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Micro Finance Institutions and Inclusive Growth

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ABSTRACT: Microfinance is a category of financial services targeting individuals and small businesses who lack access to conventional banking and related services. Microfinance includes microcredit, the provision of small loans to poor clients; savings and checking accounts; microinsurance; and payment systems, among other services.^{[1][2]} Microfinance services are designed to reach excluded customers, usually poorer population segments, possibly socially marginalized, or geographically more isolated, and to help them become self-sufficient.^{[2][3]} ID Ghana is an example of a microfinance institution.

Microfinance initially had a limited definition: the provision of microloans to poor entrepreneurs and small businesses lacking access to credit.^[4] The two main mechanisms for the delivery of financial services to such clients were: (1) relationship-based banking for individual entrepreneurs and small businesses; and (2) group-based models, where several entrepreneurs come together to apply for loans and other services as a group. Over time, microfinance has emerged as a larger movement whose object is: "a world in which as everyone, especially the poor and socially marginalized people and households have access to a wide range of affordable, high quality financial products and services, including not just credit but also savings, insurance, payment services, and fund transfers."^[3]

KEYWORDS-microfinance,institutions,inclusive,growth,credit,fund,transfers,accounts

I. INTRODUCTION

Proponents of microfinance often claim that such access will help poor people out of poverty, including participants in the Microcredit Summit Campaign. For many, microfinance is a way to promote economic development, employment and growth through the support of micro-entrepreneurs and small businesses; for others it is a way for the poor to manage their finances more effectively and take advantage of economic opportunities while managing the risks. Critics often point to some of the ills of micro-credit that can create indebtedness. Many studies have tried to assess its impacts.^[5]

New research in the area of microfinance call for better understanding of the microfinance ecosystem so that the microfinance institutions and other facilitators can formulate sustainable strategies that will help create social benefits through better service delivery to the low-income population.^{[6][7]}

History of microfinance

Over the past centuries, practical visionaries, from the Franciscan friars who founded the community-oriented pawnshops of the 15th century to the founders of the European credit union movement in the 19th century (such as Friedrich Wilhelm Raiffeisen) and the founders of the microcredit movement in the 1970s (such as Muhammad Yunus and Al Whittaker), have tested practices and built institutions designed to bring the kinds of opportunities and risk-management tools that financial services can provide to the doorsteps of poor people.^[8]

The history of microfinancing can be traced back as far as the middle of the 1800s, when the theorist Lysander Spooner was writing about the benefits of small credits to entrepreneurs and farmers as a way of getting the people out of poverty. Independently of Spooner, Friedrich Wilhelm Raiffeisen founded the first cooperative lending banks to support farmers in rural Germany.^[9]

The modern use of the expression "microfinancing" has roots in the 1970s when Grameen Bank of Bangladesh, founded by microfinance pioneer Muhammad Yunus, was starting and shaping the modern industry of microfinancing. The approach of microfinance was institutionalized by Yunus in 1976, with the foundation of Grameen Bank in Bangladesh.^[10] Another pioneer in this sector is Pakistani social scientist Akhtar Hameed Khan.

Since people in the developing world still largely depend on subsistence farming or basic food trade for their livelihood, significant resources have gone into supporting smallholder agriculture in developing countries.^[11]

Microfinance and poverty

In developing economies, and particularly in rural areas, many activities that would be classified in the developed world as financial are not monetized: that is, money is not used to carry them out. This is often the case when people need the services money can provide but do not have dispensable funds required for those services. This forces them to revert to other means of acquiring the funds. In their book, *The Poor and Their Money*, Stuart Rutherford and Sukhwinder Arora cite several types of needs:^[12]

- Lifecycle Needs: such as weddings, funerals, childbirth, education, home building, holidays, festivals, widowhood and old age
- Personal Emergencies: such as sickness, injury, unemployment, theft, harassment or death
- Disasters: such as wildfires, floods, cyclones and man-made events like war or bulldozing of dwellings
- Investment Opportunities: expanding a business, buying land or equipment, improving housing, securing a job, etc.

People find creative and often collaborative ways to meet these needs, primarily through creating and exchanging different forms of non-cash value. Common substitutes for cash vary from country to country, but typically include livestock, grains, jewelry and precious metals. As Marguerite S. Robinson describes in his book, *The Micro Finance Revolution: Sustainable Finance for the Poor*, the 1980s demonstrated that "micro finance could provide large-scale outreach profitably", and in the 1990s, "micro finance began to develop as an industry".^[13] In the 2000s, the microfinance industry's objective was to satisfy the unmet demand on a much larger scale, and to play a role in reducing poverty. While much progress has been made in developing a viable, commercial microfinance sector in the last few decades, several issues remain that need to be addressed before the industry will be able to satisfy massive worldwide demand. The obstacles or challenges in building a sound commercial microfinance industry include:

- Inappropriate donor subsidies
- Poor regulation and supervision of deposit-taking microfinance institutions (MFIs)
- Few MFIs that meet the needs for savings, remittances or insurance
- Limited management capacity in MFIs
- Institutional inefficiencies
- Need for more dissemination and adoption of rural, agricultural microfinance methodologies
- Members' lack of collateral to secure a loan

Microfinance is the proper tool to reduce income inequality, allowing citizens from lower socio-economical classes to participate in the economy. Moreover, its involvement has shown to lead to a downward trend in income inequality.^[14]

