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Questioning Three Fundamental Assumptions in Financial Inclusion

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QUESTIONING THREE FUNDAMENTAL ASSUMPTIONS IN FINANCIAL INCLUSION

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Abbreviations

AFI	Alliance for Financial Inclusion
ATISG	Access Through Innovation Sub-Group of the G20 Financial Inclusion Experts Group
CFI	Center for Financial Inclusion
CGAP	Consultative Group to Assist the Poor
G20	Group of 20
G2P	government-to-person
GDP	gross domestic product
GPII	Global Partnership for Financial Inclusion
MDG	Millennium Development Goal
MFI	microfinance institution
NGO	non-governmental organisation
OECD	Organisation for Economic Co-operation and Development
SDG	Sustainable Development Goal
SME	small and medium-sized enterprises
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development

1 Introduction

Financial inclusion has rapidly ascended global development policy agendas. Between 2 billion and 2.5 billion adults worldwide do not use formal financial services (World Bank 2015: v), which a multifaceted coalition of actors is committed to changing. For the World Bank (2014: xi), ‘financial inclusion represents a core topic, given its implications for reducing poverty and boosting shared prosperity’. Such views are widely echoed by other international bodies such as the United Nations organisations, Organisation for Economic Co-operation and Development (OECD) and the G20, and numerous governments around the world are implementing or developing financial inclusion strategies. This report investigates a number of assumptions which are commonly held by proponents of financial inclusion, and discusses the consequences of these assumptions. Its purpose is not to argue that the expansion of financial services is harmful or beneficial to poor and low-income households – although both possibilities should be taken into account – but rather to engage decision-makers and academic experts in a deeper reflection of the unquestioned suppositions or conjectures which might underlie the drive to extend financial services universally in developing countries. This amounts to examining and questioning what often goes unexamined and unquestioned in the drive to extend finance to all.¹ This is important because problematic or unrealistic assumptions could lead to false expectations of impact, misallocated political and economic resources, misconceived interventions, and potentially even harmful effects on the intended beneficiaries.

Despite the relative newness of the agenda, the literature on financial inclusion has rapidly grown; it includes academic studies, policy documents, popular-scientific books, political pronouncements and prescriptive manuals. What unites this literature is the conviction that the extension of financial services to previously unbanked populations is broadly beneficial, is possible within a limited time frame, and ought to be given some priority in the context of broader development and poverty alleviation efforts. Many assumptions, large and small, are made here – as in the literature underlying any policy enterprise venturing into the unknown – and their validity should be assessed. This study focuses on three core assumptions: (1) there is a causal relationship running from financial inclusion to development and broader benefits; (2) the extension of financial services is directly beneficial to the poor; and (3) there is an untapped business opportunity in providing financial services to the poor. In explicating, discussing, and questioning each of these assumptions, a number of smaller constitutive ‘sub-assumptions’ are identified and discussed – for instance, financial inclusion is central to inclusion more broadly; or, poor people need to learn and recognise the benefits of financial inclusion.

The following section introduces and contextualises the financial inclusion field. The third section outlines this report’s methodology. The fourth, main, section explains, discusses and questions the three fundamental assumptions and their respective sub-assumptions. In conclusion we identify potential consequences and policy implications.

¹ In line with the emphasis more broadly in financial inclusion, this report focuses on finance for households and individuals (who may of course run enterprises) and leaves aside the somewhat separate issue of access to finance for established firms, particularly small and medium-sized enterprises (SMEs).

2 Background and overview

One important impulse behind this research was the publication of the World Bank's *Global Financial Development Report 2014*; an impressive, exhaustive report on the state of financial inclusion and the policies to promote it, which however does remarkably little to justify the rationale for financial inclusion. The World Bank (2014: 1) highlights 'a growing recognition that access to financial services has a critical role in reducing extreme poverty, boosting shared prosperity, and supporting inclusive and sustainable development.' But with the exception of a half-page (p. 14) that tersely reviews a few 'theoretical models', any critical reader is left wondering how and why exactly finance should help attain those goals. Other publications and statements on financial inclusion often are similarly sweeping and optimistic in their outlook and detailed in their recommendations, yet similarly vague about the underlying theory of change.

In the context of development,² there is no single, universally accepted definition of financial inclusion. Advocates generally agree that it entails ending an involuntary lack of access to financial services, and that financial inclusion constitutes a broader agenda than microfinance. The Center for Financial Inclusion (CFI), a thinktank founded by the microfinance non-governmental organisation (NGO) Accion International, offers that:

Full financial inclusion is a state in which all people who can use them have access to a full suite of quality financial services, provided at affordable prices, in a convenient manner, and with dignity for the clients. Financial services are delivered by a range of providers, most of them private, and reach everyone who can use them, including disabled, poor, rural, and other excluded populations.
(CFI 2009: 1)

In contrast to the concept of financial inclusion as a state (*being included*), others suggest it to be a process of *becoming included*: 'a process that ensures the ease of access, availability and usage of the formal financial system for all members of an economy' (Sarma and Pais 2011: 613). Finally, others highlight how it is a *conceptual innovation vis-à-vis* microfinance, connecting a broader range of actors and ideas. Ledgerwood and Gibson, writing for the World Bank, propose:

Financial inclusion is a multidimensional, proclient concept, encompassing increased access, better products and services, better-informed and -equipped consumers, and effective use of products and services. Putting this concept into practice requires more than institutional expansion and portfolio growth, goals that drove early development of the microfinance industry [...]. Balancing original clients' interests and providers' viability, financial inclusion incorporates effective policies, legislation, industry and consumer protection standards, and financial capability.
(Ledgerwood and Gibson 2013: 17)

For the present purposes, it will be useful to acknowledge all three notions: financial inclusion as a state of being included; as a process toward that state; and as a conceptual innovation connected with microfinance, but proposing far more. However, financial inclusion as a conceptual innovation is worth explaining in greater depth. It marks, as Ledgerwood (2013: 1) explains, a shift in the 'discourse' over the role of finance in development: 'Over the years, the discourse has shifted from "microcredit" to "microfinance," and now widespread concern for "financial inclusion" is directing attention to the broader "financial ecosystem" and how to

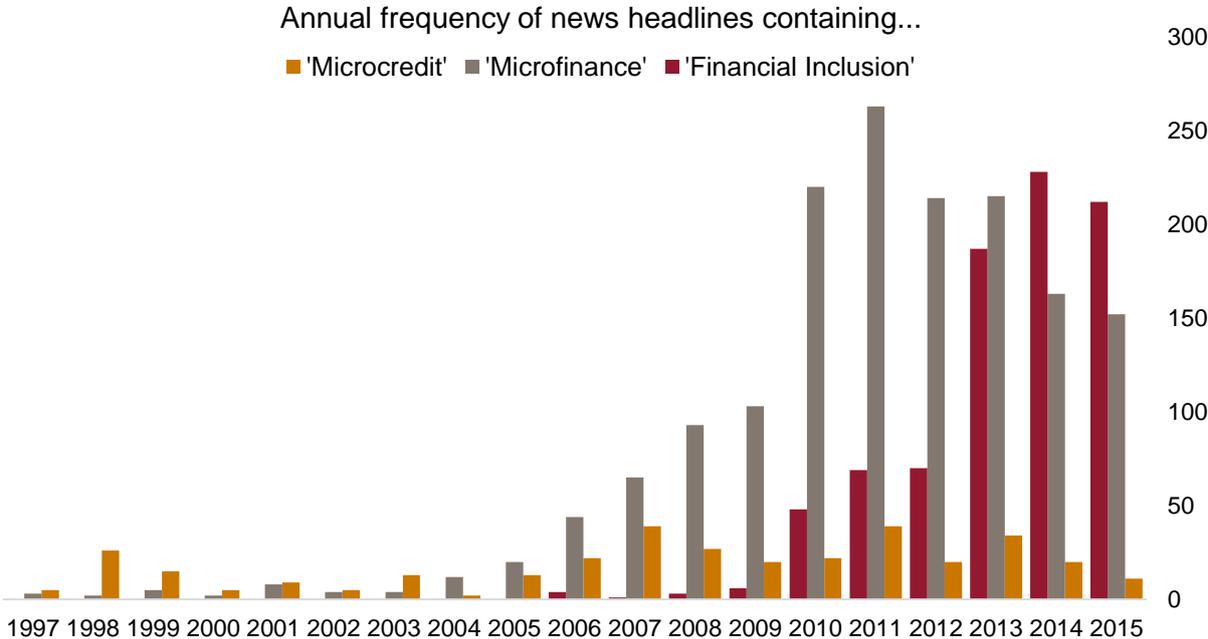
² Financial inclusion is also a political topic in wealthier countries, usually revolving around no-frills current accounts. However, this report is restricted to discussions of financial inclusion in the context of the global South.

