we-must-do-better-than-cash/

expanding their customer base; and/or pursuing potential tax breaks and write-offs. A significant barrier preventing greater bank involvement in financial inclusion efforts is that they have little capacity to do the fieldwork to develop programs in Roma communities. Partnerships with NGOs would bridge this gap as NGO staff with deep connections to the Roma community are well positioned to act as intermediaries between banks and communities; to assist Roma families in opening bank accounts; and to provide basic financial education. NGOs and banks, however, are unlikely to "find" each other. Governments and national banks will have to actively facilitate collaboration between the private sector and civil society by creating and supporting a platform for engagement on financial inclusion. A good example of this type of collaboration is the recent "Bank on San Francisco" initiative in the United States.[8]

Box 1. Bank on San Francisco

"Bank on San Francisco" is a collaborative effort to bring 10,000 of the city's estimated 50,000 unbanked individuals into the financial mainstream. The San Francisco Mayor's Office, the Treasurer's Office of the City and County of San Francisco, the Federal Reserve Bank of San Francisco, local non-profit EARN (Earned Assets Resource Network), and the city's financial institutions have worked together to:

- Increase the supply of starter account products that work for the low-income unbanked market by developing baseline product criteria that must be offered by all participating financial institutions;
- Raise awareness amongst unbanked consumers about the benefits of account ownership and spur them to open accounts;
- Make quality money management education more easily available to low-income San Franciscans;
- Clamp down on the proliferation of check cashers and payday lenders;
- Raise city-wide awareness of the unbanked problem and potential solutions.

Building blocks for action. By adapting the lessons learned from the "Bank on San Francisco" initiative to the specific challenges the Roma are facing in Central and Eastern Europe, the following points should be considered as necessary components of any possible solution:

- *Conduct research*. Assess the size of the unbanked market through quantitative surveys, and aim to better understand the context, the reasons for financial exclusion, and its consequences through qualitative studies based on field observations and focus groups.
- *Involve national and EU-level regulators.* Work to ensure ownership by including officials from finance ministries, authorities supervising the financial sector, and

[8] Stuhldreher, A., *Bank on San Francisco—An Initiative to Bring All Residents into the Financial Mainstream* (draft).

representatives from national banks at all initial project discussions. Also ensure that all early discussions include representatives from the European Commission's relevant directorates general: DG Regio, DG Employment, DG Justice and DG Internal Market and Services.

- *Reach out to partners.* Conduct discussions with potential partners from both the financial sector and civil society early on to engage interest and test willingness to participate. Engage representatives from the Roma communities and social workers.
- *Seek political champions.* Identify and involve potential political owners (MPs, government cabinet members, advocates, community leaders) of the initiative to bring in partners and attract media attention.
- *Develop and guide public discussion.* Engage partners from advertising, media, and public relations to produce effective communications materials and campaigns aimed at decisionmakers and targeted segments of the larger public.

Box 2. A Government Action Plan

While keeping in mind the building blocks of action, governments committed to facilitating financial inclusion for the Roma should consider the following building blocks for policy action:

1. Develop strategic and operational ownership. Establish a dedicated government unit to work on the initiative's design, launch, and early implementation.

2. Confront barriers. Identify existing or potential legislative barriers for enhancing financial inclusion in the national context and develop an action plan for addressing them.

3. Address usury through enforcement action and market-based approaches. Enhance protection against usury through a thorough review of criminal legislation. Clamp down on loan sharks preying on Roma communities. Explore good international practices, such as Fair Finance (http://www.fairfinance.org.uk), which offers a range of financial products for socially excluded people, thereby pushing legal, but predatory lenders out of the market.

4. Pursue smart policy synergies. Identify existing synergies with other areas (e.g., education, social protection, employment, housing) and develop innovative approaches for addressing human development outcomes through financial inclusion tools, following good practices such as the "Kindergarten to College" initiative.

5. Develop incentives. Engage with the financial sector to facilitate the development of voluntary charters for addressing financial inclusion.

6. Consider legislative requirements. Following the example of some European countries (e.g., France and Belgium), consider introducing legislation to ensure access to basic financial services.

7. Provide resources. Design targeted financial support programs for NGOs engaging on financial inclusion.

8. Conduct monitoring and evaluation (M&E). A rigorous M&E framework is required to enhance effectiveness, provide transparency and accountability, capture policy lessons, and demonstrate results of the initiative.

Conclusion: Doing the Right Thing

Banks are no longer the manifestation of wealth, nor are they institutions reserved for the privileged. For a vast majority of the public, banks provide basic yet crucial services that allow individuals, families, and communities to manage and build their finances and function in a modern economy. Using financial inclusion to give Roma access to the basic and vital services offered by banks is as important a component of Roma inclusion as employment, housing, health or education. If done right, financial inclusion can enhance the impact of policy efforts across the board: if not done at all, the lack of financial inclusion can hinder or derail progress on social inclusion. Financial inclusion is no longer a choice, nor is it a luxury of wealthy states with more advanced financial systems. If we want to make a difference in the lives of Roma communities across Central and Eastern Europe, we must make financial inclusion a well-integrated prerequisite for Roma inclusion policy efforts.

About the Open Society Roma Initiatives

The Open Society Roma Initiatives is a group of coordinating, grantmaking, and operational programs that are dedicated to promoting the equality and integration of Europe's largest ethnic minority.

The Roma Initiatives build upon the Open Society Foundations' many years of support for Roma communities. The Roma Initiatives work to enhance the capacities of Open Society programs that work with Roma communities and partner with nongovernmental organizations on innovative projects and advocacy efforts.

In all areas of their activities, the Open Society Roma Initiatives seek to foster and promote the principles of democracy, accountability, human rights, gender equality, and active Roma leadership and participation in public affairs.

About the Author

Sandor Karacsony is a consultant to the Open Society Roma Initiatives, focusing on Roma inclusion policies in the Slovak Republic, as well as broader technical aspects of social inclusion policies and programs in Central and Eastern Europe. Karacsony has worked as a senior advisor at the World Bank's Executive Board, and remains involved with the institution through supporting its activities on social inclusion in new EU member states with analytical advice. Before joining the World Bank, he held senior level positions at both private and public institutions, including the Hungarian Ministry of Finance and the Prime Minister's Office. Karacsony has an MA in economics from the University of Pecs in Hungary.