Ways in which poor people manage their money

Rutherford argues that the basic problem that poor people face as money managers is to gather a "usefully large" amount of money. Building a new home may involve saving and protecting diverse building materials for years until enough are available to proceed with construction. Children's schooling may be funded by buying chickens and raising them for sale as needed for expenses, uniforms, bribes, etc. Because all the value is accumulated before it is needed, this money management strategy is referred to as "saving up".^[15]

Often, people don't have enough money when they face a need, so they borrow. A poor family might borrow from relatives to buy land, from a moneylender to buy rice, or from a microfinance institution to buy a sewing machine. Since these loans must be repaid by saving after the cost is incurred, Rutherford calls this 'saving down'. Rutherford's point is that microcredit is addressing only half the problem, and arguably the less important half: poor people borrow to help them save and accumulate assets. However, Microfinance is not the magical solution to take people out of poverty; it is merely a tool that the poor can use to raise their prospects for an escape from poverty.^[16]

Most needs are met through a mix of saving and credit. A benchmark impact assessment of Grameen Bank and two other large microfinance institutions in Bangladesh found that for every \$1 they were lending to clients to finance rural

non-farm micro-enterprise, about \$2.50 came from other sources, mostly their clients' savings.^[17] This parallels the experience in the West, in which family businesses are funded mostly from savings, especially during start-up.

Recent studies have also shown that informal methods of saving are unsafe. For example, a study by Wright and Mutesasira in Uganda concluded that "those with no option but to save in the informal sector are almost bound to lose some money—probably around one quarter of what they save there".^[18]

The work of Rutherford, Wright and others has caused practitioners to reconsider a key aspect of the microcredit paradigm: that poor people get out of poverty by borrowing, building microenterprises and increasing their income. The new paradigm places more attention on the efforts of poor people to reduce their many vulnerabilities by keeping more of what they earn and building up their assets.

Microfinance debates and challenges

There are several key debates at the boundaries of microfinance.

Loan Pricing

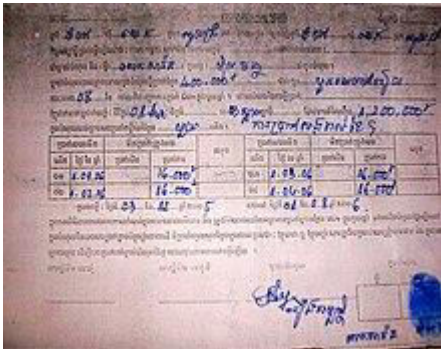


This shop in South Sudan was opened using money borrowed from the Finance Sudan Limited (FSL) Program. This program was established in 2006 as one of the only microfinance lenders in the country.

Before determining loan prices, one should take into account the following costs: 1) administrative costs by the bank (MFI) and 2) transaction cost by the client/customer. Customers, on the other hand, may have expenses for travelling to the bank branch, acquiring official documents for the loan application, and loss of time when dealing with the MFI ("opportunity costs"). Hence, from a customer's point of view the cost of a loan is not only the interest and fees she/he has to pay, but also all other transaction costs that she/he has to cover.

One of the principal challenges of microfinance is providing small loans at an affordable cost. The global average interest and fee rate is estimated at 37%, with rates reaching as high as 70% in some markets.^[20] The reason for the high interest rates is not primarily cost of capital. Indeed, the local microfinance organizations that receive zero-interest loan capital from the online microlending platform Kiva charge average interest and fee rates of 35.21%.^[21] Rather, the main reason for the high cost of microfinance loans is the high transaction cost of traditional microfinance operations relative to loan size.^[22]

Microfinance practitioners have long argued that such high interest rates are simply unavoidable, because the cost of making each loan cannot be reduced below a certain level while still allowing the lender to cover costs such as offices and staff salaries. For example, in Sub-Saharan Africa credit risk for microfinance institutes is very high, because customers need years to improve their livelihood and face many challenges during this time. Financial institutes often do not even have a system to check the person's identity. Additionally, they are unable to design new products and enlarge their business to reduce the risk.^[23] The result is that the traditional approach to microfinance has made only limited progress in resolving the problem it purports to address: that the world's poorest people pay the world's highest cost for small business growth capital. The high costs of traditional microfinance loans limit their effectiveness as a poverty-fighting tool. Offering loans at interest and fee rates of 37% mean that borrowers who do not manage to earn at least a 37% rate of return may actually end up poorer as a result of accepting the loans.



Example of a loan contract, using flat rate calculation, from rural Cambodia. Loan is for 400,000 riels at 4% flat (16,000 riels) interest per month.

According to a recent survey of microfinance borrowers in Ghana published by the Center for Financial Inclusion, more than one-third of borrowers surveyed reported struggling to repay their loans. Some resorted to measures such as reducing their food intake or taking children out of school in order to repay microfinance debts that had not proven sufficiently profitable.

In recent years, the microfinance industry has shifted its focus from the objective of increasing the volume of lending capital available, to address the challenge of providing microfinance loans more affordably. Microfinance analyst David Roodman contends that, in mature markets, the average interest and fee rates charged by microfinance institutions tend to fall over time.^{[24][25]} However, global average interest rates for microfinance loans are still well above 30%.

The answer to providing microfinance services at an affordable cost may lie in rethinking one of the fundamental assumptions underlying microfinance: that microfinance borrowers need extensive monitoring and interaction with loan officers in order to benefit from and repay their loans. The P2P microlending service Zidisha is based on this premise, facilitating direct interaction between individual lenders and borrowers via an internet community rather than physical offices. Zidisha has managed to bring the cost of microloans to below 10% for borrowers, including interest which is paid out to lenders. However, it remains to be seen whether such radical alternative models can reach the scale necessary to compete with traditional microfinance programs.^[26]

II. DISCUSSION

Use of loans

Practitioners and donors from the charitable side of microfinance frequently argue for restricting microcredit to loans for productive purposes—such as to start or expand a microenterprise. Those from the private-sector side respond that, because money is fungible, such a restriction is impossible to enforce, and that in any case it should not be up to rich people to determine how poor people use their money.¹

Reach versus depth of impact



These goats are being raised by Rwandan women as part of a farm cooperative funded by microfinance.