make financial markets work better for the poor'. Others, such as the G20 also understand financial inclusion in the lineage of microfinance:

As microfinance institutions broadened their remit to offer a wider variety of financial services, the meaning of the term microfinance evolved to encompass all financial tools designed for poor clients (savings products, microcredit, payment services, remittances and microinsurance). More recently, it has become common to use the term financial inclusion to refer to providing such services. (ATISG 2010: 15)

A brief quantitative analysis using the LexisNexis database to search newspaper headlines³ indeed suggests a terminological switch to have occurred, whereby the term 'financial inclusion' replaces 'microfinance', as shown in Figure 2.1. 'Financial inclusion' sees its first media mention in 2006, but begins to rise in frequency in 2010, finally overtaking media reports on 'microfinance' in 2014, as these gradually dwindle.⁴ This shift in terminology may be seen as analogous to the earlier shift in which 'microfinance' gradually overtook 'microcredit'. The graph shows reports on *microcredit* peaking after the first Microcredit Summit in 1997, and again with the Nobel Prize for Peace awarded to Muhammad Yunus and Grameen Bank in 2007. With the preponderance of the 'financial systems approach' propagated by the Consultative Group to Assist the Poor (CGAP) and the entry of commercial investors, *microfinance* outstrips 'microcredit' from the mid-2000s onwards, finally peaking in media mentions in 2010 and 2011 in the wake of the 2010 Andhra Pradesh microfinance crisis in India. The shift from microfinance to *financial inclusion* follows upon this peak.

Figure 2.1 The discursive shift from microcredit to microfinance to financial inclusion



³ As of 29 October 2015. Articles of under 500 words length were excluded. Online-only, press releases and newswires were excluded.

⁴ The majority of these mentions are in developing-country media.

Financial inclusion is both old and new. On the one hand, its microfinance lineage has importantly shaped which actors, ideas, practices and expectations are at work in financial inclusion. As Mader and Sabrow (2015) show, for some leading actors in the microfinance field, adopting 'financial inclusion' as a new label served an important legitimacy purpose, and shifting their organisational missions from microenterprise finance to financial inclusion allowed microfinance institutions (MFIs) and microfinance thinktanks to continue to focus on microlending despite changing circumstances and growing questions about its effectiveness at alleviating poverty. Microfinance has become embroiled in a number of crises – financial, political, and above all reputational (Guérin, Labie and Servet 2015) – and is at risk of losing its public legitimacy, yet has been allowed to continue under a new label which offers a new and more positively-endowed term for the practice of lending to poor and low-income households. On the other hand, explaining the rise of financial inclusion only in the context of microfinance and its crises would miss crucial issues; financial inclusion is more than just a re-branding of microfinance or 'an almost entirely fake agenda', as Bateman (2012) alleges. First, financial inclusion in the global South is a more global agenda than microfinance ever was; it parallels ongoing efforts to ensure access to finance in the North. Second, financial inclusion is a broader programme than microfinance (essentially open-ended) which encompasses a wider range of services, including mobile monies, remittances and even government payments, in addition to the more traditional microfinance world of credit, savings and insurance. Third, financial inclusion engages a much wider range of actors, from mainstream banks and multinational financial services companies to small, semi-formal savings groups, and in this sense it proposes the financial needs of poor people to extend beyond what MFIs can deliver; it may even be a threat to MFIs if decision-makers become convinced that other actors can do the job better.

In summary, financial inclusion refers to a state of being included, a process of becoming included, and a conceptual innovation which derives from and (terminologically at least) appears to displace microfinance. Financial inclusion is a sweeping and forceful policy agenda which encompasses but goes beyond microfinance. Where early advocates of microcredit criticised large banks and financial corporations for betraying the poor (e.g. Yunus 2003), financial inclusion comes full circle with the proposition that large banks, commercial payment providers, investors, governments, technology firms, mobile network operators, MFIs, educational institutions, and even some less-formal finance providers can work together towards the common goal of building a market for financial services that works for the world's poor. Policymakers' confidence in this mutual-value proposition is reflected not least in the fact that access to financial services features in five of the 17 Sustainable Development Goals (SDGs)⁵ set by the United Nations for 2030.⁶

⁵ Access to finance features in: Goal 1 – End poverty in all its forms everywhere; Goal 2 – End hunger, achieve food security and improved nutrition and promote sustainable agriculture; Goal 5 – Achieve gender equality and empower all women and girls; Goal 8 – Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all [twice mentioned for this goal]; Goal 9 – Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation.

⁶ Resolution adopted by the General Assembly on 25 September 2015 (UN 2015: 15–20).

3 Methodology

This study interrogates a carefully selected pool of literature along a predetermined set of themes – assumptions – to facilitate a focused discussion. Attempting a panoramic overview of the wide-ranging literature is a major challenge, and even the *World Bank Financial Development Report 2014* (World Bank 2014) succeeds only at offering a selective overview, primarily of literature produced by closely affiliated researchers. In late October and early November 2015, a number of databases were systematically searched using a pre-defined set of terms to identify relevant publications. The title search terms were ‘financial inclusion’, ‘inclusive finance’, and ‘financial outreach’; after initial trials, ‘financial access’ and other ‘access’-related terms were dropped because they produced a glut of medical and health systems-related results, and ‘access to finance’ often referred to a separate topic in business and entrepreneurship. The databases searched were:

- Web of Science/Thompson Reuters⁷
- OECD iLibrary
- World Bank eLibrary
- United Nations Official Document System⁸
- CGAP/Microfinance Gateway Library⁹
- Alliance for Financial Inclusion Library
- Google Scholar¹⁰
- The print and electronic resources of the British Library of Development Studies (‘Largest library collection of development research in Europe’¹¹) and the University of Sussex Library in Brighton.

In addition to the systematic search, a small number of further publications were identified in the course of reading, on the basis of repeat citations. The primary criterion for narrowing down the literature was policy relevance, in the sense of either communicating thinking about financial inclusion (presumably) effectively to decision-makers,¹² or communicating important organisations’ rationales for financial inclusion. Extra weight was given to flagship publications – that is, those most expected to enjoy significant readership beyond narrowly specialist audiences, such as the World Bank’s *Global Financial Development Report or Portfolios of the Poor* (Collins *et al.* 2009), a book that has sold widely. Care was given to actively include organisations known to be active funders or thought leaders in financial inclusion, even where these did not show up prominently in the search.¹³ To focus on the assumptions made by proponents of financial inclusion, articles taking a critical stance were excluded,¹⁴ as were geographically or topically narrowly focused case studies. Only papers

⁷ Peer-reviewed journal publications were expected to reflect the most advanced thinking among researchers about the subject. To narrow down the results – 433 at first; 84 when ‘access’-related search terms were dropped – only articles showing high impact by being cited at least five times, or having been published in or after 2013 (which had not had the chance to be cited widely), were included.

⁸ Only in-text search (not titles) was possible. This search returned 437 results for ‘financial inclusion’, 183 for ‘inclusive finance’, and three for ‘financial outreach’; therefore, the search was restricted to the first 20 results (ranked by relevance) for each term.

⁹ Only English-language publications were included, filtering by topic ‘financial inclusion’.

¹⁰ The first five pages of results for each search term were considered, using a cookie-free browser.

¹¹ <http://blds.ids.ac.uk/> (accessed 1 December 2015).

¹² The presumed audiences being high-level decision-makers and their staff in governments, intergovernmental organisations, donor agencies, and philanthropic funding bodies. Many publications may aim for such an audience, but only those which are professionally produced/laid out, or in the case of academic literature published in peer-reviewed journals, can be assumed to potentially reach this goal.

¹³ Vice-versa, because there is often overlap/redundancy between texts from the same organisation, some publications which would otherwise have been included were disregarded in favour of texts from other sources.

