Can Financial Citizenship Begin at Birth?
By Bhagwan Chowdhry
Nearly half of the world’s adult population has no access to basic financial services. Poor women in India and Africa even pay deposit collectors to keep their modest savings safe. Meanwhile, more than half of all births in most developing countries go unrecorded. Unregistered children are likely to be among the poorest and most socially marginalized members of society. And those without legal identity have difficulty obtaining essential services, including bank accounts. Further, when natural disasters and conflicts leave many homeless and without critical supplies, attempts to distribute water, food, and medicine are often compromised by corruption, inefficient distribution, and an inability to identify recipients.

These intertwining circumstances led me to found the Financial Access at Birth (FAB) initiative, which aims to place $100 in an electronic savings account for every child born in the world. The bank account will be integrated with a birth certificate and universal ID, where those forms of identification exist. The initiative is based on incentives: $100 will persuade parents to register their child’s birth; and a bank account will encourage savings and asset building. Eventually, mobile phone access will make it easier to transfer cash to those in need.

Other programs offer cash transfers. The Basic Income Grants program in Namibia, for example, gives every villager a monthly stipend of $13 unconditionally. Brazil’s Bolsa Família provides regular funds, dependent on the recipients’ school attendance and health care. In comparison, FAB’s investment is small—a one-time transfer of $100 for each newborn child. The purpose of FAB is not to create a cycle of dependence, but to provide social inclusion and financial access. It is an investment for an economically democratic society, what Robert Friedman, an asset-building advocate and founder of the Corporation for Enterprise Development, describes as the “plumbing” that will facilitate services to the poor and the first steps toward financial citizenship for all.

The FAB idea began during a dinner conversation with Vijay Mahajan, a well-known leader of Indian microfinance. Mahajan is an astute visionary with deep experience in development economics. He thought that FAB was an idea that could work, and he agreed that $100 for every child born is not as audacious or expensive as it might sound. Currently, 134 million children are born every year. If 75 percent of families accepted $100 for each child, the bill would come to $80 billion every year. Paul Hudnut, known in social entrepreneurship circles as “BOPreneur,” spread the idea via Twitter after learning about it at a meeting at the Center for Financial Inclusion. Several months later, I wrote a short blog, outlining the basic idea of FAB. The response was immediate and overwhelmingly enthusiastic. Academic colleagues, students, social entrepreneurs, philosophers, journalists, and business executives wrote back with insights, questions, and encouragement. Media coverage followed from The Economist, Fast Company, CNN, Forbes, Smart Money, Fox Business, and several prominent blogs. The HBO television series Entourage even featured me in a cameo role explaining FAB to two main characters. Many who learned about FAB offered to help, and some became founding members.

As media exposure brought supporters, those supporters asked tough, important questions. Peter Singer from Princeton University, author of The Life You Can Save: Acting Now to End World Poverty, wondered how we would prevent fraud. We discussed that $100 could stay in the child’s account until the child reaches adolescence,
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to ensure that parents do not withdraw the money. The use of biometric identification could further reduce the possibility of fraud. Nandan Nilekani, the software and outsourcing entrepreneur who is heading a massive government initiative to provide biometric identification for all citizens of India, invited me and a team of my MBA students to observe its rollout and to study the feasibility of its integration with FAB. We learned that the cost of generating a biometric identification, which includes fingerprints and an iris scan, is less than one dollar!

Many observers, including Jonathan Morduch of New York University, who is managing director of the Financial Access Initiative, asked why we need $100. Why not just open a no-frills bank account? As mentioned, an initial deposit offers incentives. The money incentivizes a parent to register a child’s birth. This institutional interaction also could become an opportunity for the state to provide vaccinations to protect more children from preventable diseases.

