



Bank of Papua New Guinea

# FINANCIAL DIARIES OF LOW INCOME HOUSEHOLDS IN PAPUA NEW GUINEA

## TOPICAL BRIEF: FINANCIAL NETWORKS



Created by the Pacific Financial Inclusion Programme and Microfinance Opportunities

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## ACRONYMS

|              |  |
|--------------|--|
| <b>ATM</b>   | Automated Teller Machine               |
| <b>BSP</b>   | Bank of South Pacific                  |
| <b>NBPOL</b> | New Britain Palm Oil Limited           |
| <b>PGK</b>   | Papua New Guinean Kina                 |
| <b>P2P</b>   | Person-to-person                       |
| <b>SMK</b>   | Salim Moni Kwik money transfer service |

## DEFINITIONS

|                                       |  |
|---------------------------------------|--|
| <b>Active Respondent</b>              | An active respondent is a respondent that has more than five weeks of data; those weeks do not have to occur consecutively.  |
| <b>Cash Transfers</b>                 | A cash gift or an intra-household transfer of cash.  |
| <b>Formal Network</b>                 | A network that contains regulated, government-recognized providers of financial services like banks (including ATMs and their agent network) and Papua New Guinea's Salim Moni Kwik (SMK) remittance service.  |
| <b>Informal Network</b>               | An unregulated financial network based primarily on relationships between family members, friends, and associates.   |
| <b>Intra-Household Cash Transfers</b> | A cash transfer between two members of a family who live in the same home. For instance, a husband transferring money to his wife would be an intra-household cash transfer while a father transferring money to his adult son in another home is not. |
| <b>Remittance</b>                     | A transfer of funds through a third party for non-commercial reasons.  |
| <b>Wantok</b>                         | An informal social network on which an individual can call for assistance.   |

## ABOUT THIS BRIEF

Previous Financial Diaries have shown that the most significant aspect of the lives of the poor is how much cash flows through their hands. People manage their cash through their financial networks. The Papua New Guinea Financial Diaries data highlight the various networks through which people manage their money.

This brief will help the private sector and policy-makers understand the networks that the poor in Papua New Guinea are using to manage their money and draw implications from these findings. The analysis will focus on individuals' use of informal cash transfers, loans, and savings, and formal bank accounts and remittance services. The brief draws on transaction records from the Financial Diaries, as well as in-depth interviews with a subset of respondents in Papua New Guinea.

## KEY FINDINGS

- Evidence suggests that respondents used their family networks as their financial support system.
  - 74 percent of informal transactions occurred between family members.
  - Their use of their family network as a support system suggests respondents were actively managing risk despite the absence of formal products.
  - The demand for risk management support is an opportunity for the private sector to offer tailored savings and insurance products.
- Bank accounts appear to have been exclusively used for the receipt of funds; respondents do not generally use them for the safe-keeping of money.
  - Most formal financial transactions were direct deposits into banks that were immediately cashed out.
  - Respondents did not seem to engage banks' existing agent networks. 92 percent of cash withdrawals took place at a bank branch.
  - These withdrawals were infrequent. Men withdrew cash from a bank once every month, on average, while women withdrew cash once every two months.
  - Increasing access to and the efficiency of electronic banking platforms may encourage more regular, small value transactions with formal financial service providers.
- There were clear differences in the average value of transactions and the distance from home when conducting transactions between men and women.
  - Men travelled farther and spent larger sums than women.
  - Women acted as an informal remittance transfer point while men received larger sums for use in large family-related expenditures.

- This suggests an opportunity to introduce gender-tailored products that address the sums of money handled and distances traveled by different groups.<sup>1</sup>

### STUDY SAMPLE OVERVIEW

This Financial Diaries study was conducted between November 2012 and May 2013 in Goroka, Kimbe, and Port Moresby. Field workers travelled to respondents' homes each week and interviewed them about their transactions from the previous week. Through this process, field workers collected 2,057 person weeks of data from 149 active respondents in 149 different households.

The sample was reasonably balanced by gender in each site; respondents from Kimbe accounted for the majority of the final sample. The age distribution of respondents was relatively consistent across the sites with some variation between males and females. The age range for respondents was concentrated around the life period in which income earning capacity and dependent support requirements are at their highest. The average household size and number of dependent children varied between the three locations. There was a clear difference between Port Moresby and the other research sites with regard to the number of children per household (see **Table 1**).<sup>2</sup>

**Table 1: Study Sample**

|              | Sample Size |        |       | Average Age |        | Average Household Size |          |
|--------------|-------------|--------|-------|-------------|--------|------------------------|----------|
|              | Male        | Female | Total | Male        | Female | Total                  | Children |
| Goroka       | 19          | 16     | 35    | 40          | 41     | 5.9                    | 3.7      |
| Kimbe        | 36          | 38     | 74    | 43          | 37     | 6.4                    | 3.9      |
| Port Moresby | 17          | 23     | 40    | 41          | 37     | 4.7                    | 2.0      |

There were significant differences in reported levels of education across the three locations. In each of the locations, women tended to participate in formal education less than men. Non-participation was particularly high in Port Moresby and very low in Kimbe. Additionally, previous studies<sup>3</sup> found a correlation between functional English literacy and participation in the formal financial system. As shown in **Table 2**, the correlation between level of education and bank account ownership was also found in this study.