¹⁴ Because they are less likely to be noted in policy circles. This criterion excluded only a very small number of academic texts (only); it did not lead to the exclusion of the views of any important organisations.

primarily dealing with financial inclusion in developing countries, not richer countries, were considered. Publications focusing on financial literacy and capability were also disregarded,¹⁵ as they constitute a separate literature strand and often focus on learning experiences from wealthier countries.

Through this combination of procedures, a total of 47 publications were selected and entered into the NVivo qualitative data analysis software for coding. Owing to time constraints, they were separated into categories of priority, of which 21 were deemed highest-priority and reviewed and coded for this report. Thus, although partially guided by quantitative indicators (e.g. citation metrics), the final decision on which publications to include was primarily qualitative, and the rationale for inclusion of each text is offered in Annex 1. While not claiming to represent the full diversity of thought on financial inclusion, the selection offers a focused snapshot of the positions of key organisations, policymakers and thought leaders.

For this report, an ‘assumption’ may be understood as a premise or a postulate that is seen as evident or true among advocates of financial inclusion, and therefore does not elicit substantial controversy. Based on prior research in the area of financial inclusion,¹⁶ a set of assumptions was listed and used as initial codes for identifying segments exhibiting assumptions about financial inclusion. Inductively, during reading and coding, more assumptions emerged, and based on the coding (which helped to identify patterns and overlaps) many of these were ultimately condensed into three large, encompassing assumptions; some (comparatively rare or less significant) sub-assumptions were dropped from the analysis.¹⁷ While the assumptions discussed below are not universally or absolutely held (as dogmas) by all advocates of financial inclusion, and instances of divergence and nuance are highlighted, the reading and coding showed them to be commonly present and often underlie the arguments. The three assumptions discussed in depth are fairly broad and fundamental; they represent things that are *generally* taken for granted. They are by necessity larger than any individual coded passage which illustrates them, and they are often implicit, although select passages demonstrate their presence. Where examples are given below of passages or publications, these are by no means exhaustive, but rather chosen as particularly illustrative.

¹⁵ With the exception of Deb and Kubzansky (2013), in order to include the views of Citi Foundation.

¹⁶ Published primarily in Sabrow and Mader (2014), Mader and Sabrow (2015), and Mader (2015), as well as unpublished work on literature reviews and grant applications.

¹⁷ For instance, the assumptions ‘The fungibility of finance is a good thing’; ‘Gendered access represents a significant problem’; or ‘Religion is a barrier to financial inclusion’ were dropped for parsimony.

4 Three assumptions

This main section explores in depth three assumptions commonly made by advocates of financial inclusion: (1) there is a causal relationship running from financial inclusion to development and broader benefits; (2) the extension of financial services is directly beneficial to the poor; and (3) there is an untapped business opportunity in providing financial services to the poor. Each assumption contains or consists of a number of ‘sub-assumptions’ or premises upon which it is based.

4.1 Assumption 1: There is a causal relationship running from financial inclusion to developmental outcomes and broader benefits

Sub-assumptions:

- Correlations (between financial inclusion indicators and desirable socioeconomic outcomes) indicate causation.
- Economic theory and evidence shows financial inclusion leading to desirable socioeconomic outcomes.

The assumption that the extension of financial services to, or active usage by, a greater number of people will generate desirable effects for societies underlies much of the policy attention given to financial inclusion. The implicit theory of change goes beyond the narrower older theory underlying microfinance, which generally emphasised economic and gender-empowerment benefits accruing directly to the poor, primarily thanks to enterprise (*cf* Rhyne and Rotblatt 1994). In the reviewed literature, financial inclusion is widely held to be a driver of positive broader socioeconomic changes, particularly economic growth and reduction in inequalities, facilitated by a better working of the financial system – what may be termed the ‘macro benefits’ of financial inclusion (as opposed to ‘micro benefits’, in Assumption 2). The G20 Financial Inclusion Experts Group showcases this conviction when it says that:

[f]inancial sector development drives economic growth by mobilizing savings and investing in the growth of the productive sector. The institutional infrastructure of the financial system also contributes to reducing information, contracting and transaction costs, which in turn accelerates economic growth.
(ATISG 2010: 44)

Nearly all of the reviewed publications in some way refer to gains for both individual households and societies as a whole. The 2011 ‘Maya Declaration’ exemplifies the breadth and depth of the assumption when it declares that central bankers around the world:

[r]ecognize the critical importance of financial inclusion to empowering and transforming the lives of all our people, especially the poor, its role in improving national and global financial stability and integrity and its essential contribution to strong and inclusive growth in developing and emerging market countries.
(AFI 2015)

The widely-cited manual *Access for All*, published by CGAP,¹⁸ also proposes that a ‘deeper and more inclusive financial system benefits poor people both indirectly, through increased

¹⁸ CGAP is, in many ways, a World Bank in-house microfinance promotion agency (*cf* Mader 2015: 58–60; Roy 2010).

growth, and directly as they gain access to needed services' (Helms 2006: 29). The Global Partnership for Financial Inclusion (GPFI) clearly emphasises these 'indirect' macro gains: 'However well regulated and stable a financial system may be, if it excludes the vast majority of citizens the system cannot contribute to national economic activity, promote job creation, increase income and boost shared prosperity' (GPFI 2014: 3). The Alliance for Financial Inclusion (AFI) even goes further, pointing to truly globe-spanning benefits as 'financial inclusion is an important part of the solution to current global economic problems' (Hannig 2013: 44) (see also UN 2006: 20–1; Sarma and Pais 2011: 613; Thingalaya, Moodithaya and Shetty 2010: 32; GPFI 2014: 3).

While claims about positive socioeconomic impacts often remain just claims, a number of publications also refer to a substantial evidence base and in some cases discuss this evidence base (above all World Bank 2014). Yet the discussions of evidence often contain far more qualifications and 'weasel words' than the strong pronouncements made elsewhere about the importance of financial inclusion.¹⁹ For example, in an article discussing what is described as a 'financial inclusion–poverty relief–MDG nexus', Chibba (2009: 215, emphasis added) says that '[t]heoretical, empirical and anecdotal evidence *suggests* that FI has the *potential* to reduce poverty, and that it promotes pro-poor growth and addresses the MDGs'. Cull, Ehrbeck and Holle (2014: 6, emphasis added) also refer to a 'well-established literature' which '*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*'. For the World Bank 'financial inclusion represents a core topic, given its implications for reducing poverty and boosting shared prosperity', but it is more cautious when discussing the evidence: 'Research – both theoretical and empirical – suggests that financial inclusion is important for development and poverty reduction (World Bank 2014: xi, 14).

What exactly, then, is the evidence base? Two types of evidence are regularly levied: empirical, showing correlations of financial inclusion indicators with various economic development outcomes; and theoretical, presenting economic models that discuss causal pathways for financial inclusion to impact economic development. A critical analysis, however, raises questions about the strength of the evidence base, particularly regarding the causation often imputed into correlations between financial inclusion and development outcomes. Cull *et al.* (2014: 6) acknowledge how '[a]t the macroeconomic level, the evidence has to rely on cross-country comparisons'. Some texts also add nuance, for instance that 'the cross-sectional nature of the data allows us to interpret these results only as significant correlations, not causal relationships' (Allen *et al.* 2012: 24).

The *Global Financial Development Report 2014* (World Bank 2014: 14–48) is emblematic of the mismatch between the data's strength at showing correlations and its weak ability to demonstrate that financial inclusion is a causal factor. Cross-country comparisons discussed in this report do indeed show that account ownership and access to other financial services vary with income and inequality levels. But to make the case for causation, the report must rely on a very short summary of three economic models which 'show that lack of access to finance can be critical for generating persistent income inequality or poverty traps, as well as lower growth' (World Bank 2014: 14). Overall, the assumption of a causal relationship leading from financial inclusion to developmental outcomes and broader benefits such as reduced inequality or enhanced economic growth relies on a select set of models based on economic theory. The publications which are frequently cited in the literature are therefore worth briefly assessing.

