Looking Through the Demographic Window: Implications for Financial Inclusion

Profound demographic shifts in the developing world have important implications for financial inclusion – the provision of a full array of quality financial services for all, at affordable prices, in a convenient manner, and with dignity for the clients. Over the next few decades, birthrates will fall and life expectancy will rise in many developing countries, resulting in an especially large working-age population.

When countries have high work-ready populations and low dependent populations there is a window of opportunity to maximize the productivity of workforces through tailored financial inclusion policies.

Focusing on youth financial services is important, particularly in the poorest countries, but in middle income countries the needs of mature families and a growing elderly population will require increasing attention. This suggests greater emphasis in financial inclusion policy on long-term savings and pensions.

Demographic Trends

- Most of the world’s population growth by far will be in less developed countries (68 percent) and least developed countries (27 percent) over the next decade.
- In the past 60 years, life expectancy at birth grew by 12 years in more developed regions, 26 years in the less developed countries, and nearly 22 years in the least developed countries.
- Fertility rates are falling worldwide due to economic growth and development, social and cultural factors, and improving opportunities for women.

- Developed and less developed countries are aging. In 1950, 1 in 20 people worldwide was elderly; by 2050 it will be 1 in 5.
- Many less developed countries are entering the first window of opportunity for a demographic dividend as fertility rates fall and the labor force grows faster than dependent populations, freeing resources for development. The window for developed countries is largely closed and is still in the future for least developed countries.
- A second window of opportunity occurs when the expanded workforce ages and people stay in the workforce longer, saving and investing for extended retirement, resulting in more assets which raises the national income and leads to economic growth.
The Working-Age Population is Rising in Poorer Countries

[Graph showing the increase in working-age population from 1950 to 2100 for the world, and within more developed, less developed, and least developed categories.]


Total Dependency is Falling in Developing Countries

[Graph showing the decrease in total dependency ratio from 1950 to 2100 for the world, and within more developed, less developed, and least developed categories.]


Changing Financial Services Demand

- **Most of the financially excluded are in less developed countries.** Countries with the most people over age 15 without access to bank accounts include India, China, Indonesia, Pakistan, and Nigeria.

- **Demand for financial services will increase in developing countries.** As families become smaller and childbirth is delayed in countries entering the demographic window, more time will be spent in education and in the workforce, especially for women. There will be more disposable income for young families who can use it to save, purchase, or invest.

- **Increasing longevity can increase demand for long-term savings services.** As people live and stay in the workforce longer in developing countries, additional savings and investments are made to prepare for old age and to support elderly parents.

Implications for Policymakers and Providers

Financial services needs vary over a lifetime. Policies and services need to be tailored to the makeup of the population.

- In demographic window countries, financial inclusion policy should seek to reap the dividend of the expanding working-age population and falling dependant population to enable people in their productive years to make the most of their economic potential.

- In demographic window countries, financial inclusion policy should focus more on the shifting needs of mature families – including savings and investment, and pensions – while continuing to support young families.

- In the least developed countries, youth and access remain the top focus.

The Demographic Window Is Now Opening for Less Developed Countries

[Graph showing the opening of the demographic window for less developed countries from 1950 to 2100 for the world, and within more developed, less developed, and least developed categories.]

About Financial Inclusion 2020

Financial Inclusion 2020 (FI2020), one of the signature programs of the Center for Financial Inclusion, is building a movement that mobilizes stakeholders worldwide to achieve full financial inclusion using the year 2020 as a focal point to galvanize action. FI2020 engages diverse players who can expand financial inclusion through two initiatives: the research project Mapping the Invisible Market and Building a Road Map to Financial Inclusion. This work will be carried out through a consultative process that will culminate in a global experts’ meeting in 2013.

1401 New York Ave., NW, Suite 500, Washington, DC 20005 USA Tel 202.393.5113 Fax 202.393.5115 www.centerforfinancialinclusion.org