<sup>1</sup> This finding is built upon evidence from this analysis as well as evidence from the Share of Wallet and Livelihood topical briefs. For this and other references to these briefs, see *MFO/PFIP (2013). Financial Diaries of Low Income Households in Papua New Guinea – Topical Brief: Share of Wallet* and *MFO/PFIP (2013). Financial Diaries of Low Income Households in Papua New Guinea – Topical Brief: Livelihoods*

<sup>2</sup> There was greater attrition in the Goroka sample than the other two locations. This resulted in a concentration of sampling in locations in or proximate to the Goroka Township and a reduction in sampling in more remote villages. This has impacted the data, biasing numbers like income, spending, and education upwards making it appear more different from Kimbe, the other predominantly rural location in the study, than it otherwise would be.

<sup>3</sup> *'The Financial Competency of Low Income Households in PNG'*, Sibley Jonathan, Pacific Financial Inclusion Programme, UNDP Pacific Centre, 2013

**Table 2: Levels of Education and Bank Account Ownership**

|                | Goroka |        | Kimbe  |        | Port Moresby |        | All Sites<br>% of Bank Account Ownership |
|----------------|--------|--------|--------|--------|--------------|--------|--|
|                | Male   | Female | Male   | Female | Male         | Female |  |
| None           | 21.05% | 31.25% | 0.00%  | 2.63%  | 11.76%       | 56.52% | 12%                                      |
| Primary        | 42.11% | 56.25% | 42.86% | 50.00% | 52.94%       | 26.09% | 50%                                      |
| Secondary      | 36.84% | 12.50% | 57.14% | 44.74% | 35.30%       | 17.39% | 55.35%                                   |
| Post-Secondary | 0.00%  | 0.00%  | 0.00%  | 2.63%  | 0.00%        | 0.00%  | 100%                                     |

The study sample was selected through a randomized process.<sup>4</sup> Nevertheless, in a country as diverse as Papua New Guinea, it is not possible to conduct a Financial Diaries study with a sample that is representative of the country as a whole, without considerable expense. Thus, even though the data and findings are of a high quality and instructive of the financial lives of people in Papua New Guinea, the results are not meant as a statistically representative picture of the entire country. Extrapolation to other populations within Papua New Guinea and abroad should be taken with care.

### INFORMAL NETWORKS

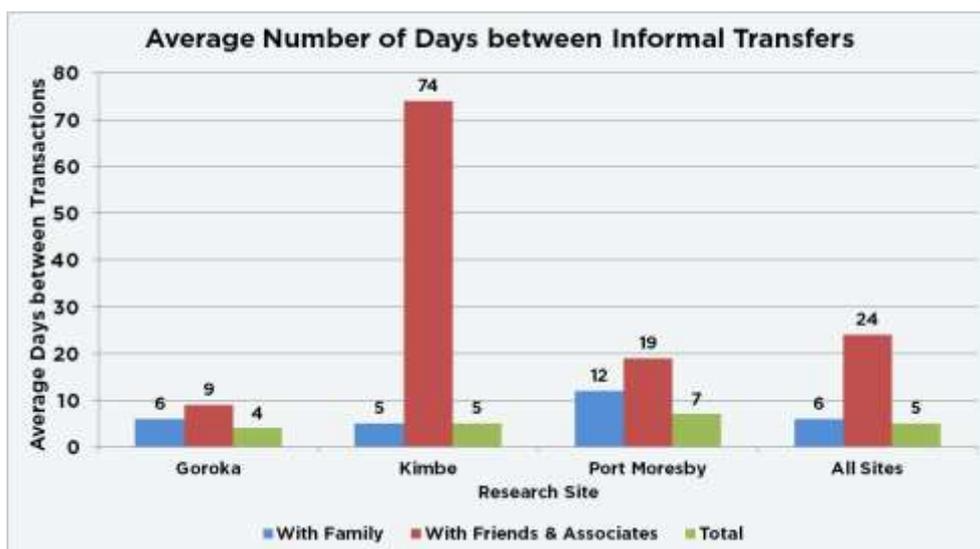
The Financial Diaries data reveal that informal financial networks figured prominently in the lives of respondents, with at least one cash transfer, loan, or savings transaction occurring approximately every week (on average). This is in contrast with the frequency of transactions within formal networks. As will be discussed in more detail below, respondents in the study conducted, on average, one formal transaction every month to two months.

Within the respondents' informal networks, transactions with family members were the most common, occurring almost four times as often as those with secondary informal networks like friends or store keepers (see **Figure 1**). Of the transactions occurring with friends and associates, almost nine of out ten transactions involved cash transfers while the remainder consisted of loans.<sup>5</sup> A higher incidence of reliance on informal networks was seen in Goroka, where use of formal services was negligible; a high rate of informal network usage was seen in Kimbe too, but this was largely the result of interactions with home savings.