One frequently-referenced publication, both in the assessed literature as well as beyond (with over 1,000 citations in the Web of Science) is King and Levine (1993). Far from

¹⁹ *Merriam-Webster* defines a 'weasel word' as 'a word used in order to evade or retreat from a direct or forthright statement or position'.

explicitly studying developing countries or inclusiveness of their financial systems, King and Levine model a relationship between the overall growth of national private financial sectors and macroeconomic variables (primarily gross domestic product (GDP) growth) around the world. While their regression analysis finds positive effects, it is unclear what these findings, if anything, say about extending financial services to the poor, since financial inclusion is not about overall size but whom the financial sector extends to. Furthermore, King and Levine offer no evidence that the growth of economies, driven in their model by financial expansion, benefits the poor. Similarly, an often-cited paper by Jalilian and Kirkpatrick (2005: 649), whose results predict financial development beneficially impacting 'indirectly on income inequality, through its effect on economic growth', uses as the key indicator for financial development overall private credit relative to GDP, which again says nothing about the extension of financial services to the poor. The paper concludes that only in the longer term, after first actually leading to an increase in inequality, financial growth creates more equal societies. Similarly, Beck, Demirgüç-Kunt and Levine (2007: 27), whose finding that '[f]inancial development disproportionately boosts incomes of the poorest quintile and reduces income inequality' is widely cited, used overall private credit as their measure of financial development.

While these findings may be interpreted as making a compelling case for expanding credit, interpreting them as evidence for financial inclusion is problematic, since they fail to disaggregate financial sector expansion, particularly towards lower-income households. The findings might even suggest that the expansion of credit to large industrial firms reduces poverty and inequality by creating jobs for low- and moderately-skilled workers, and diverting credit towards consumption and microenterprise for the poor could hinder growth and exacerbate inequality, as for instance Bateman and Chang (2014) argue. Part of the correlations could also be explained by the choice of aggregate *credit*, not size of financial markets overall (including equity investments), as a measure for financial development, because traditionally credit-led economies such as Germany or Sweden show lower levels of inequality while more equity-financed economies are more unequal.²⁰

The three contributions upon which World Bank (2014) draws – Banerjee and Newman (1993), Galor and Zeira (1993), Aghion and Bolton (1997) – present purely axiomatic, abstract models, with no real-world test for their conclusions. For Banerjee and Newman (1993) and Galor and Zeira (1993), access to finance matters primarily because it allows people to buy education. In their models, individuals' unequal access to credit causes differences in human capital (skills) development, which generate inequality and lower growth in the economy. That issue, however, is far narrower than financial inclusion, which proposes using finance for education as well as a plethora of other things; and in terms of policy, it may also suggest addressing flaws in countries' education systems as much as policies to expand financial services. Aghion and Bolton (1997), meanwhile, do not actually make a case for expanding access to finance; they suggest instituting permanent wealth redistribution because, so they argue, this would equalise access to finance – causation in reverse of that asserted by the World Bank (2014).

In short, the evidence for the assumption that financial inclusion has a positive effect on developmental outcomes is not as robust as often implied. The correlations between financial development and variables such as lower poverty and inequality, growth, or employment are strong, but the causal relationship may be spurious. An unrecognised variable – such as quality of government or generous welfare states – could drive both the declines in poverty and the growing access to financial services. Or the causation may be in reverse, if lower economic inequality, higher incomes, and access to jobs drive the usage of financial

²⁰ See, for instance, Rajan and Zingales (2003) on bank-based vs market-based financial systems.

services.²¹ In terms of the theoretical evidence presented, some of the models are purely axiomatic and abstract, themselves founded on taken-for-granted assumptions and postulates, and the empirical work does not show the financial services to poorer populations but only overall credit leading to economic growth and changes in inequality. More broadly, one may ask whether these models reflect outdated economic assumptions and orthodoxies (such as agent rationality and perfect foresight) which would need to be questioned in light of the Great Financial Crisis.

Summing up, the assumption that there is a causal relationship running from financial inclusion to developmental outcomes and broader benefits is just that. Rather than resting upon assured knowledge, protagonists assume that inclusive access to and usage of financial services generates positive change. This rests upon economic models of questionable reliability and relevance, and upon imputing very narrow causation into broad cross-country correlations. While the empirical analyses leave little doubt that more people in higher-income and more equal societies have access to and employ financial services, the widespread belief that the latter causes the former is dubious.

4.2 Assumption 2: The extension of financial services is directly beneficial to the poor

Sub-assumptions:

- Financial inclusion directly reduces poverty.
- Financial inclusion is intrinsically valuable (as a form of inclusion).

'The reason for concern about widespread financial "exclusion" in developing countries is straightforward: we know that access to a well-functioning financial system can economically and socially empower individuals, in particular poor people, allowing them to better integrate into the economy of their countries, actively contribute to their development and protect themselves against economic shocks', the United Nations (UN 2006: 4) proclaims. Then-Secretary-General Kofi Annan outlined a range of direct benefits for poor people in his foreword:

Building inclusive financial sectors improves people's lives, in particular those of the poor. A small loan, a savings account or an insurance policy can make a great difference to a low-income family. They enable people to invest in better nutrition, housing, health and education for their children. They ease the strain of coping with difficult times caused by crop failures, illness or death. They help people plan for the future.
(UN 2006: iii)

The surveyed literature is replete with such claims about a critical role for access to financial services in directly improving the lives of poor and low-income populations (see, for instance, Chibba 2009; ATISG 2010: 1; Thingalaya *et al.* 2010: 21–22; UNCTAD 2014a: 5). The (partial) absence of formal financial services among poor people is seen as an evident lack:

An estimated 2.7 billion adults worldwide do not have credit, insurance, or savings with a bank or other formal institution [...]. Yet, the more we learn about the financial lives of poor people, the clearer it is that low-income families need a wide array of financial services.
(Ehrbeck, Pickens and Tarazi 2012: 1)

²¹ As, for instance, Sarma and Pais (2011: 626) argue when they conclude: '[O]ur study shows that building of financially inclusive societies would require attempts to reduce income inequality, enhance literacy levels and improve physical and communication infrastructure'.

Even more strongly:

For poor people, money management is an absolutely central part of daily life, perhaps more than for any other economic group. Poor people, like most people, need a range of appropriate and affordable financial services to address a range of financial needs, such as safe accessible savings, microcredit, payments and transfer services (both domestic and international) and insurance. [...] More than two billion adults do not have access to formal or semi-formal financial services. They are the financially excluded in a world where access to financial services can mean the difference between surviving or thriving.
(ATISG 2010: V, 4)

Only in some instances is finance *not* represented as an absolute, pressing need. The United Nations represents one of the few divergences, in conceding: 'Inclusive finance does not require that everyone who is eligible use each of the services, but they should be able to choose to use them if desired' (UN 2006: 3).

In many ways, the 'micro benefits' assumption reflects and continues with the poverty reduction claims made in earlier microcredit days, expressed for instance in Muhammad Yunus' promise to send poverty to 'poverty museums' within two generations (Yunus 1997). Some earlier texts in the sample still rely heavily on the claims made for microcredit (e.g. Helms 2006: 29ff; UN 2006); however, these notions of microcredit in some 'miraculous' or transformative way bringing poverty relief have been widely called into doubt by recent research (e.g. Duvendack *et al.* 2011; Banerjee *et al.* 2015). They were still premised on a very particular kind of financial services (services from MFIs) benefiting a particular population group (primarily microentrepreneurs). Financial inclusion, meanwhile, is a more universalistic approach, suggesting equal access and prospects for everyone: 'An inclusive financial system creates equal opportunities to enable economically and socially excluded people to integrate better into the economy and actively contribute to development' (Thingalaya *et al.* 2010: 30).

While it is clear that poor people do use financial services in many different ways, it is not so evident that financial inclusion brings transformative impacts. The theorisation of 'micro benefits' from financial inclusion revolves around notions of reducing poverty through enhancing economic opportunity, mitigating shocks, facilitating access to goods and services, and allowing households to better manage and allocate money over time. Given the disappointing recent evaluations of the material poverty impact of microfinance (Cull *et al.* 2014: 2–5), many publications instead connect financial inclusion with improvements on the somewhat more nebulous dimension of client 'welfare' (*cf* Allen *et al.* 2012: 35; ATISG 2010: V, 1, 4; Ledgerwood 2013: xvii and Chapter 5; Sarma and Pais 2011: 613; UNCTAD 2014a: 4–5). A household that uses financial tools to smooth its consumption or reallocate its expenditures over time may be argued to have increased its welfare, even when outcome indicators such as income or assets remain unchanged. Facilitating consumption smoothing, or mitigating shocks which can trigger downward spirals, certainly indicates that finance helps poor people to cope with poverty, but not that they escape from it. Consequently, the promised benefits to the poor often blur in the fine print, with assertions such as:

Building inclusive financial sectors improves people's lives, in particular those of the poor. A small loan, a savings account or an insurance policy can make a great difference to a low-income family. They enable people to invest in better nutrition, housing, health and education for their children. They ease the strain of coping with difficult times caused by crop failures, illness or death. They help people plan for the future.
(UN 2006: iii)

A concern for *enabling* people to *invest* in such goods, or helping them *plan* for the future, is not the same as a concern that they succeed with their investments and enjoy better futures.