There has been a long-standing debate over the sharpness of the trade-off between 'outreach' (the ability of a microfinance institution to reach poorer and more remote people) and its 'sustainability' (its ability to cover its operating costs—and possibly also its costs of serving new clients—from its operating revenues). Although it is generally agreed that microfinance practitioners should seek to balance these goals to some extent, there are a wide

variety of strategies, ranging from the minimalist profit-orientation of BancoSol in Bolivia to the highly integrated not-for-profit orientation of BRAC in Bangladesh. This is true not only for individual institutions, but also for governments engaged in developing national microfinance systems. BRAC was ranked the number one NGO in the world in 2015 and 2016 by the Geneva-based NGO Advisor.^{[27][28]}

Women

Microfinance provides women around the world with financial and non-financial services, especially in the most rural areas that do not have access to traditional banking and other basic financial infrastructure. It creates opportunities for women to start-up and build their businesses using their own skills and talents.^[29]

Utilizing savings, credit, and microinsurance, Microfinance helps families create income-generating activities and better cope with risk. Women particularly benefit from microfinance as many microfinance institutions (MFIs) target female clients.^{[30][31]} Most microfinance institutions (MFIs) partner with other organizations like Water.org and Habitat for Humanity^[32] to provide additional services for their clients.^{[33][34]}

Microfinance is a sustainable process that creates real jobs, opens opportunities for future investments and helps the women clients provide for the education to their children.^[35] Microfinance generally agree that women should be the primary focus of service delivery. Evidence shows that they are less likely to default on their loans than men. Industry data from 2006 for 704 MFIs reaching 52 million borrowers includes MFIs using the solidarity lending methodology (99.3% female clients) and MFIs using individual lending (51% female clients). The delinquency rate for solidarity lending was 0.9% after 30 days (individual lending—3.1%), while 0.3% of loans were written off (individual lending—0.9%).^[36] Because operating margins become tighter the smaller the loans delivered, many MFIs consider the risk of lending to men to be too high. This focus on women is questioned sometimes, however a recent study of microentrepreneurs from Sri Lanka published by the World Bank found that the return on capital for male-owned businesses (half of the sample) averaged 11%, whereas the return for women-owned businesses was 0% or slightly negative.^[37]

Microfinance's emphasis on female-oriented lending is the subject of controversy, as it is claimed that microfinance improves the status of women through an alleviation of poverty. It is argued that by providing women with initial capital, they will be able to support themselves independent of men, in a manner which would encourage sustainable growth of enterprise and eventual self-sufficiency. This claim has yet to be proven in any substantial form. Moreover, the attraction of women as a potential investment base is precisely because they are constrained by socio-cultural norms regarding such concepts of obedience, familial duty, household maintenance and passivity.^[38] The result of these norms is that while micro-lending may enable women to improve their daily subsistence to a more steady pace, they will not be able to engage in market-oriented business practice beyond a limited scope of low-skilled, low-earning, informal work.^[39] Part of this is a lack of permissivity in the society; part a reflection of the added burdens of household maintenance that women shoulder alone as a result of microfinancial empowerment; and part a lack of training and education surrounding gendered conceptions of economics. In particular, the shift in norms such that women continue to be responsible for all the domestic private sphere labour as well as undertaking public economic support for their families, independent of male aid increases rather than decreases burdens on already limited persons.



Women of Malawi posing with their savings box

If there were to be an exchange of labour, or if women's income were supplemental rather than essential to household maintenance, there might be some truth to claims of establishing long-term businesses; however when so constrained it is impossible for women to do more than pay off a current loan only to take on another in a cyclic pattern which is beneficial to the financier but hardly to the borrower. This gender essentializing crosses over from institutionalized lenders such as the Grameen Bank into interpersonal direct lending through charitable crowd-funding operations, such as Kiva. More recently, the popularity of non-profit global online lending has grown, suggesting that a redress of gender norms might be instituted through individual selection fomented by the processes of such programs, but the

reality is as yet uncertain. Studies have noted that the likelihood of lending to women, individually or in groups, is 38% higher than rates of lending to men.^[40]

This is also due to a general trend for interpersonal microfinance relations to be conducted on grounds of similarity and internal/external recognition: lenders want to see something familiar, something supportable in potential borrowers, so an emphasis on family, goals of education and health, and a commitment to community all achieve positive results from prospective financiers.^[41] Unfortunately, these labels disproportionately align with women rather than men, particularly in the developing world. The result is that microfinance continues to rely on restrictive gender norms rather than seek to subvert them through economic redress in terms of foundation change: training, business management and financial education are all elements which might be included in parameters of female-aimed loans and until they are the fundamental reality of women as a disadvantaged section of societies in developing states will go untested.