<sup>4</sup> For a full explanation of the sampling process, please see our final report on the Financial Diaries project in Papua New Guinea

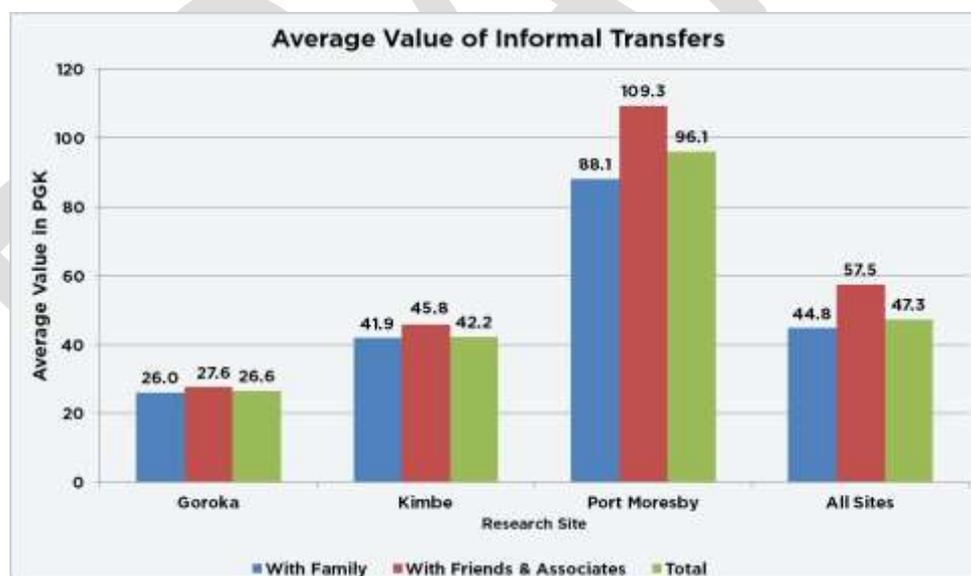
<sup>5</sup> The bulk of the remaining person to person loans were for food purchased on credit

Figure 1: Average Number of Days between Informal Transfers



The average value of an informal transaction was approximately PGK 47.3.<sup>6</sup> To put this amount in context, the average weekly income of respondents in the study was about PGK 190. There was considerable variation in the average amount of cash transfers across the different research sites, with those in Port Moresby being twice as high as those in Kimbe, and the latter being almost twice as high again as in Goroka (see Figure 2).

Figure 2: Average Value of Informal Transfers



### Cash Transfers

Cash transfers – which include cash gifts and intra-household transfers – made up the majority of informal transfers. The transfers were the smallest financial transactions at an average value of PGK 43, half the value of informal loans and a fraction of the value of most bank transactions and remittances.

<sup>6</sup> As of October 29, 2013, PGK 1 = \$.36 so every PGK 10 is approximately \$3.60

As noted above, cash transfers within family networks tended to dominate both in frequency and value with 97 percent of all cash transfers occurring between family members. Male-to-female transfers were the most frequent and highest value in this group, with the bulk of transactions occurring between spouses. Outside of the family, male-to-male transfers were the most common (see *Figure 3* and *Figure 4*).