The argument for poverty relief – or more broadly: benefits in some form accruing directly to the poor – is commonly grounded in discussions of how poor people behave financially (among others: Helms 2006: 25; Accion 2009: Rutherford, Collins and Johnson 2013: 51ff; Cull *et al.* 2014: 1). Ledgerwood and Gibson (2013: 27) strongly emphasise finance as being absolutely and constantly necessary: '[P]oor households are in continual need of financial tools to improve their productivity and secure the best possible consumption and investment choices, all the while managing potential or existing risks'. This line of argument about poor people as perpetually active, savvy financial managers who only lack adequate tools is also very prominently made in *Portfolios of the Poor* (Collins *et al.* 2009), which summarises several years of research in three countries using the so-called 'financial diaries' method.²² Neglecting the non-monetary exchanges which are very common among the poor, as well as the physical assets which constitute the bulk of their assets, the authors focused on poor people's monetary activities, where they argue the interesting 'action' is to show households' perpetual use of financial services (*op cit.*: 11). It is worth noting that, in the analysis delivered by *Portfolios of the Poor*, every instance of not immediately spending any earned increment of income – entirely living 'hand-to-mouth' – was taken as an act of finance.

Because financial services allow households to intermediate money over time, Collins *et al.* (2009) deem them essential to dealing with volatile incomes and irregular expenditures. The problem of having low incomes, Collins *et al.* (2009) propose, is trumped by lack of access to reliable, convenient, flexible and appropriately structured financial tools: 'Not having enough money is bad enough. Not being able to manage whatever money you have is worse. This is the hidden bind of poverty' (Collins *et al.* 2009: 184). It appears that, from the 'Portfolios' perspective, one selective view of poverty (lack of money) is replaced by another (lack of financial tools). Yet while much of the surveyed literature takes this for granted, it is far from clear that poor people's financial behaviour demonstrates a more urgent need for financial services than, for instance, for decent work or social insurances, which incidentally would also smooth incomes and expenditures, but additionally raise incomes and reduce expenditures. One may surmise that, given high enough incomes, irregularity would be less problematic and the financial tools would be affordable. Although there is no question that poor people do manage complex formal and informal arrangements to match their means to their needs, in the 'triple whammy' which Collins *et al.* (2009: 39–45) diagnose – low incomes, irregularity/unreliability, lack of financial tools – treating the latter two as the worse problems appears dismissive of how their limited overall budgets also restrict poor households' options. Naturally, finance and policies for decent work or social insurances need not be seen as a trade-off; however, an excessive focus on extending financial tools could direct public resources away from such policies which reduced the need for financial coping mechanisms.

Beyond the improved options provided by finance, some texts also suggest that access to financial services grants clients a sense of inclusion and empowerment in its own right and that in this sense financial inclusion has an intrinsic, intangible value. This assumption is implicit in a number of statements. Helms (2006: 139), for example, alludes to intrinsic enjoyment and empowerment in surmising that 'within our lifetime poor and low-income people throughout the developing world can *enjoy permanent access* to the financial services they need. These financial services [...] enable poor people to climb the first rung on the ladder out of poverty *on their own terms*' (Helms 2006: 139, emphasis added).²³ Other authors are even more explicit in associating finance itself with empowerment: 'Access to finance by the poor and vulnerable groups is a prerequisite for poverty reduction.

²² The method may more accurately be described as regular interviews to reconstruct incomes and expenditures ex-post.

²³ But who is to say that those routes out of poverty which can be pursued via financial services are the ones which poor people would choose 'on their own terms'?

Truly speaking, providing access to finance is a form of empowerment of vulnerable groups' (Thingalaya *et al.* 2010: 11). Such intangible benefits from financial inclusion clearly may exist, but it is important to note that they are generally *assumed* in the texts.

The assumption of an intrinsic inclusionary value in finance is reflected in many texts' implication that financial inclusion is central to inclusion writ large. Although it seems fair to treat 'financial exclusion as a manifestation of social exclusion' (Sarma and Pais 2011: 626) – since the people who are excluded from democratic participation, higher-class social networks, public services, employment opportunities, or legal recourse, are also often excluded from the financial system – to conversely locate financial exclusion at the core of these exclusions is arbitrary.²⁴ In some instances, this sub-assumption is perhaps more a question of poorly chosen wording, for instance with Accion (2009) speaking simply of 'inclusion' where *financial* inclusion is meant.²⁵ Other authors, however, clearly overstate the case: '[F]inancial inclusion may well be about money and finance, but with the ultimate objective of directly abolishing the state of social exclusion in the economy' (Teki and Mishra 2012: 76). A conflation of financial inclusion with empowerment and broader inclusion would be problematic if it overemphasised what finance can achieve while (implicitly or explicitly) discouraging other remedies for disempowerment and exclusion.

4.3 Assumption 3: There is an untapped business opportunity in providing financial services to the poor

Sub-assumptions:

- Formal and private is better than informal or public.
- Poor people still need to learn and recognise the benefits of financial inclusion.
- Financial exclusion is caused by market failure.
- Financial exclusion is caused by government failures.
- Technological advances will advance financial inclusion.

The strong interest of large global financial corporations – such as Visa – as well as independent charitable foundations founded by finance companies, such as the Citi Foundation or MasterCard Foundation, suggests a widely assumed existing or emerging business case for financial inclusion. As with the two other assumptions, the assumption that there is an untapped or insufficiently recognised business opportunity, or 'business potential' (Teki and Mishra 2012: 128), is made explicit in some passages, but remains implicit in many other parts. Explicit passages include Accion (2009: 3) outlining its vision of financial inclusion:

[O]ver the next decade, the depth of poverty will diminish as millions of families will leave extreme poverty behind. With slightly more discretionary income such families can begin to afford financial services, opening the possibility for the private sector to serve them. We estimated that full inclusion could bring a potential \$6 to 8.5 billion revenue pool into the financial sector.

Underlying the assumption that the private sector should deliver financial inclusion is an evident conviction that formal financial services generally work better than informal financial services, and existing informal solutions do not really represent a valuable form of financial inclusion. The MasterCard Foundation (2014: 4), for instance, notes that village-based savings groups can satisfy basic needs, but '[w]hile these solutions work at a subsistence

²⁴ Or even just at the level of other exclusions. Helms' (2006: 145) likening of financial inclusion to the inclusion into world society enabled by access to the Internet is a comparison worthy of debate.

²⁵ For instance, '[S]pecifically, when we look at inclusion, we focus on four core dimensions' (Accion 2009: 2).

level, their exclusion from the formal system makes them more susceptible to risk'. Cull *et al.* (2014: 2) also opine: 'At times, these informal mechanisms represent important and viable value propositions. Often, however, they are insufficient and unreliable, and they can be very expensive.' Some authors, however, diverge, remaining careful not to dismiss informal service providers as irrelevant or harmful, particularly since they are seen as likely to continue serving clients who are too poor or marginal to be of interest for the formal sector. For example, Ledgerwood and Gibson (2013: 30) say that 'in remote rural areas, the low cost structure and proximity of user-owned and managed providers constitute significant advantages over more structured MFIs or commercial banks'; but they immediately point to the multiple advantages which more formal solutions would bring.

Implicitly, it is not just formal but, specifically, private solutions that are seen as better, as revealed by phrases like: 'Financial services are delivered by a range of providers, most of them private' (Accion 2009: 1). A repeated emphasis on competition as the driver of access underscores the vision that private, profit-seeking entities (which respond to competition) must be at the forefront: 'As in any market, if improvement in access does not develop in a competitive manner, benefits may be restricted. Clients with limited information and/or choices may not be able to exert competitive pressure on providers to improve services' (Ledgerwood 2013: 4). The G20's call for a 'diversity' of service providers still implies private providers, since it calls for 'policy approaches that promote *competition* and provide *market-based* incentives for delivery of sustainable financial access and usage of a broad range of affordable services' (GPMI 2014: 13, emphasis added). The United Nations 'Blue Book' represents an exception here in explicitly allowing that 'multiple providers of financial services [...] could include any number of combinations of sound private, non-profit and public providers' (UN 2006: 17).