Benefits and limitations

Microfinancing produces many benefits for poverty stricken and low-income households. One of the benefits is that it is very accessible. Banks today simply won't extend loans to those with little to no assets, and generally don't engage in small size loans typically associated with microfinancing. Through microfinancing small loans are produced and accessible. Microfinancing is based on the philosophy that even small amounts of credit can help end the cycle of poverty. Another benefit produced from the microfinancing initiative is that it presents opportunities, such as extending education and jobs. Families receiving microfinancing are less likely to pull their children out of school for economic reasons. As well, in relation to employment, people are more likely to open small businesses that will aid the creation of new jobs. Overall, the benefits outline that the microfinancing initiative is set out to improve the standard of living amongst impoverished communities.^[19]

There are also many social and financial challenges for microfinance initiatives. For example, more articulate and better-off community members may cheat poorer or less-educated neighbours. This may occur intentionally or inadvertently through loosely run organizations. As a result, many microfinance initiatives require a large amount of social capital or trust in order to work effectively. The ability of poorer people to save may also fluctuate over time as unexpected costs may take priority which could result in them being able to save little or nothing some weeks. Rates of inflation may cause funds to lose their value, thus financially harming the saver and not benefiting the collector.^[19]

While the success of the Grameen Bank (which now serves over 7 million poor Bangladeshi women) has inspired the world, it has proved difficult to replicate this success. In nations with lower population densities, meeting the operating costs of a retail branch by serving nearby customers has proven considerably more challenging. Hans Dieter Seibel, board member of the European Microfinance Platform, is in favour of the group model. This particular model (used by many Microfinance institutions) makes financial sense, he says, because it reduces transaction costs. Microfinance programmes also need to be based on local funds.^[45]

Microfinance standards and principles



A group of Indian women have assembled to make bamboo products that they intend to resell.

Poor people borrow from informal moneylenders and save with informal collectors. They receive loans and grants from charities. They buy insurance from state-owned companies. They receive funds transfers through formal or informal remittance networks. It is not easy to distinguish microfinance from similar activities. It could be claimed that a government that orders state banks to open deposit accounts for poor consumers, or a moneylender that engages in usury, or a charity that runs a heifer pool are engaged in microfinance. Ensuring financial services to poor people is best done by expanding the number of financial institutions available to them, as well as by strengthening the capacity of those institutions. In recent years there has also been increasing emphasis on expanding the diversity of institutions, since different institutions serve different needs.

Some principles that summarize a century and a half of development practice were encapsulated in 2004 by CGAP and endorsed by the Group of Eight leaders at the G8 Summit on 10 June 2004.^[8]

1. Poor people need not just loans but also savings, insurance and money transfer services.
2. Microfinance must be useful to poor households: helping them raise income, build up assets and/or cushion themselves against external shocks.
3. "Microfinance can pay for itself."^[46] Subsidies from donors and government are scarce and uncertain and so, to reach large numbers of poor people, microfinance must pay for itself.
4. Microfinance means building permanent local institutions.
5. Microfinance also means integrating the financial needs of poor people into a country's mainstream financial system.
6. "The job of government is to enable financial services, not to provide them."^[47]
7. "Donor funds should complement private capital, not compete with it."^[47]
8. "The key bottleneck is the shortage of strong institutions and managers."^[47] Donors should focus on capacity building.
9. Interest rate ceilings hurt poor people by preventing microfinance institutions from covering their costs, which chokes off the supply of credit.
10. Microfinance institutions should measure and disclose their performance – both financially and socially.

Microfinance is considered a tool for socio-economic development, and can be clearly distinguished from charity. Families who are destitute, or so poor they are unlikely to be able to generate the cash flow required to repay a loan, should be recipients of charity. Others are best served by financial institutions.

Scale of microfinance operations



Two women talk about financial matters. The woman on the right is a loan officer for the Small Enterprise Foundation (SEF). The conversation shown is taking place in Tzaneen, South Africa in February 2010.

Yakub Opeyemi have impact on Microfinance Bank. No systematic effort to map the distribution of microfinance has yet been undertaken. A benchmark was established by an analysis of 'alternative financial institutions' in the developing world in 2004.^[48] The authors counted approximately 665 million client accounts at over 3,000 institutions that are serving people who are poorer than those served by the commercial banks. Of these accounts, 120 million were with institutions normally understood to practice microfinance. Reflecting the diverse historical roots of the movement, however, they also included postal savings banks (318 million accounts), state agricultural and development banks (172 million accounts), financial cooperatives and credit unions (35 million accounts) and specialized rural banks (19 million accounts).

Regionally, the highest concentration of these accounts was in India (188 million accounts representing 18% of the total national population). The lowest concentrations were in Latin America and the Caribbean (14 million accounts representing 3% of the total population) and Africa (27 million accounts representing 4% of the total population, with the highest rate of penetration in West Africa, and the highest growth rate in Eastern and Southern Africa^[49]). Considering that most bank clients in the developed world need several active accounts to keep their affairs in order, these figures indicate that the task the microfinance movement has set for itself is still very far from finished.

By type of service, "savings accounts in alternative finance institutions outnumber loans by about four to one. This is a worldwide pattern that does not vary much by region."^[50]

An important source of detailed data on selected microfinance institutions is the MicroBanking Bulletin, which is published by Microfinance Information Exchange. At the end of 2009, it was tracking 1,084 MFIs that were serving 74 million borrowers (\$38 billion in outstanding loans) and 67 million savers (\$23 billion in deposits).^[51]

Another source of information regarding the environment of microfinance is the Global Microscope on the Microfinance Business Environment,^[52] prepared by the Economist Intelligence Unit (EIU), the Inter-American Development Bank, and others. The 2011 report contains information on the environment of microfinance in 55 countries among two categories, the regulatory framework and the supporting institutional framework.^[53] This publication, also known as the Microscope, was first developed in 2007, focusing only on Latin America and the Caribbean, but by 2009, this report had become a global study.^[54]