Figure 3: Average Number of Days between Informal Cash Transfers

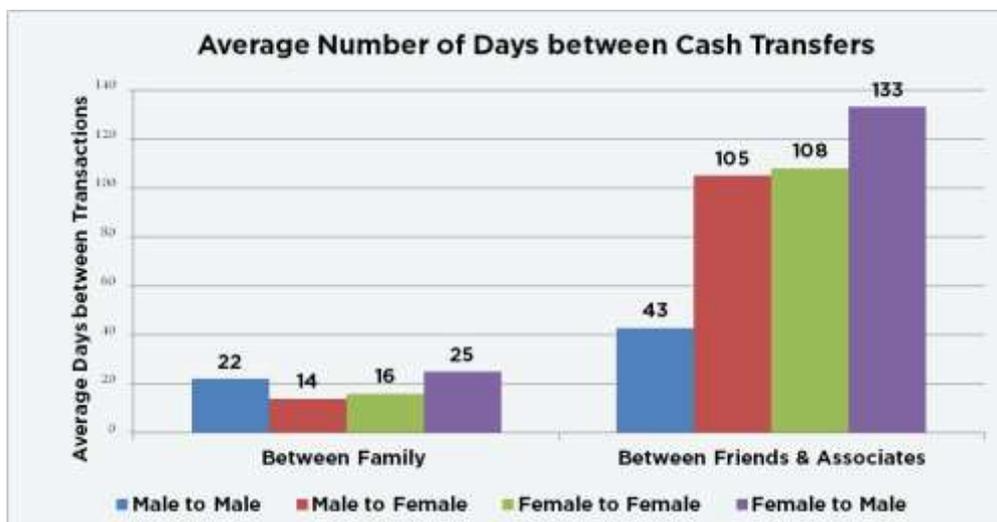
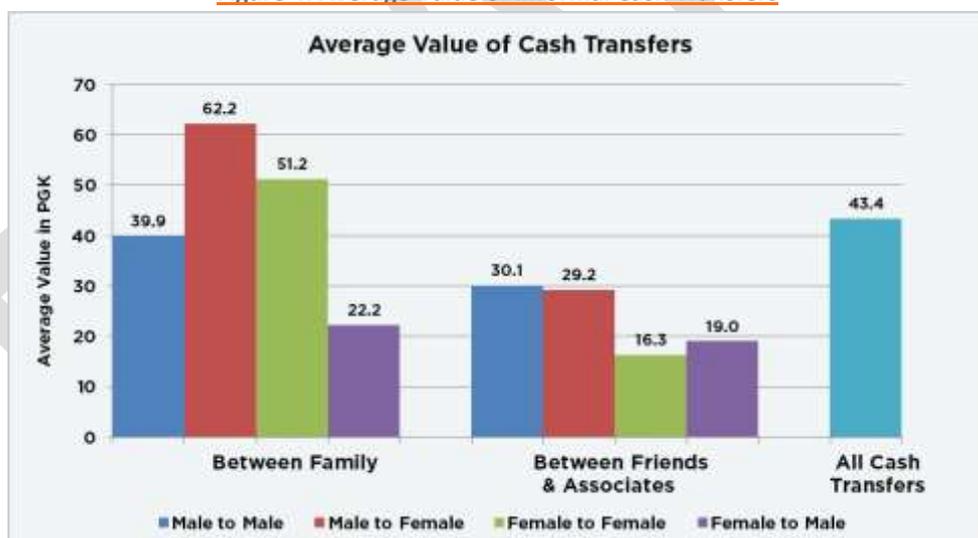


Figure 4: Average Value of Informal Cash Transfers



### Informal Loans

Almost all loans in the study were informal loans to or from individuals. Over 90 percent of loans were to or from friends and associates and the remaining 10 percent were with family members. The in-depth interviews suggest significant variation in the terms of loans that respondents offered and received while simultaneously demonstrating the complex social dynamics that were at play. Comments from respondents seemed to blur the lines between loans and gifts with a clear emphasis on an expectation of reciprocal support when money was given in times of need; the principal and “interest” of a loan were often repaid with promises of future support or in-kind gifts.

Discussing the available options when an individual needs money, a female respondent from Kimbe said:

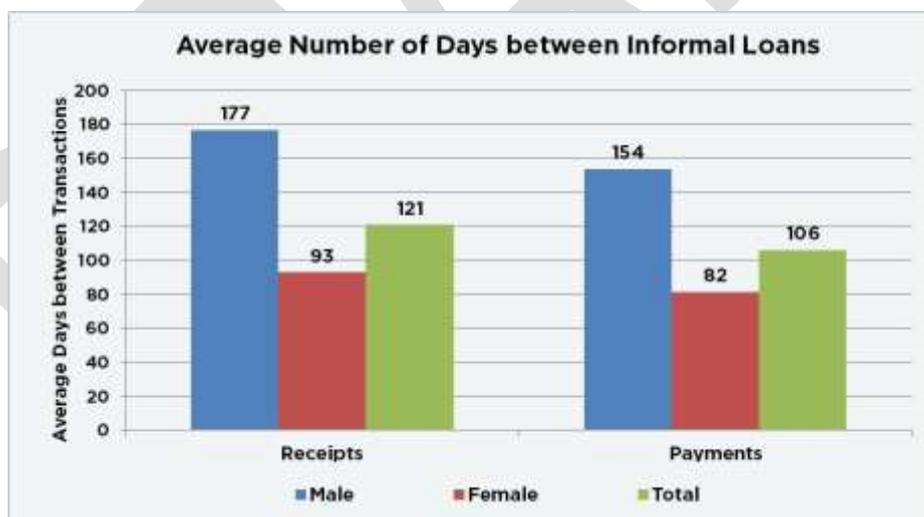
*“Money taken from wantoks has no interest charged. Money taken from money lenders has a charge, usually 30 percent on a two week lending period. Cash gift received from household members is not paid back. It is a family obligation to help each other. While, cash gift from people outside the household is a social obligation, they give because they are friends or they know and help each other in their community.”*

Even between business partners, loan terms can be loose. A male respondent from Port Moresby remarked:

*“I sent money to one of my business partners at Lae for him to buy his transport costs to shift our coffee to Kainantu to sell. In return I expect him to help me out when I am in need and require his help. It is not a loan but I would like to think that it is an obligation as I expect him to return the favour.”*