Underlying the private business case is a presupposition that private providers actually are (or would be) willing and able to decently serve poor clients at prices they are willing and able to pay. Here, experiences with microfinance often serve as the starting point. The G20 Financial Inclusion Experts Group highlights how MFIs show that:

clients often pay market rates for financial services and are reliable clients. These market rates can cover the higher transaction costs of small loans and often include significant risk premiums. The majority of microfinance providers that have significant numbers of clients are profitable (i.e. financially sustainable), and are funded by social and commercial investors not donor grants.
(ATISG 2010: 6)

Helms (2006: 5) underscores this in arguing that microfinance 'has demonstrated that poor people are viable customers, created a number of strong institutions focusing on poor people's finance, and begun to attract the interest of private investors' (see also UN 2006: 9; Rutherford *et al.* 2013: 67; MasterCard Foundation 2014: 5). The discussion of poor people's existing financial behaviour, as described in *Portfolios of the Poor* (Collins *et al.* 2009) and elsewhere, is read as evidence that poor people often pay comparably dearly for unreliable and inflexible informal financial services, and consequently, if they paid these or lower prices to formal providers, they would get better service (*cf* Helms 2006: 25; Accion 2009: 1; Rutherford *et al.* 2013: 51).

Why, then, despite the assumed business case for financial inclusion, do so many people not yet have access to (or use) financial services? Why is the potential not fulfilled? Authors often suggest (somewhat in contradiction with the arguments of Collins *et al.* 2009) that many poor people are unable to recognise or capture the benefits. Poor people must still learn to recognise the benefits offered by the financial sector. For example, the G20 experts group argues:

Low levels of financial capability form a significant barrier to accessing and properly using formal financial services. With enhanced financial capability, poor people will be able to understand basic financial concepts, appreciate how newly available services can meet the needs currently filled via informal financial arrangements, and have the skills to apply their knowledge. (ATISG 2010: 18)

Deb and Kubzansky (2013: ii) even argue that the ‘financial capability gap’ – ‘a chasm that exists between those who have been given the skills and knowledge to responsibly engage with a formal financial system that is utterly new to them and those who have not’ – could and should be closed with business means; although they remain ambiguous as to the cost recovery rationale.

Aside from the clients’ lack of financial knowledge or capability, more fundamentally two other explanations for the business opportunity remaining unfulfilled are repeatedly given: one, financial exclusion is a market failure stemming essentially from information problems; two, government acts as a hindrance and needs to become a facilitator. The first explanation posits that financial institutions do not trust or know their potential clients well enough, or potential clients do not trust or know the institutions well enough. While the latter is deemed to be remediable by financial education or capacity building (UN 2006: 27–8; Deb and Kubzansky 2013; UNCTAD 2014a: 18), the former is explained from economic theory as a problem of adverse selection and moral hazard faced by financial service providers (Thingalaya *et al.* 2010: 26; World Bank 2014: 17–18; UNCTAD 2014a: 7). As the World Bank (2014: 17) for instance explains, with respect to credit, ‘higher interest rates tend to attract riskier borrowers (adverse selection) and change repayment incentives (moral hazard)’. The market failure explanation posits that the high prices which poor people pay are both a cause and a consequence of their exclusion. High prices should not be taken as indicating that financial inclusion necessarily has to be expensive (for clients) or unprofitable (for providers); rather, high prices reflect information problems which may be solved with new technologies, appropriate policies, or market infrastructures such as credit bureaus.

This links to the second commonly-offered fundamental explanation: financial exclusion reflects a government failure, and governments should become better facilitators. UNCTAD (2014a: 7) explains that ‘government failure may occur with inadequate or excessive regulations acting as barriers to access to finance, preventing optimal provision of services’. According to the United Nations (2006: 6), ‘[i]n many countries, a change in attitudes of government and other stakeholders may be required, along with a greater appreciation of what inclusive financial sectors can deliver for development’. Staschen and Nelson (2013: 73) specifically highlight a need to ‘educate lawmakers’ in order ‘to overcome any potential resistance and create a joint understanding of what is needed to achieve an enabling environment for financial services for the poor’.²⁶ Past and present errors of government highlighted in the literature include high documentation requirements (Allen *et al.* 2012: 13), regulation which stifles innovation (ATISG 2010: 1), price regulation and anticompetitive policies (World Bank 2014: 47), and government’s attempts to directly offer financial services (Helms 2006: 141; Ehrbeck *et al.* 2012: 5). Only the United Nations (2006: 18) actively points out that, historically, sometimes public financial services programmes have also been necessary and useful.

The facilitating role which many authors demand boils down to a ‘broad-based government commitment to financial inclusion to help alleviate poverty’ (ATISG 2010: VII)²⁷ and ‘providing a supportive environment [that] keeps the market in mind’ (Accion 2009: 2). Frequently named requests are that public bodies provide payment infrastructure and credit bureaus

²⁶ Only half of the chapter on the role of government in financial inclusion in Ledgerwood (2013: 72–81) actually deals with the mandates of national governments; intra-industry coordination and self-regulation take up the other half.

²⁷ Which means governments should effectively adopt Assumptions 1 and 2 detailed in this report.

(Ehrbeck *et al.* 2012), encourage technology development and uptake (ATISG 2010: 1), promote clients' financial capability (Staschen and Nelson 2013: 76–8), remove onerous regulations (UNCTAD 2014a: 17), and ensure macroeconomic stability (Helms 2006: 141) (see also Staschen and Nelson 2013). One striking feature here also is the call for governments to channel payments to their citizens through formal financial systems, because 'these payments have the potential to become a vehicle for extending financial inclusion' (World Bank 2014: 98). Ehrbeck *et al.* (2012: 8) argue that government-to-person (G2P) payments – 'the spectrum of social transfers, wages, and pension payments' – are useful for driving transaction volumes, bringing more low-income individuals into the formal financial sector, and lowering the per-transaction cost. Providing social safety-nets and expanding financial services thus intertwine (Staschen and Nelson 2013: 73) (see also Allen *et al.* 2012: 34; UNCTAD 2014a: 17).

A number of objections or caveats could be raised regarding both the 'market failure' and 'government failure' explanations. First, the high prices may primarily reflect high transaction costs in combination with tiny volumes, rather than trust or information problems. Microsavings offers a case in point: considering the expenses associated with collecting and administering tiny deposits, many MFIs (understandably) prefer to raise capital from banks, investors or donors rather than from clients.²⁸ Often, MFIs only offer savings services in conjunction with loan products, or even as 'forced savings'.²⁹ These experiences would suggest that poor and low-income people are not excluded from saving because they have nothing to save, or they do not trust financial institutions, but because the business case for offering them savings services is weak. Second, as Collins *et al.* (2009) go to lengths to show, poor people often are financially very savvy. Their non-usage of formal financial services may not necessarily reflect lack of trust or awareness, but perhaps instead a recognition that the formal sector (currently) brings them few or no advantages compared to other alternatives. Third, regarding the role of government, it is hard to think of any era in which circumstances were more supportive than today. The end of Bretton Woods brought a permanently more liberalised international financial environment; structural adjustment imposed liberal policies in many countries and aided microfinance expansion (Weber 2004); the international capital markets have been awash with unregulated funds; numerous governments have publicly declared financial inclusion a priority (including India, which is home to nearly one fifth of the world's population) (Thingalaya *et al.* 2010: 131–41); and competition from state lending programmes and onerous regulation such as interest rate caps is in many places a thing of the past, or has shrunk in scope. Thus, the fixation on government as an opponent rather than friend of market development appears a relic of old debates rather than a reflection of widespread problems, and the persistent call on governments to direct their citizen services through the financial sector suggests many financial inclusion proponents actually seek governments to subordinate other policy objectives to financial inclusion.