As yet there are no studies that indicate the scale or distribution of 'informal' microfinance organizations like ROSCA's and informal associations that help people manage costs like weddings, funerals and sickness. Numerous case studies have been published, however, indicating that these organizations, which are generally designed and managed by poor people themselves with little outside help, operate in most countries in the developing world.^[55]

Help can come in the form of more and better-qualified staff, thus higher education is needed for microfinance institutions. This has begun in some universities, as Oliver Schmidt describes. Mind the management gap

Ecosystem of Microfinance

In recent years, there have been calls for better understanding of the ecosystem of Microfinance. The practitioners and researchers felt that it was important to understand the ecosystem in which microfinance institutions operated in order for the market system actors and facilitators to understand what they have to do to achieve their objectives of participating in the ecosystem.^{[7][56]} Professors Debapratim Purkayastha, Trilochan Tripathy and Biswajit Das have designed a model for the ecosystem of microfinance institutions (MFIs) in India. The researchers mapped the ecosystem and found the ecosystem to be very complicated, with complex interactions among numerous actors themselves, and their environment. This ecosystem framework can be used by MFIs to understand the ecosystem of microfinance and formulate strategy. It can also help other stakeholders such as donors, investors, banks, government, etc. to formulate their own strategies relating to this sector.^[57]

Selected microfinance institutions in Canada are:

- Rise Asset Development

Founded by Sandra Rotman in 2009, Rise is a Rotman and CAMH initiative that provides small business loans, leases, and lines of credit to entrepreneurs with mental health and/or addiction challenges.

- Alterna Savings

Formed in 2005 through the merging of the Civil Service Savings and Loan Society and the Metro Credit Union, Alterna is a financial alternative to Canadians. Their banking policy is based on cooperative values and expert financial advising.

- Access Community Capital Fund

Based in Toronto, Ontario, ACCESS is a Canadian charity that helps entrepreneurs without collateral or credit history find affordable small loans.

- Montreal Community Loan Fund

Created to help eradicate poverty, Montreal Community Loan Fund provides accessible credit and technical support to entrepreneurs with low income or credit for start-ups or expansion of organizations that cannot access traditional forms of credit.

- Momentum

Using the community economic development approach, Momentum offers opportunities to people living in poverty in Calgary. Momentum provides individuals and families who want to better their financial situation take control of finances, become computer literate, secure employment, borrow and repay loans for business, and purchase homes.

- Vancity

Founded in 1946, Vancity is now the largest English speaking credit union in Canada.

Limitations

Complications specific to Canada include the need for loans of a substantial size in comparison to the ones typically seen in many international microfinance initiatives. Microfinance is also limited by the rules and limitations surrounding money-lending. For example, Canada Revenue Agency limits the loans made in these sort of transactions to a maximum of \$25,000. As a result, many people look to banks to provide these loans. Also, microfinance in Canada is driven by profit which, as a result, fails to advance the social development of community members. Within marginalized or impoverished Canadian communities, banks may not be readily accessible to deposit or take out funds. These banks which would have charged little or no interest on small amounts of cash are replaced by lending companies. Here, these companies may charge extremely large interest rates to marginalized community members thus increasing the cycle of poverty and profiting off of another's loss.^[66]

In Canada, microfinancing competes with pay-day loans institutions which take advantage of marginalized and low-income individuals by charging extremely high, predatory interest rates. Communities with low social capital often don't have the networks to implement and support microfinance initiatives, leading to the proliferation of pay day loan institutions. Pay day loan companies are unlike traditional microfinance in that they don't encourage collectivism and social capital building in low income communities, however exist solely for profit.

Microfinance Networks and Associations

There are several professional networks of microfinance institutions, and organisations that support microfinance and financial inclusion.

MicroFinance Network

The Microfinance Network is a network of 20 to 25 of the world's largest microfinance institutions, spread across Asia, Africa, the Middle East, Europe and Latin America. Established in 1993, the Microfinance Network provided support to members that helped steer many industry leaders to sustainability, and profitability in many of their largest markets. Today as the sector enters a new period of transition, with the rise of digital financial technology that increasingly competes with traditional microfinance institutions, the Microfinance Network provides a space to discuss opportunities and challenges that arise from emerging technological innovations in inclusive finance.^[67] The Microfinance Network convenes once a year. Members include Al Majmoua, BRAC, BancoSol, Gentera, Kamurj, LAPO, and SOGESOL. Microfinance services including Easy Paisa by Telenor and Temeer Microfinance Bank, Jazz Cash by Jazz Telecom, and Zindigi have all been introduced by various telecom companies in Pakistan. These services provide lending services, retailer services, and online money transfer capabilities.^{[68][69]}

Partnership for Responsible Financial Inclusion

The Partnership for Responsible Financial, previously known as the Microfinance CEO Working Group, is a collaborative effort of leading international organizations and their CEOs active in the microfinance and inclusive finance space, including direct microfinance practitioners, and microfinance funders. It consists of 10 members, including Accion, Aga Khan Agency for Microfinance, BRAC, CARE USA, FINCA Impact Finance, Grameen Foundation, Opportunity International, Pro Mujer, Vision Fund International and Women's World Banking. Harnessing the power of the CEOs and their senior managers, the PRFI advocates for responsible financial services and seeks catalytic opportunities to accelerate financial access to the unserved. As part of this focus, PRFI is responsible for setting up the Smart Campaign, in response to negative microfinance practices that indicated the mistreatment of clients in certain markets. The network is made up of the CEO working group, that meet quarterly and several subcommittee working groups dedicated to communications, social performance, digital financial services, and legal and human resources issues.....