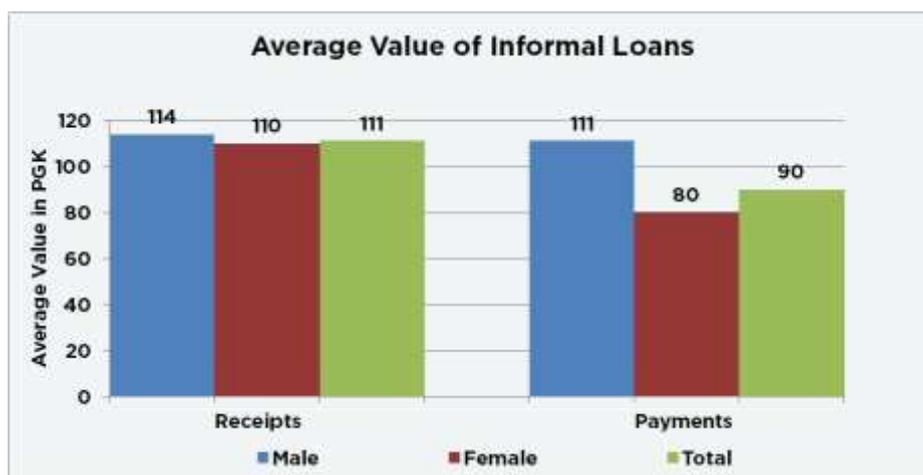
Of all informal loans, more than 50 percent were related to store credit, counting both loans borrowed (by purchasers) and lent (by store owners). The remaining 50 percent constituted transactions between neighbors in the village, friends, and moneylenders. Women tended to engage in loan activity almost twice as often as men (see **Figure 5**).

**Figure 5: Average Number of Days Between Informal Loans**



Little variation was seen in the value of loan receipts between the genders, but women tended to report lower values of loan payments (see **Figure 6**).

Figure 6: Average Value of Informal Loans



The difference in loan payments was possibly due to women “paying” their loans with in-kind goods. Additionally, men appear to have used social networks for borrowing more frequently than women, who appear more likely to have sought store credit; this may reflect social and household roles, given women were often responsible for day-to-day purchases. Together, this information suggests that respondents had sophisticated, actively managed financial networks that they could call on to assist with liquidity management (for small loans) and for contributions to major expenses (for larger loans).

### Informal Savings

The preferred mode of savings was home based savings in cash, with women engaging in home savings deposits and withdrawal transactions almost 19 times more frequently than men during the study period. Women appeared to control the day-to-day management of informal savings in the household with their deposits and withdrawals averaging PGK 39 and PGK 33 respectively. Men handled the less frequent lump sum deposits and withdrawals, with an average value of PGK 147 and PGK 87 respectively. These differences are indicative of a bifurcation of household roles, with women being responsible for intra-household finances and men for finances involving third parties.

### FORMAL NETWORKS

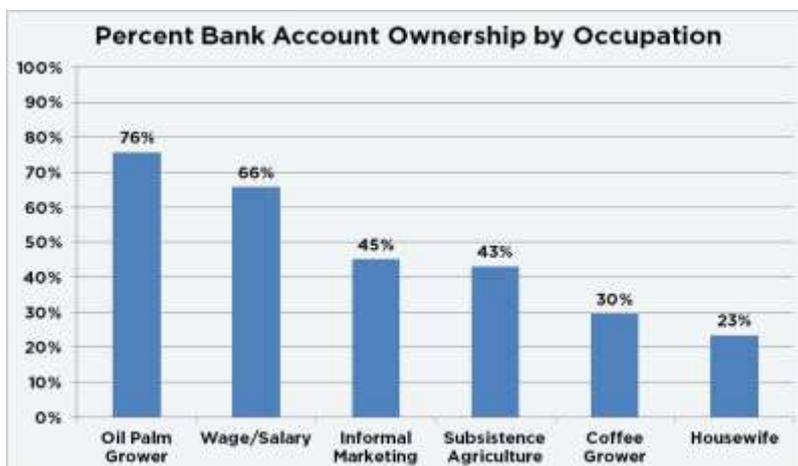
Interactions with formal financial networks were limited to interactions with formal banking institutions, with the exception of a few remittances (discussed below). The most frequent use of a bank account was for the receipt of income via direct deposit and subsequent cash withdrawals.

### Bank Account Ownership

Bank ownership appears to have been highly correlated with a respondent’s primary source of income (see *Figure 7*). The oil palm growers in Kimbe, for instance, displayed the highest levels of bank account ownership; they also tended to receive their payments from New Britain Palm Oil Limited (NBPOL), which paid farmers by direct deposit. Individuals who received formal wages or salaries also displayed high levels of bank account ownership;

these respondents tended to reside in Port Moresby and to receive direct deposits. This suggests account opening may be influenced by occupations which require a bank account for the receipt of wages or payments rather than for cash flow management or safe custody of liquidity.