To realise the elusive business case, technological innovations are often supposed to help address information asymmetries and adverse selection problems, for instance with fingerprinting and iris scans aiding client identification via a central registry. High hopes are also placed in technology lowering the transaction costs incurred in the formal financial sector, particularly in comparison to informal and community-led alternatives. Ledgerwood (2013: 2) summarises these pathways: 'The technology drivers of financial inclusion will come from innovations in mobile money, biometric identity systems, smart phones, and wireless broadband Internet access.' The feeling is that, 'as the costs of information and communications technology shrink, the time is ripe for using technology to address financial exclusion. Technological innovation changes the cost and access equation – making it economically viable for financial service providers, often in partnership, to reach poor people,

²⁸ See Mader (2015: 33–4) for a discussion of the microfinance sector's heavy focus on credit.

²⁹ Sinclair (2012: 35–6, 92) describes how MFIs often abuse what they call 'savings' when they force borrowers to deposit a part of the loan as security, denying borrowers usage of that money while they must pay interest on the full loan sum.

with a wider range of products and services' (ATISG 2010: V). Key words in this discourse include: digital finance, branchless banking, mobile banking, and agent banking (see also Helms 2006: 141; Annibale 2009: 264; Chibba 2009: 222; UNCTAD 2014a: 10). Underwriting much of the 'tech' optimism is the widely-noted success of the Kenyan mobile payment service M-PESA, with over ten million users. M-PESA developed out of a state-funded (Department for International Development, DFID) pilot initiative to lower the cost of loan payments via mobile phones; but the unexpected behaviour of users alerted the project's developers to a far greater demand for mobile payment services (Hughes and Lonie 2007). Despite its resounding success in Kenya, similarly broad take-up has proven difficult to replicate elsewhere, and the MasterCard Foundation (2014: 5) notes that Kenyan providers 'don't offer a template that is replicable across all markets. To achieve the real dream of financial inclusion, new models and partnerships will need to be established'.

Time will tell whether the sub-assumption that technological advances will soon bring financial inclusion holds true. But too much may be extrapolated from the M-PESA singularity, and the opportunities for technology in payment services may not equate to those in other dimensions of financial inclusion, such as savings and insurance. Moreover, emerging identification and enforcement techniques such as biometrics could also generate new forms of exclusion as financial providers use them to single out and expel or blacklist unprofitable clients.

No final verdict can – or should – at this stage be rendered on the validity of the assumption that there is an untapped business opportunity in financial services for the poor. Here, it must suffice to note that the business opportunity is often assumed rather than proven. Oddly, due to the 'business opportunity' assumption, those non-profit institutions which in the past have in many places succeeded in extending a full(er) range of financial services have largely been neglected.³⁰ Postal savings banks make occasional appearances in the surveyed literature, but cooperatives scarcely find any mention at all;³¹ although they are formal and semi-formal, these (usually) government and member-owned institutions do not fit the 'private is better' sub-assumption that underpins the widespread business-led vision of financial inclusion. The existence of private moneylenders for centuries in parts of the world, as well as the success of some large profitable MFIs, leaves little doubt that private credit to the poor *can* be a viable business. However, whether formal, for-profit financial service providers are able to implement beneficent business models beyond credit (or independently of it), particularly savings and insurance, let alone at high quality, is far less clear. Collins *et al.* (2009: 93), for instance, suggest partial solutions may be possible, but '[t]he cost of offering a commercially viable comprehensive health insurance to poor households [...] would almost surely entail premium payments that would be beyond the reach of even the best-off households'. So far, private business in financial inclusion has often been cherry-picking, with selected services being offered to selected clienteles, and frequently requiring philanthropic and public-sector subsidisation; the business case for full financial inclusion generally remains assumed rather than proven.

³⁰ There are exceptions to this neglect. Ledgerwood (2013: 175–6) notes: 'Well-managed cooperatives often provide loans at lower interest rates than MFIs' but have a 'general lack of financial oversight coupled with weak governance'. The United Nations (2006: 72–3) 'Blue Book' notes more problems than advantages, but speaks of a 'revitalization of the credit union movement over the past two decades'. Only two texts explicitly propose cooperatives as solutions: Annibale (2009: 264), who mentions cooperatives and postal savings banks as 'traditional' financial institutions that may be 'leveraged', and Ehrbeck *et al.* (2012: 2), who discuss cooperatives as a last resort in a footnote.

³¹ Cooperative societies counted four million members in the 1930s in India (Turnell 2005). The cooperative sector in Germany, harking back to social reformists Friedrich-Wilhelm Raiffeisen and Herrmann Schulze-Delitzsch, today counts 30 million customers or roughly half the adult population (Standard & Poor's 2014: 4).

5 Conclusion

This report has questioned three commonly-held fundamental assumptions in financial inclusion. After outlining the rationale for this study, and demarcating and examining the field of financial inclusion, the methodology was explained. Subsequently, the three assumptions – (1) there is a causal relationship running from financial inclusion to development and broader benefits; (2) the extension of financial services is directly beneficial to the poor; and (3) there is an untapped business opportunity in providing financial services to the poor – and their constitutive sub-assumptions were discussed and interrogated. To conclude, I discuss some potential consequences of making these assumptions and suggest four policy implications.

The discussion above cautions against excessive faith in Assumption 1, that financial inclusion will lead to socioeconomic development and broader benefits. Banking on financial inclusion to solve socioeconomic problems bears a risk of neglecting other, potentially more effective, policies for directly tackling underdevelopment and inequality. While economically more advanced countries clearly perform better on measures of financial inclusion, it is hardly evident which way the causal relationship runs, or whether there is any direct causation at all. The models commonly cited in the literature indicate that *larger* financial sectors may advance economic growth and (after first exacerbating inequality) generate more equal wealth distribution, but not that more *inclusive* financial sectors do. This assumption should therefore be treated with caution, and must be buttressed with better evidence. At least since the Great Financial Crisis, precipitated in part by an unprecedented expansion of finance to low-income households in the United States, the risky nature of ameliorating broader socioeconomic problems with policies for financial expansion should be evident (Rajan 2010).

The question (Assumption 2) of whether the extension of financial services directly benefits poor people, not just indirectly through economic development, is equally fraught with empirical issues, as well as conceptual questions. What counts as a benefit? Is financial inclusion central to inclusion more broadly? Financial inclusion advocates generally are not very specific on what they expect to achieve: broad-based change and poverty reduction; mitigating certain symptoms of poverty; or just extending access to financial services because it is beneficial in itself? At present, these benefits are often conflated, which stifles a clear-sighted and empirical debate about the potentials and drawbacks of financial inclusion. That financial inclusion is beneficial to the poor should not be taken for granted. Claims such as: ‘Banking services are in the nature of public good, it is essential that availability of banking and payment services to the entire population without discrimination is the prime objective of the public policy’ (Teki and Mishra 2012: 75) showcase how much further (and more critical) thinking is needed.

Regarding the business opportunity (Assumption 3), it is far from obvious that most ‘unbanked’ people can afford the services of the formal financial sector, let alone all types of service delivered at good quality. The present focus on private providers would be misguided if the business opportunity is dubious or dependent upon support from the philanthropic or public sector. While the microfinance experience demonstrates that formal, for-profit providers can develop and scale up solutions for financial service delivery (even to some very poor households), it also shows how expensive these solutions are,³² and that they are often premised on take-it-or-leave-it, one-size-fits-all single products (e.g. 50-week loans)

³² The average global microcredit interest rate, according to *The Economist* (2014), has risen again to 35 per cent.

rather than comprehensive and flexible solutions. While community- or state-owned models have (not always) worked elsewhere, these currently get less attention in the literature than the technological fixes which may or may not facilitate private, for-profit models.³³ Finally, the call for government to act as a handmaiden for business, for instance by channelling G2P payments through commercial finance providers, points to new means for making the business proposition work, but these come at the cost of public funds being diverted to the private sector – which raises questions of whether financial inclusion is more of a business proposition or a political project.

This report has offered a structured and critical literature review from which, given the closeness to policy of many of the texts, some policy implications may follow. I suggest four key implications: (1) strengthening the evidence base; (2) re-assessing the priority; (3) critically checking the business case; and (4) keeping an eye on the downsides.

The first implication, particularly from Assumptions 1 and 2, is that the evidence base must be strengthened, lest financial inclusion be pursued merely for its own sake or, worse, primarily for the sake of parties other than poor and low-income families. Clearly, financial services are not inherently useless or dangerous, and very plausibly most poor people would appreciate a safe place to save and an occasional loan at a reasonable interest rate. But far more rigorous evidence is needed that financial inclusion actually drives meaningful economic change which benefits the poor or allows poor people to systematically escape poverty. More and better research using a mix of methods should reveal the impact of finance on the lives of real people; that is, people with multidimensional needs and practices, not narrowly-conceived ‘portfolio managers’. Above all, the yardstick – what constitutes meaningful impact – should be clearly defined, and a debate is overdue about whether consumption smoothing (instead of sustainable consumption raising) or creating individual opportunities to escape poverty (which may, or may not, actually lead out of poverty) are meaningful enough impacts.

