FINANCIAL EXCLUSION AND INCLUSION: AN INTERNATIONAL PERSPECTIVE

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Abstract

The relationship between financial inclusion and economic growth has received considerable attention by the policymakers in many countries. Financial inclusion has moved up the global reform agenda, and has become a topic of great interest for policy makers, regulators, researchers, market practitioners, and other stakeholders. The increased emphasis on financial inclusion reflects a growing realization of its potentially transformative power to accelerate development gains. This paper recognizes the overwhelming efforts of the Governments of different countries toward achieving goals of financial inclusion.

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Introduction

The academic literature has advocated the close relation amid financial expansion and growth of economy. The importance of a well-structured financial system is widely recognized globally, and the financial inclusion is seen as a policy priority in many countries. For varied reasons, it is desirable to have an inclusive financial system. Firstly, financial services are an essential part of our everyday life. Secondly, people who face difficulties accessing and using financial services experience real damage not only in terms of the monetary costs of financial exclusion, but also for the social and psychological costs of feeling excluded from mainstream society. Thus, a well-functioning financial system improves efficiency and welfare by providing avenues for secure and safe saving practices, and by facilitating a whole range of efficient financial services.

Methodology

In order to pursue the objectives, this study relied on secondary; already published; information and data sources. A review of the literature provided a theoretical underpinning for the study and also helped the researcher gain a sound understanding of the subject matter. Accordingly, research papers appearing on the theme in prominent development economics and related journals were reviewed.

Review of Literature

Banks rely on local dynamics for financial inclusion or exclusion because globalization has forced them to concentrate and observe their respective important credit markets and global portfolio of their assets (Dymski, 2005). The most accurate and appropriate method to measure financial exclusion is by analyzing the ease of access to basic banking services for money transfer facilities. Such exclusion is observed in instances wherein few members or households are refused access to all of the financial services and the reasons may be due to their past history or the culture and belief system of the concerned society. This in due course generates a systemic chaos, hampers sustainable development and causes various social evils: widespread and rampant poverty, poor health and hygiene, increased illiteracy and decreased rate of education, increased unemployment, overall a poor and highly unproductive environment. Unplanned and disrupted regulatory practices undermine the efforts of the government in overcoming such hurdles to create a just, secure and sustainable society (Vaas, 2007). Members of the society who are refused access to safe financial services are forced to turn to illegal, black and informal market to have their ends meet and duties performed. This leads to their exploitation, increases unethical practices and creates rapacious lending habits. Mexico has allowed foreign banks and investment companies to procure six major local banks and this has been mainly possible due to financial liberalization and economic integration. Despite these signs of progress low and middle income households have limited access to credit markets (Biles, 2005).

Both developed and developing countries show signs and symptoms of financial exclusion. The main aim of financial inclusion is to decrease the conflict between increasing profit and achieving social balance. If the Saver Plus program of Australia would have included local community and grass root level people, provided financial education and co-contribution arrangements it could have been highly successful in terms of fostering savings behaviour (Russell et.al., 2006). Financial exclusion was created in Japan due to privatization of its traditional postal system, which was primarily a savings plan (Kaneko and Metoki, 2008). The policy response for the creation of basic financial inclusion in Europe has been unplanned and extremely ad hoc. In Europe, in order to provide a national solution it has been observed that country specific policies are not as effective as in USA, which practices affirmative action (Carbo et.al. 2007).

Various scholars have studied financial inclusion, exclusion, and the Treasury's efforts to overcome and address the challenges in United Kingdom. UK realizes that to overcome financial exclusion, credit unions that have a social outlook and purpose are one of the means to spread financial literacy and awareness (Evans and Broome, 2005). Such credit unions address poverty issues and encourage the practice of financial inclusion. The government created the treasury's Financial Inclusion Fund that has benefited excluded communities (Jones, 2008). Since last 20 years, community and local credit unions could only create a limited impact on the financially excluded communities, as they are small. The introduction of the Financial Inclusion Task Fund created a positive, significant growth and transformation in this regard and enabled the credit unions to flourish into market-oriented commercial and social enterprises and businesses. This increased the capacity of the credit union to address financial exclusion from the grass root to the national level (Jones, 2006). In UK, alternative financial bodies such as Community Development Loan Fund (CDLF) were set up and their primary aim was to promote financial inclusion in poor and backward households and defeat financial inclusion (Buttle and Bryson, 2005).