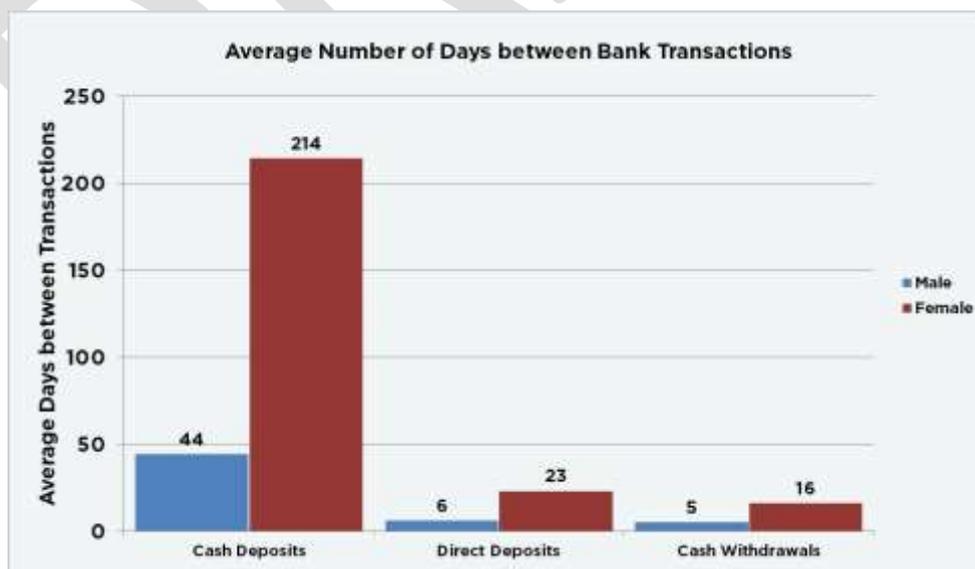
Figure 7: Bank Account Ownership by Occupation



### Bank Account Use<sup>7</sup>

The data shows that men deposited and withdrew cash more frequently than women and that, regardless of gender, cash deposits into a bank account were very infrequent (see **Figure 8**). There were 211 direct deposits and 255 cash withdrawals. The higher frequency of cash withdrawals suggests that individuals tended not to withdraw the entire sum of a direct deposit in one visit. The data suggest that, on average, respondents withdrew about 80 percent of the value of the direct deposit following its receipt.

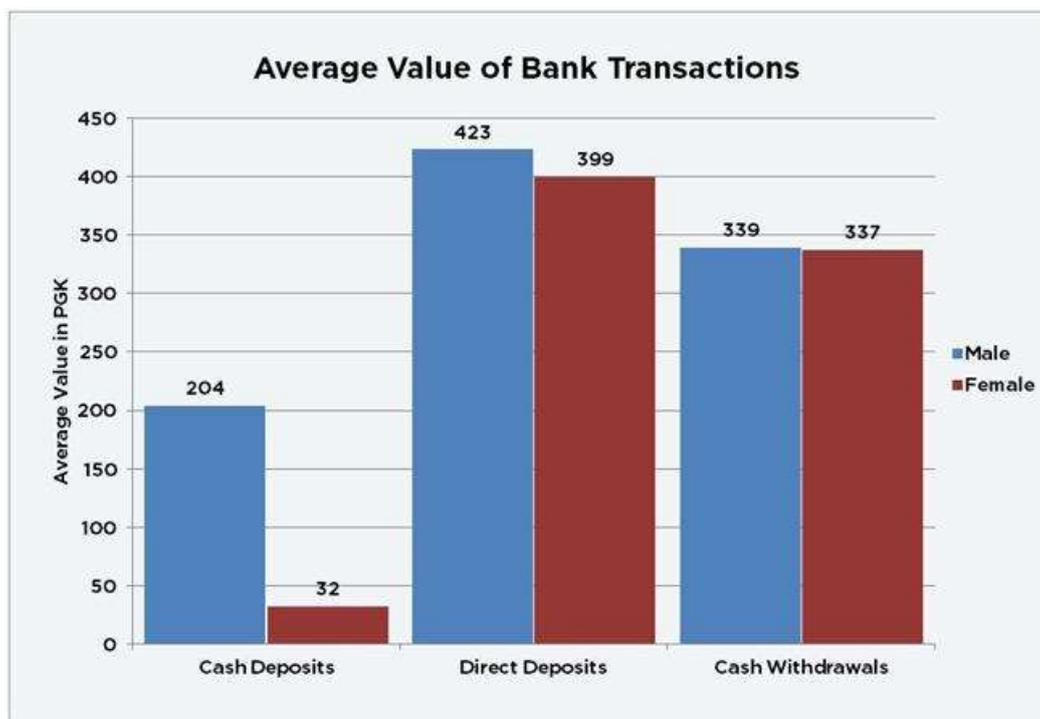
Figure 8: Average Number of Days between Bank Transactions



<sup>7</sup> This section of analysis considered only those respondents who performed at least one bank transaction during the study period. Within this sub-group, there were 272 weeks of data from 66 respondents.

The data also suggest that the value of direct deposit and cash withdrawal transactions performed by men and women were roughly similar. The difference between cash deposit amounts of men and women is not statistically valid because of the very small numbers of transactions involved (see **Figure 9**).

**Figure 9: Average Value of Bank Transactions**



Respondents in Port Moresby showed the highest average frequency of direct deposits and cash withdrawals, performing one of each type of transaction per week. The average value of cash withdrawals was approximately 90 percent of the average value of direct deposits in Port Moresby and 70 percent of the average value of direct deposits in Kimbe.<sup>8</sup> In Goroka, there were a total of only seven bank transactions making the identification of patterns there difficult.