A deposit of $100 also incentivizes banks and financial institutions to become more inclusive. A long-term, stable deposit account is a bank manager’s dream, and though the account size might be small, our estimates suggest that it is sufficient to make FAB accounts attractive. We estimate that banks’ interest and fee income would exceed their funding costs by 4 to 5 percent annually. If a bank were to pay the account holders an interest rate that equals the rate of inflation, the initial $100 deposit will keep its value over the years, while the bank will earn $4 to $5 each year. This revenue could offset operating costs for an additional basic transaction account for the child’s family, which would be linked to the FAB account.

New technologies are drastically reducing the operating costs of managing small balance accounts. For example, Eko, a mobile phone banking company in India, offers unlimited free transactions—deposits, withdrawals, transfers—for a fixed yearly fee of 100 Indian rupees (a little over $2). Adding a possible (and likely) subsidy from the State Bank of India or ICICI, the country’s two largest banks, the annual fee and subsidy is still likely to be less than $4 or $5. Eko finds FAB’s model to be appealing, suggesting that its costs are within that range. The promise of thousands, if not hundreds of thousands or even millions, of FAB accounts would encourage banks to incur fixed costs. Banks that traditionally have shown little or no interest in serving the poor would be likely to view the potential of servicing all FAB accounts in a region as an attractive business proposition. FAB accounts can help build long-lasting customer loyalty, as customers with savings accounts do not easily switch providers. FAB offers banks an economically viable and sustainable model for providing financial services to the poor.

Some people worry that a $100 incentive may induce parents, especially in poor countries with growing populations, to have too many babies. But FAB would actually be doing something very different: ensure that children survive to their teenage years to collect the $100. Research suggests that increased child survival rates lead to fewer planned births. Others wonder whether $100 provided 16 years hence is a sufficient incentive for poor parents to change behavior. A pilot will help reveal whether the size of the initial $100 deposit is adequate.

Early childhood development practitioners have proposed that FAB target only poor children. We believe that opportunities for corruption are fostered in any design that requires eligibility determinations. Perhaps a natural targeting of FAB recipients will take place, because $100 would be a stronger incentive for the poor than for the rich. A combination of demographic segmentation, branding, psychology, and geographical accessibility could encourage middle- and higher-income families to opt out voluntarily, and thus the goal of targeting FAB to the poor could occur organically.

From where would $10 billion a year come? The sum sounds like a lot, but it is only 1/50 of 1 percent of world GDP—in other words, a contribution of $20 for every $100,000 in income generated. FAB is an opportunity to reposition aid. In time, it could become a more effective form of development assistance when reform of such assistance is being called for by all sides. We imagine that governments, multilateral agencies, donors, and international NGOs might view FAB as an instrument to overcome operational dissemination challenges of aid.

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The Center for Financial Inclusion at ACCION International began hosting FAB in September 2010. We are engaging many experts and organizations in global consultations to help us examine implementation and to identify appropriate countries for FAB pilots. Francisco Gil Díaz, Mexico’s former finance minister and a FAB founding member, believes that Mexico might be a good candidate, because Mexico would not need international aid for the initial deposits and already has explored smart cards for delivery of essential services to the poor. Rwanda or Ghana may also be a good fit due to flows of foreign aid and remittances. A smaller country, such as Samoa, with 5,000 births per year, could even raise funds for FAB accounts from its diaspora or other private or individual giving programs.

Further rigorous analysis lies in FAB’s future, which will be pursued one step at a time. Professor Dean Karlan of Yale University, founder of the Innovations for Poverty Action and co-author of More Than Good Intentions, has offered to help design the pilot impact assessment, which will provide answers to many important questions. Pilot questions will include: Does the incentive of $100 induce parents to register their child’s birth? How can basic transaction accounts become a reality and encourage additional savings as well as efficient transfers? What are the long-term impacts on health, education, and welfare?

Not every country is suitable for FAB. Like any good recipe, FAB will need to be flexible to accommodate what ingredients are available. One thing that is certain and nonnegotiable, however, is our unwavering belief that every human deserves the dignity of financial citizenship and that financial inclusion for all is within reach. FAB welcomes your ideas, support, and partnerships for implementation.