Since last 20 years, infrastructure of financial services has grown and flourished only in the metropolitan areas and cities. This is due to the fact that the cost to use and implement latest, emerging technology is very high and the requirement for cost reduction has increased. The withdrawal of financial services from the backward, low-income areas and suburbs has encouraged the emergence of costly and sub-prime lenders. To provide assistance to backward and disadvantaged communities, area-based solutions are thought upon and suggested as a viable, cost-effective, affordable and a positive alternative to increase social-welfare orientation and growth. If these units fail to integrate themselves within the community they wish to serve, they will encounter a fate similar to that of the Financial Inclusion Newcastle (FIN) in the North East of England (Fuller & Mellor, 2008). The three main features of financial inclusion should be banking, consumer credit and insurance. Besides these factors, the importance of this concept is increasingly felt in cashless economies (Collard, 2007).

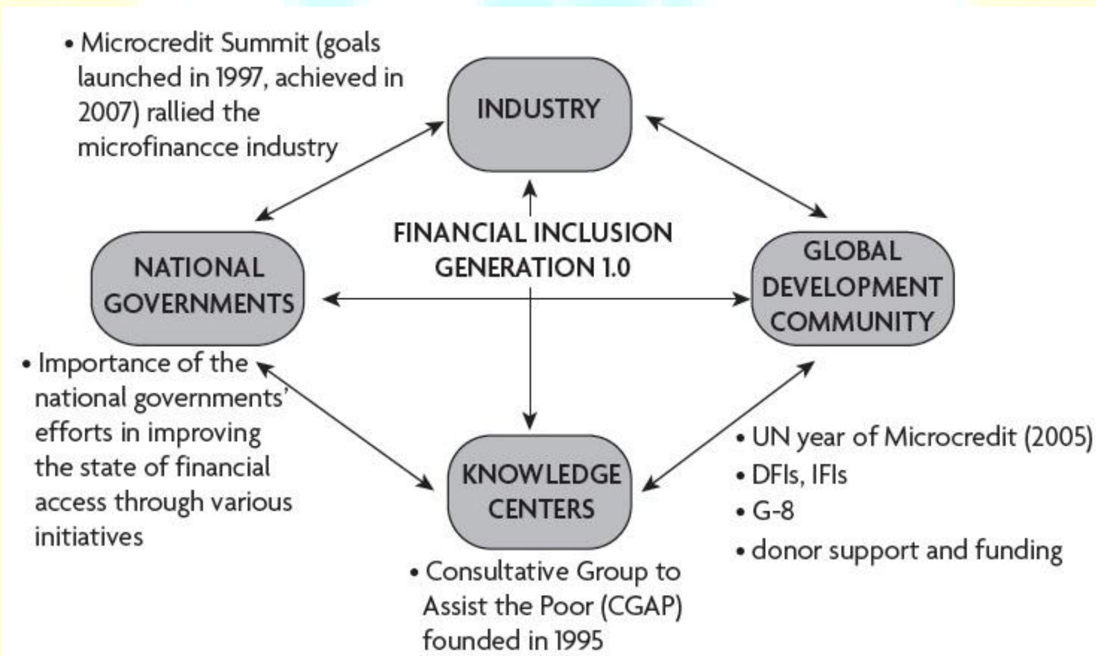
In Spain, the nation's microenterprise initiatives provide individual loans to those who are at risk due to social and financial exclusion (Garrido and Calderón, 2006). The concepts of financial deepening and bank dependence are explained via financial exclusion observed in Spain (Valverde et.al. 2004). Financial deepening can be seen as the progress and development of traditional and non-traditional financial services, whereas bank dependence means that households and firms are heavily reliant on banks. A case study carried out in Milan highlights the fact that the discussions on financial exclusion should not only focus on retail banking services but also on home mortgages (Aalbers, 2007). In Canada, financial exclusion is centered on backward and low-income homes because such households are not keen on latest banking technologies but are more focused in just having access to some kind of financial service (Buckland and Xiao-Yuan, 2008). A financially excluded society, e.g. an emerging economy, faces unemployment, lower and at times absence of productivity and this in turn causes high ratio of debt to output (Hatchondoet.al., 2007). It was evident in the Sub-Saharan emerging economies that good governance and socio-economic factors must be an integral part of formulating effective monetary policies and programs (Chibba, 2008).