Bank of South Pacific (BSP) emerged as the most common financial services provider across all three sites in Papua New Guinea. This is likely attributable to historic points of representation and the wider network of ATMs and branches than other commercial banks. In Goroka and Port Moresby, respondents reported performing 100 percent of their bank transactions with BSP branches or ATMs. In Kimbe, BSP claimed 87 percent of the bank transactions; transactions with Westpac, ANZ, Nationwide Micro Bank, and the National Farmers Savings & Loans Society were also seen there.

<sup>8</sup> Speculation resulting from these figures – that respondents were trying to use these accounts for custody of inflows rather than just transactions – is ill-advised because of the sporadic nature of data. While many explanations for these remaining balances exist, neither the data nor interviews provide significant insight into their cause.

Almost all cash withdrawals were made via ATMs and branches; 92 percent of withdrawals took place at a bank branch. There were only five cash withdrawals from agents at trade stores reported in the Financial Diaries; these transactions had an average value of PGK 22.

The average distance travelled for making cash withdrawals from a bank was 14 km overall; respondents traveled 20 km on average to reach the nearest branch or ATM in Kimbe and 9 km in Port Moresby. These distances are consistent with travel from the village to the township in respect to Kimbe, or in the case of Port Moresby, travel from the settlement to the town centers. Given the frequency with which men were performing these transactions, these findings support the assertion that men performed the bulk of the household transactions that occurred away from the home.

### REMITTANCES

The in-depth interviews revealed that remittances sent by both male and female participants were mainly for meeting family obligations like paying for children's expenses or help with medical expenses. The remittances were usually not regular but requested by the recipients as needed. Most remittances received by male participants were direct in nature and sent by family members, often to deal with risk events like funeral or health-related expenses. Most remittances received by women through formal channels, on the other hand, were indirect in nature – respondents reported receiving transfers for another family member or that they were received by other family members on their behalf and then remitted to them.

The preferred mode of sending or receiving remittances was the Post Office's Salim Moni Kwik (SMK) transfer service. Bank to bank transfers and person-to-person hand exchanges were the second and third most popular. 66 percent of those who received or sent remittances using methods other than bank transfers said they did not own a bank account, while 34 percent reported owning a bank account. Direct deposits into a bank account displayed the highest average value at PGK 542; the SMK service, which was most frequently used, had much smaller transaction values (see **Table 3**).

**Table 3: Average Remittance Value<sup>9</sup>**

| Remittance Channel     | Number of Remittances | Average Amount |
|------------------------|-----------------------|----------------|
| Person-to-Person       | 7                     | 133            |
| Bank to Bank Transfers | 12                    | 542            |
| Postal/SMK Transfers   | 25                    | 172            |

<sup>9</sup> This is the average value of remittances for 26 respondents over 341 respondent weeks; it excludes a remittance of PGK 36,000 in Port Moresby.

## FINANCIAL INSTRUMENT USE

The analysis of both informal and formal financial networks makes it evident that respondents in Papua New Guinea are using a diverse system of financial instruments to manage their financial lives. The diversity is impressive when the list is compiled.

**Table 4** displays the average value of transactions based on the financial instrument used and with whom the transaction was conducted. The highest average values are highlighted in yellow. The analysis shows that the largest transactions were through formal financial instruments, like wages delivered by direct deposit into a bank account or remittances sent over long distances.

The analysis also confirms that people used informal networks for smaller, frequent transactions like cash transfers between family members or associates. Many of the instruments – accessing a bank account at a grocery store in Kimbe or with an agent in Port Moresby, for instance – only occurred once during the study period. This suggests that while the potential number of financial instruments available to individuals was broad they tended to rely on a very small set to manage their financial lives.

Interesting travel patterns also emerge by looking at the average distance information for the different instruments. Respondents travelled farther distances to use formal instruments like banks or the SMK service. Informal transactions – like lending or borrowing store credit or familial transactions – took place near the home.