European Microfinance Network

The European Microfinance Network (EMN) was established in response to many legal and political obstacles affecting the microfinance sector in Europe. The Network is involved in advocacy on a wide range of issues related to microfinance, micro-enterprises, social and financial exclusion, self-employment and employment creation. Its main

activity is the organisation of its annual conference, which has taken place each year since 2004. The EMN has a wide network of over 100 members.

Microfinance Centre

The Microfinance Centre (MFC) has a membership of over 100 organisations, and is particularly strong in Eastern Europe, the Balkans and Central Asia.

Africa Microfinance Network (AFMIN)

The Africa Microfinance Network (AFMIN) is an association of microfinance networks in Africa resulting from an initiative led by African microfinance practitioners to create and/or strengthen country-level microfinance networks for the purpose of establishing shared performance standards, institutional capacity and policy change. AFMIN was formally launched in November 2000 and has established its secretariat in Abidjan (Republic of Côte d'Ivoire), where AFMIN is legally recognized as an international Non-Governmental Organisation pursuant to Ivorian laws. Because of the political unrest in Côte d'Ivoire, AFMIN temporarily relocated its office to Cotonou in Benin.^[70]

Inclusive financial systems

The microcredit movement that began in the 1970s has emerged and morphed into a 'financial systems' approach for creating universal financial inclusion. While Grameen model of delivering small credit achieved a great deal, especially in urban and near-urban areas and with entrepreneurial families, its progress in delivering financial services in less densely populated rural areas was slow; creating the need for many and multiple models to emerge across the globe. The terms have evolved from Microcredit, to Microfinance, and now Financial Inclusion. Specialized microfinance institutions (MFIs) continue to expand their services, collaborating and competing with banks, credit unions, mobile money, and other informal and formal member owned institutions.

The new financial systems approach pragmatically acknowledges the richness of centuries of microfinance history and the immense diversity of institutions serving poor people in developing and developed economies today. It is also rooted in an increasing awareness of diversity of the financial service needs of the world's poorest people, and the diverse settings in which they live and work. It also acknowledges that quality and range of financial services are also important for the banking system to achieve fuller and deeper financial inclusion, for all. Central banks and mainstream banks are now more intimately engaging in the financial inclusion agenda than ever before, though it is a long road, with 35–40% of world's adults remaining outside formal banking system, and many more remaining "under-banked". Advent of mobile-phone-based money management and digital finance is changing the scenario fast; though "social distance" between the economically poor or social marginalized and the banking system remains large.

Microcredit and the Web

Due to the unbalanced emphasis on credit at the expense of microsavings, as well as a desire to link Western investors to the sector, peer-to-peer platforms have developed to expand the availability of microcredit through individual lenders in the developed world. New platforms that connect lenders to micro-entrepreneurs are emerging on the Web (peer-to-peer sponsors), for example MYC4, Kiva, Zidisha, myELEN, Opportunity International and the Microloan Foundation. Another Web-based microlender United Prosperity uses a variation on the usual microlending model; with United Prosperity the micro-lender provides a guarantee to a local bank which then lends back double that amount to the micro-entrepreneur. In 2009, the US-based nonprofit Zidisha became the first peer-to-peer microlending platform to link lenders and borrowers directly across international borders without local intermediaries.^[74]

The volume channeled through Kiva's peer-to-peer platform is about \$100 million as of November 2009 (Kiva facilitates approximately \$5M in loans each month). In comparison, the needs for microcredit are estimated about 250 bn USD as of end 2006.^[75] Most experts agree that these funds must be sourced locally in countries that are originating microcredit, to reduce transaction costs and exchange rate risks.

There have been problems with disclosure on peer-to-peer sites, with some reporting interest rates of borrowers using the flat rate methodology instead of the familiar banking Annual Percentage Rate.^[76] The use of flat rates, which has been outlawed among regulated financial institutions in developed countries, can confuse individual lenders into believing their borrower is paying a lower interest rate than, in fact, they are. In the summer of 2017, within the framework of the joint project of the Central Bank of Russia and Yandex, a special check mark (a green circle with a tick and Печать ЦБ РФ 'State MFO Register' text box) appeared search results on the Yandex search engine, informing

the consumer that the company's financial services are offered on the marked website, which has the status of a microfinance organization.^[77]

Microfinance and social interventions

There are currently a few social interventions that have been combined with micro financing to increase awareness of HIV/AIDS. Such interventions like the "Intervention with Microfinance for AIDS and Gender Equity" (IMAGE) which incorporates microfinancing with "The Sisters-for-Life" program a participatory program that educates on different gender roles, gender-based violence, and HIV/AIDS infections to strengthen the communication skills and leadership of women^[78] "The Sisters-for-Life" program has two phases; phase one consists of ten one-hour training programs with a facilitator, and phase two consists of identifying a leader amongst the group, training them further, and allowing them to implement an action plan to their respective centres.

Microfinance has also been combined with business education and with other packages of health interventions.^[79] A project undertaken in Peru by Innovations for Poverty Action found that those borrowers randomly selected to receive financial training as part of their borrowing group meetings had higher profits, although there was not a reduction in "the proportion who reported having problems in their business".^[80] Pro Mujer, a non-governmental organisation (NGO) with operations in five Latin American countries, combines microfinance and healthcare. This approach shows that microfinance can not only help businesses to prosper; it can also foster human development and social security. Pro Mujer uses a "one-stop shop" approach, which means in one building, the clients find financial services, business training, empowerment advice and healthcare services combined.^[81]

According to technology analyst David Garrity, Microfinance and Mobile Financial Services (MFS) have provided marginal populations with access to basic financial services, including savings programs and insurance policies.^[82]

Impact and criticism

Most criticisms of microfinance have actually been criticisms of microcredit. Criticism focuses on the impact on poverty, the level of interest rates, high profits, overindebtedness and suicides. Other criticism include the role of foreign donors and working conditions in companies affiliated to microfinance institutions, particularly in Bangladesh.