Some of the Financial Inclusion Models Working around the World

Collaborative Model of Financial Inclusion

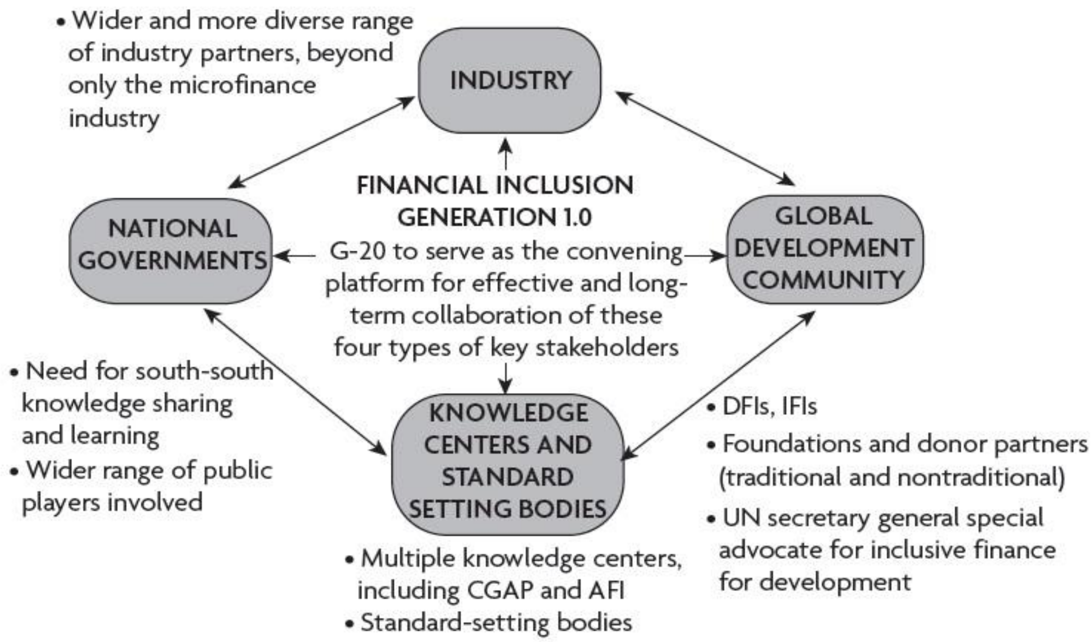
Financial Inclusion Generation 1.0: This model is for advancing financial inclusion and it is inspired by Professor Michael Porter's Diamond Model of Competitiveness. It serves as the convening platform for effective and long term collaboration of four types of key stakeholders.

- Industry
- Global Development Community
- Knowledge center and standard setting bodies
- National Governments



Source: World Bank Group Team Analysis. Diamond model inspired by Michael Porter's "Diamond Model of Competitiveness" used for the diagnosis and recommendations around the competitiveness of nations and industry clusters.

Figure 1: Collaborative Diamond Model for Financial Inclusion – Generation 1.0 (1990s-2010)



Source: World Bank Group Team Analysis: Diamond model inspired by Michael Porter's "Diamond Model of Competitiveness."

Figure 2: Collaborative Diamond Model for Financial Inclusion: Generation 2.0 (2010-2020s)

Collaborative Diamond Model for Financial Inclusion Generation 2.0 (2010–2020s) is for financial inclusion to take off next round of financial inclusion and it includes a broader and diverse range of players.

Table 1: presents the financial inclusion targets and their delivery mechanisms followed in certain countries around the globe.