Table 4: Average Value of Transaction by Financial Instrument

| Financial Instrument           | Exchanged With  | Goroka           |                           |       | Kimbe            |                           |       | Port Moresby     |                           |       |
|--------------------------------|-----------------|------------------|---------------------------|-------|------------------|---------------------------|-------|------------------|---------------------------|-------|
|                                |                 | Avg. Value (PGK) | Avg. Dist. From Home (km) | Count | Avg. Value (PGK) | Avg. Dist. From Home (km) | Count | Avg. Value (PGK) | Avg. Dist. From Home (km) | Count |
| Agent at Trade Store           | Agent           | NA               | NA                        | 0     | 17               | 0.00                      | 1     | 20               | 0.00                      | 2     |
| Bank Account                   | Agent           | NA               | NA                        | 0     | NA               | NA                        | 0     | 20               | 3.82                      | 1     |
|                                | Bank            | 468              | 22.01                     | 7     | 213              | 20.17                     | 139   | 481              | 10.89                     | 134   |
|                                | Grocery         | NA               | NA                        | 0     | 280              | 22.58                     | 1     | NA               | NA                        | 0     |
| Borrowing Store Credit         | Associate       | 9                | 0.00                      | 2     | 24               | 0.40                      | 30    | 87               | 0.20                      | 18    |
|                                | Family          | NA               | NA                        | 0     | 5                | 3.39                      | 1     | NA               | NA                        | 0     |
| Lending Store Credit           | Associate       | NA               | NA                        | 0     | 100              | 0.00                      | 1     | 188              | 0.73                      | 13    |
| Loan from Religious Group      | Associate       | NA               | NA                        | 0     | 40               | 3.39                      | 1     | NA               | NA                        | 0     |
| Person to Person Borrowing     | Associate       | 263              | 18.92                     | 3     | 40               | 2.98                      | 9     | 94               | 0.42                      | 55    |
|                                | Family          | 60               | 0.00                      | 1     | 40               | 0.85                      | 5     | 5                | 0.00                      | 1     |
| Person to Person Cash Transfer | Associate       | 23               | 6.91                      | 27    | 74               | 17.34                     | 30    | 28               | 0.86                      | 6     |
|                                | Family          | 30               | 8.76                      | 509   | 49               | 2.85                      | 786   | 109              | 0.82                      | 307   |
|                                | Friend          | 14               | 8.84                      | 216   | 16               | 2.77                      | 34    | 23               | 1.38                      | 15    |
|                                | SBLC            | NA               | NA                        | 0     | 100              | 0.00                      | 1     | NA               | NA                        | 0     |
|                                | Self            | NA               | NA                        | 0     | 13               | 0.00                      | 1     | NA               | NA                        | 0     |
| Person to Person Lending       | Associate       | 108              | 11.84                     | 15    | 7                | 0.00                      | 2     | 157              | 0.13                      | 45    |
|                                | Family          | 35               | 0.00                      | 3     | 56               | 0.00                      | 4     | 25               | 0.00                      | 2     |
|                                | Friend          | 40               | 23.00                     | 2     | 50               | 9.51                      | 3     | NA               | NA                        | 0     |
| Post Office/SMK                | Post Office/SMK | 144              | 11.92                     | 9     | 166              | 12.36                     | 17    | 125              | 5.77                      | 2     |
| Savings & Loan Society         | Bank            | NA               | NA                        | 0     | 37               | 11.44                     | 3     | NA               | NA                        | 0     |
| Savings-in-House               | Associate       | NA               | NA                        | 0     | 13               | 13.94                     | 1     | NA               | NA                        | 0     |
|                                | Family          | NA               | NA                        | 0     | 19               | 0.00                      | 1     | 148              | .84                       | 15    |
|                                | Self            | NA               | NA                        | 0     | 123              | 3.76                      | 737   | 153              | .83                       | 3     |

## IMPLICATIONS

These data present both a set of challenges for the private sector and policy-makers as well as a path forward to increase financial inclusion in Papua New Guinea.

First, informal, social networks play a significant role in the ways individuals manage money. Obviously, respondents rely heavily on these networks to manage persistent risk and day-to-day financial challenges. However, as the in-depth interviews suggest, reaching out for cash gifts and loans can result in unwanted stigma and are bound with unspoken and unpredictable promises of help in the future. Thus, coherent, predictable, private, and easily accessible products and systems for managing risk would be of significant value to

respondents. Small-balance savings accounts that can be accessed close to the home or government-to-person transfers to support youth education are two examples of such products. As discussed in the “Livelihoods” brief, these and other products could be tailored to the specific income flow challenges that respondents face. Developing these specialized products would likely enable businesses to capture the demand for services currently being met by social networks.

Second, the low levels of bank account ownership and the low levels of use amongst those who do have an account suggest that banks are not currently meeting the money management needs of people like the respondents in the Financial Diaries study. The data from the study provide some clues as to why this might be the case. Specifically, the large distances traveled to interact with banks and the large sums deposited and withdrawn at banks indicate that money management through the formal financial system is not convenient. Furthermore, the correlation between account ownership and education suggests that banks face a challenge in reaching the less educated segments of society. This suggests that a multi-faceted approach to increasing formal activity is necessary. Education campaigns designed to explain the benefits of bank account ownership and how to use a bank account, coupled with more accessible services, could increase the uptake and use of bank accounts. Engaging individuals at places other than banks is critical. Evidence reported in the “Share of Wallet” brief suggests that a majority of household expenditures occur at formal and semi-formal commercial locations; these locations present an opportunity to bring financial services closer to potential clients.

Third, this brief echoes the finding of the “Share of Wallet” and “Livelihoods” brief that men and women have very different transactions patterns. Amounts handled, products purchased or sold, and distances traveled to perform transactions all support the finding that there is a bifurcation of household roles. Recognizing and responding to these different roles is critical. For example, a product meant to help transmit large sums over long distances for a nominal fee would be of more interest to men while a product that would allow quick, small payments for goods at a local vendor would be more beneficial to women.