Impact

The impact of microcredit is a subject of much controversy. Proponents state that it reduces poverty through higher employment and higher incomes. This is expected to lead to improved nutrition and improved education of the borrowers' children. Some argue that microcredit empowers women. In the US and Canada, it is argued that microcredit helps recipients to graduate from welfare programs.

Critics say that microcredit has not increased incomes, but has driven poor households into a debt trap, in some cases even leading to suicide. They add that the money from loans is often used for durable consumer goods or consumption instead of being used for productive investments, that it fails to empower women, and that it has not improved health or education. Moreover, as the access to micro-loans is widespread, borrowers tend to acquire several loans from different companies, making it nearly impossible to pay the debt back.^[83] As a result of such tragic events, microfinance institutions in India have agreed on setting an interest rate ceiling of 15 percent.^[84] This is important because microfinance loan recipients have a higher level of security in repaying the loans and a lower level of risk in failing to repay them.

Unintended consequences of microfinance include informal intermediation: That is, some entrepreneurial borrowers become informal intermediaries between microfinance initiatives and poorer micro-entrepreneurs. Those who more easily qualify for microfinance split loans into smaller credit to even poorer borrowers. Informal intermediation ranges from casual intermediaries at the good or benign end of the spectrum to 'loan sharks' at the professional and sometimes criminal end of the spectrum.^[85]

Competition and market saturation

Microcredit has also received criticism for inducing market saturation and fueling problematically competitive, rather than collaborative business communities.^{[86][87]} The influx of supply generated by the creation of new microcredit-fueled-businesses can be difficult for small economies to absorb. The owners of micro-enterprises within such communities often have limited skill sets and resources available. This can cause a "copycat" phenomenon among small business due to the limited variation in products and services offerings.^[86] The high number of individuals selling

similar products and services can cause new entrepreneurs to be subject to cutthroat competition over a demand that has not expanded proportionally with the supply.^[87]

Mission drift in microfinance

Mission drift refers to the phenomena through which the MFIs or the micro finance institutions increasingly try to cater to customers who are better off than their original customers, primarily the poor families. Roy Mersland and R. Øystein Strøm in their research on mission drift suggest that this selection bias can come not only through an increase in the average loan size, which allows for financially stronger individuals to get the loans, but also through the MFI's particular lending methodology, main market of operation, or even the gender bias as further mission drift measures.^[88] And as it may follow, this selective funding would lead to lower risks and lower costs for the firm.

However, economists Beatriz Armendáriz and Ariane Szafarz suggests that this phenomenon is not driven by cost minimization alone. She suggests that it happens because of the interplay between the company's mission, the cost differential between poor and unbanked wealthier clients and region specific characteristics pertaining the heterogeneity of their clientele.^[89] But in either way, this problem of selective funding leads to an ethical tradeoff where on one hand there is an economic reason for the company to restrict its loans to only the individuals who qualify the standards, and on the other hand there is an ethical responsibility to help the poor people get out of poverty through the provision of capital.

Role of foreign donors

The role of donors has also been questioned. CGAP recently commented that: "a large proportion of the money they spend is not effective, either because it gets hung up in unsuccessful and often complicated funding mechanisms (for example, a government apex facility), or it goes to partners that are not held accountable for performance. In some cases, poorly conceived programs have slowed the development of inclusive financial systems by distorting markets and displacing domestic commercial initiatives with cheap or free money."^[90]

Working conditions in enterprises affiliated to MFIs

There has also been criticism of microlenders for not taking more responsibility for the working conditions of poor households, particularly when borrowers become quasi-wage labourers, selling crafts or agricultural produce through an organization controlled by the MFI. The desire of MFIs to help their borrower diversify and increase their incomes has sparked this type of relationship in several countries, most notably Bangladesh, where hundreds of thousands of borrowers effectively work as wage labourers for the marketing subsidiaries of Grameen Bank or BRAC. Critics maintain that there are few if any rules or standards in these cases governing working hours, holidays, working conditions, safety or child labour, and few inspection regimes to correct abuses.^[91] Some of these concerns have been taken up by unions and socially responsible investment advocates.

Abuse

In Nigeria cases of fraud have been reported. Dubious banks promised their clients outrageous interest rates. These banks were closed shortly after clients had deposited money and their deposits were lost. The officials of Nigeria Deposit Insurance Corporation (NDIC) have warned customers about so-called "wonder banks".^[92] One initiative to prevent people from depositing money to wonder banks is the mini-series "e go better" that warns about the practices of these wonder banks.^[93]

III. RESULTS

Inclusive growth is economic growth that raises standards of livings for broad swaths of a population.^{[1][2][3][4]} Proponents for inclusive growth warn that inequitable growth may have adverse political outcomes.^[5]

The definition of inclusive growth implies direct links between the macroeconomic and microeconomic determinants of the economy and economic growth. The microeconomic dimension captures the importance of structural transformation for economic diversification and competition, while the macro dimension refers to changes in economic aggregates such as the country's gross national product (GNP) or gross domestic product (GDP), total factor productivity, and aggregate factor inputs.^[6]