Second, until the evidence base improves, policymakers, governments and philanthropists may consider prioritising other interventions than those aimed to enhance financial inclusion. Given the glut of international declarations for access to finance, its prominence in the SDGs, and the multiple pressures on governments not to buck this trend, there is a risk of an overemphasis on financial inclusion. Vice-versa, governments in developing countries should not be allowed to mistake or abuse financial services as a stand-in for (possibly more costly but also possibly more effective) citizen services to generate broader inclusion, such as public education or health care.

Third, the business case for financial inclusion should be critically examined, particularly *vis-à-vis* alternatives for poor and low-income families, such as cooperatives and postal savings banks. New technologies may in time bring the ‘business potential’ closer to reality, and much is currently wagered on the type of developments collected loosely under the heading of ‘inclusive innovation’. But it is far from certain that high quality, low costs, and profitability can all be attained in financial services for the poor. Above all, it remains important to continually examine whether and how new business models actually contribute to systemic change (Thorpe 2015).

Fourth and finally, an eye must be kept out for the limitations and potential downsides of financial inclusion, which the policy discourse generally neglects, in particular the potentially significant regressive effects. Savings services may disproportionately benefit better-off households, who have more to save and earn more interest. Loans impose a significant financial drain on borrower households and have politically disempowering effects, as Mader

³³ The Indian literature on financial inclusion, it is worth noting, differs on this point from the international or American-based literature. Thingalaya *et al.* (2010) and Teki and Mishra (2012) discuss at length a broad range of possible modes of financial service delivery, including community-based and state-led solutions.

(2015) shows for the microfinance industry. Work by the Federal Reserve Bank of Boston discusses how electronic payments generate economically significant regressive transfers and poorer households effectively subsidise the spending of the rich (Schuh, Shy and Stavins 2010). Other negative effects from switching to electronic payments, which is a growing priority in financial inclusion,³⁴ may include new ways for governments to monitor and police the poor (if, for instance, G2P payments are tied to bank accounts), making it easier to tax and criminalise informal businesses, and the sale and abuse of clients' data.

To conclude, this report has evaluated a limited set of assumptions. Others, such as whether financial capability refers to a universally applicable set of skills (or is culturally specific), or what role gender binaries play in financial inclusion, represent important further avenues for investigation. The critical discussion above does not in itself make a case against financial inclusion, and an invalidation of one or more of the assumptions would not necessarily undermine the entire rationale. However, it cautions against naïve enthusiasm of the type frequently encountered in the reviewed texts. Financial inclusion is a complex field, host to a multitude of actors and a variety of unresolved questions, and unrealistic expectations will lead to misaligned priorities and disappointments. Questioning the three assumptions therefore invites decision-makers to check their positions on financial inclusion, if only to clarify better what benefits they expect it to bring to whom, and why.

³⁴ Advocated above all by the 'Better Than Cash Alliance', www.betterthancash.org/ (accessed 19 January 2016).

Annex 1 Rationale for inclusion of texts

Author(s)	Year	Title	Publisher/ promoter	Type of text	Rationale for inclusion
Accion	2009	<i>Financial Inclusion: What's the Vision?</i>	Center for Financial Inclusion at Accion International	Declaration/ statement	An early statement of strategy by a central actor in the field. Concise and directly addressed to MFIs and policymakers.
Allen, F.; Demirgüç-Kunt, A.; Klapper, L. and Soledad Martinez Peria, M.	2012	<i>The Foundations of Financial Inclusion: Understanding Ownership and Use of Formal Accounts</i>	World Bank	Research article/ working paper	Often-cited World Bank research article/working paper.
AFI (Alliance for Financial Inclusion)	2015	<i>The Maya Declaration: The AFI Member Commitment to Financial Inclusion</i> (Updated as of September 2015)	AFI	Declaration/ policy document	Concise statement of mission and strategy by major policymaker network AFI; represents the views of central banks and financial regulators.
Annibale, R.	2009	'Achieving Inclusive Growth'	<i>Enterprise Development and Microfinance</i>	Peer-reviewed journal article	Author is Global Director of Citi Microfinance.
ATISG (Access Through Innovation Sub-Group of the G20 Financial Inclusion Experts Group)	2010	'Innovative Financial Inclusion'	G20	Report/white paper	Represents the views of central bankers and stakeholders from key countries on the potential of financial inclusion.
Chibba, M.	2009	'Financial Inclusion, Poverty Reduction and the Millennium Development Goals'	<i>European Journal of Development Research</i>	Peer-reviewed journal article	More than five Web of Science citations.
Collins, D.; Morduch, J.; Rutherford, S.; and Ruthven, O.	2009	<i>Portfolios of the Poor: How the World's Poor Live on \$2 a Day</i>	Princeton University Press	Book	Popular and widely-discussed book on the finances of the poor.
Cull, R.; Ehrbeck, T. and Holle, N.	2014	'Financial Inclusion and Development: Recent Impact Evidence'	Consultative Group to Assist the Poor (CGAP)	Report/ discussion paper	Summary of the evidence by a key organisation in the microfinance/financial inclusion field.
Deb, A. and Kubzansky, M.	2013	<i>Bridging the Gap – The Business Case for Financial Capability</i>	Citi Foundation	Report/white paper	Represents the views of Citi Foundation as an aspiring thought leader in financial inclusion.
Ehrbeck, T.; Pickens, M. and Tarazi, M.	2012	'Financially Inclusive Ecosystems: The Roles of Government Today'	CGAP	Report/ discussion paper	Concise summary of CGAP's views on the role of government.

GPFI (Global Partnership for Financial Inclusion)	2014	<i>2014 Financial Inclusion Action Plan</i>	GPFI	Action Plan/ Policy Document	Most recent G20 action plan on how to achieve financial inclusion.
Hannig, A.	2013	'A Declaration for Financial Inclusion', in <i>G20 Russia 2013</i>	G20/AFI	Magazine article	Statement of mission and strategy by major policymaker network AFI, in magazine publicising the 2013 G20 summit.
Helms, B.	2006	<i>Access for All: Building Inclusive Financial Systems</i>	CGAP/World Bank	Book/policy document	Widely-cited explanation of inclusive finance, representing the views of CGAP.
Ledgerwood, J.	2013	<i>The New Microfinance Handbook</i>	World Bank	Edited book	Update of a highly influential volume (for the microfinance sector).
MasterCard Foundation	2014	The MasterCard Foundation Symposium on Financial Inclusion 2014 Post-Symposium Report	MasterCard Foundation with Boulder Institute of Microfinance	Report	A collection of the recent views of a wide range of practitioners under the aegis of the MasterCard Foundation.
Sarma, M. and Pais, J.	2011	'Financial Inclusion and Development'	<i>Journal of International Development</i>	Peer-reviewed journal article	More than five Web of Science citations; published in a highly respected journal.
Teki, S. and Mishra, R.K.	2012	<i>Microfinance & Financial Inclusion</i>	Academic Foundation	Book	Indian perspective, written by two senior professors.
Thingalaya, N.K.; Moodithaya, M.S. and Shetty, N.S.	2010	<i>Financial Inclusion and Beyond: Issues and Challenges</i>	Academic Foundation	Book	Indian perspective, written by three senior professors, coming with high political endorsements.
UNCTAD (United Nations Conference on Trade and Development)	2014	<i>Impact of Access to Financial Services, Including by Highlighting Remittances on Development: Economic Empowerment of Women and Youth</i>	UNCTAD	Policy document	Recent note representing the views of the United Nations sub-organisation most associated with developing countries.
United Nations	2006	<i>Building Inclusive Financial Sectors for Development</i> ('Blue Book')	United Nations	Book/policy document	Flagship publication by the United Nations on the role of financial access in development.
World Bank	2014	<i>Global Financial Development Report 2014: Financial Inclusion</i>	World Bank	Report	Flagship publication by a key actor in development overall, and microfinance/financial inclusion specifically.

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