Country	**Targets**	**Financial Sector Response:New financial services and delivery mechanisms**
Brazil	To expand basic financial services to all municipalities	• Correspondent banking model. • Simplified current and savings accounts • Financial services via cell phones • Call centers for consumer protection
Canada	To increase the knowledge, skills, and confidence of Canadians to	• Low cost bank accounts • Free encashment of government

	make responsible financial decisions	checks(even for non-customers) • Financial literacy web portal • National school resource for teachers and financial education providers called The City
India	Target of the National Rural Financial Inclusion Plan (NRFIP) – To provide financial services, including credit, to at least 50 percent of financially excluded households in the country by 2012 through rural or semi-urban branches of commercial banks and through Regional Rural Banks (RRBs). The remaining households have to be covered by 2015.	• Basic bank accounts, no-frill bank accounts • Banking agents • India's extensive post office network is being used to further the inclusion agenda • Experimentation with a number of delivery models, financing mechanisms, products and technologies: low-cost ATM, biometric cards, mobile phones, etc. • Banks launching mobile van banking facilities in small villages • Partnership model that allows banks to leverage MFIs' loan origination capability
Indonesia	To diversify and expand the financial services offered to households	• Expansion of ATM network • State-owned pawning company to give loans against movable assets • Indonesian post office operating in mobile service vehicles and with village agents
Kenya	To raise savings and investment ratios from 14% to 25–30% of GDP. Deepen penetration of	• Mobile banking (M-Pesa) – new mobile phone based money transfer products

	financial services, especially to rural areas and double formal financial inclusionto reach 50%	• Post offices and banking agents • Credit information sharing • Government payments (G2P) program • Emergence of specialized providers (e.g., PayNet – national system of ATMs) to a wide range of banks and other financialinstitutions
Mexico	To improve data collection: have measurements of all financial inclusion components. To expand access to financial services and develop financial literacy and capability in Mexico	• Banking agents (correspondentbanking) • System for electronic interbankpayments • Central banks of U.S. andMexico aligned payment systems to facilitate remittances • Mobile payments • Simplified accounts • Niche banks • Pre-paid debit cards
Peru	To raise the level of knowledge aboutfinancial services, especially among lowincome households	• Banking agents • Financial literacy programs:Programa de Asesoria a Docentes(PAD), Virtual Classroom website
South Africa	Based on FinScope Data, the followingtargets were imposed: By 2008, 80% of LSM 1-5 (population with average monthly household income of less than 121 pounds) should have: access to transaction products and services, access to bank savings products	• Banking sector has introduced an easy-to-use and affordablebasic bank account (Mzansi) • Cell phone banking • Increase the fraction of socialtransfers that are paid throughbank accounts

	and services, effective access to life insurance industry products and services.	
United Kingdom	Halve the number of unbanked adults inthe United Kingdom	• Basic bank products that can beaccessed at local post offices • Government-funded activities such as the Growth Fund for third sector lenders, financial inclusionchampions initiative, debt advice • Projects and pilots to crack downon illegal moneylenders • Government changed the way itmade G2P payments • Mobile banking

Source: World Bank

Conclusion

Financial inclusion is interlinked with financial stability, financial integrity, market conduct, and the financial capability of consumers. The relationship between financial inclusion and economic growth has received considerable attention by the policymaker in many countries. The impact of financial inclusion operations run by government and different bodies particularly in relation to their development goals of reducing poverty among poor households and in affecting change in their socioeconomic status is very vital. The global interest reflects a better understanding of the importance of financial inclusion for economic and social development. It indicates a growing recognition of the fact that access to financial services has a critical role in reducing extreme poverty, boosting shared prosperity, and supporting inclusive and sustainable development. The interest also derives from a growing recognition of the large gaps in financial inclusion. Access to safe, easy, and affordable financial services by the vulnerable sections of the society is a pre-condition for accelerating growth and eradicating income disparity and poverty. The theories of development also advocate this. Therefore, in order to make growth process more inclusive 'financial inclusion' of poor and vulnerable sections of society is critical.

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