Sustainable economic growth requires inclusive growth. Maintaining this is sometimes difficult because economic growth may give rise to negative externalities, such as a rise in corruption, which is a major problem in developing countries. Nonetheless, an emphasis on inclusiveness—especially on equality of opportunity in terms of access to

markets, resources, and an unbiased regulatory environment—is an essential ingredient of successful growth. The inclusive growth approach takes a longer-term perspective, as the focus is on productive employment as a means of increasing the incomes of poor and excluded groups and raising their standards of living.^[7]

Financial inclusion is defined as the availability and equality of opportunities to access financial services.^[1] It refers to a process by which individuals and businesses can access appropriate, affordable, and timely financial products and services. These include banking, loan, equity, and insurance products.^{[2][3]} Financial inclusion efforts typically target those who are unbanked and underbanked, and directs sustainable financial services to them.^[2] Financial inclusion is understood to go beyond merely opening a bank account. It is possible for banked individuals to be excluded from financial services.^[4] Having more inclusive financial systems has been linked to stronger and more sustainable economic growth and development and thus achieving financial inclusion has become a priority for many countries across the globe.^[5]

In 2018, it was estimated that about 1.7 billion adults lacked a bank account.^[6] Among those who are un-banked a significant number were women and poor people in rural areas and often those who are excluded from financial institutions, face discrimination and belong to vulnerable or marginalized populations.

Due to the lack of financial infrastructure many under-served and low-income communities suffer. Specifically, the lack of proper information can be detrimental to low-income communities and expose them to financial risks. For instance, payday loans target low-income persons who are not adequately informed about interest rates and compound interest. They become trapped and indebted to these predatory institutions.

The public sector spearheads outreach and education for adults to receive free financial services such as education, tax preparation, and welfare assistance. Non-profit organizations dedicate themselves to serving underprivileged communities through private resources and state funding. Within California, state legislation allows for grants to be disbursed during the fiscal year and non-profits can apply for additional funding. Bill AB-423 is an example of the state recognizing the lack of financial inclusion of young adults, the bill encourages pupil instruction and financial literacy lessons to begin as early as grade 9.

While it is recognized that not all individuals need or want financial services, the goal of financial inclusion is to remove all barriers, both supply side and demand side. Supply side barriers stem from financial institutions themselves. They often indicate poor financial infrastructure, and include lack of nearby financial institutions, high costs to opening accounts, or documentation requirements. Demand side barriers refer to aspects of the individual seeking financial services and include poor financial literacy, lack of financial capability, or cultural or religious beliefs that impact their financial decisions.^[7]

There is some skepticism from some experts about the effectiveness of financial inclusion initiatives.^[8] Research on microfinance initiatives indicates that wide availability of credit for micro-entrepreneurs can produce informal inter-mediation, an unintended form of entrepreneurship.^[9]

Measurement of Financial Inclusion

Several surveys and datasets have worked to measure various aspects of financial inclusion including access and usage of financial services.^{[12][14][15]} Some sources, such as the World Bank's Global Findex database or the Gates foundation's Financial Inclusion Tracker Surveys are household surveys attempting to measure usage of financial services from the consumer's perspective.^[12] Other data sources like the International Monetary Fund's Financial Access Surveys focus more on the firm side, measuring the supply of financial institutions in a country.^[14] Still others focus more on the regulatory environment for financial access, such as the GSMA's Mobile Money Regulatory Index, or the World Bank's, now defunct, Doing Business Report.^{[15][16]}

These data have been used in a range of ways, from donor organizations, such as the Millennium Challenge Corporation incentivizing country governments to do more to improve financial inclusion, to individual countries better understanding where they need to target interventions.^{[17][18]} The United Nations uses two of these indicators (from Findex and the Financial Access Surveys) to measure Sustainable Development Goal 8.10.^[19]

Initiatives by country

Financial inclusion in the Philippines

Four million unbanked Filipinos are seen to benefit from the nascent credit scoring industry, a development that is seen to serve the people that is classified at the bottom of the economy an easy access to credit once the service is available to the public. Marlo R. Cruz, president and chief executive officer of CIBI Information, Inc. (CIBI) as one of the accredited credit bureaus in the Philippines, highlighted that this is expected to unlock much economic potential in sectors of the economy that are crucial for inclusive growth.^[20]

As per Cruz, "Many people still do not realize that the value of having a credit opportunity is synonymous to generating financial power. Creditworthiness is the same as to owning a keycard that can be used in navigating to the society of better possibilities."^[21]

The Bangko Sentral ng Pilipinas (BSP) reports on Financial Inclusion Initiatives and Financial Inclusion in the Philippines summarizes the country's accomplishments and significant milestones in financial inclusion. These reports show that 4 out of 10 Filipinos saved money in 2015 (up from 2 out of 10 in 2009). Among Filipino adults, 24.5% never saved and only 31.3% (up from 26.6%) have an account at a formal financial institution. The lack of enough money was cited as the main reason for not having a bank account.^[22] While there has been significant progress, much more must be done.

As an emerging country with a sizeable number of people living in poverty, access to financial services is an important challenge. Based on a March 18, 2016 report from the Philippine Statistics Authority, the country's 2015 poverty incidence (the proportion of people below the poverty line versus the total population) is at 26.3% while the subsistence incidence (the proportion of Filipinos in extreme or subsistence poverty) is at 12.1%. This means that there are around 26 million Filipinos who are still living below the poverty line.

Financial inclusion in India

History

The concept of financial inclusion, extending financial services to those who typically lack access, has been a goal for the Government of India since the 1950s.^[23]

The nationalization of banks, which occurred from the mid 1950s to the late 1960s, culminating in 1969 with the nationalization of 14 commercial banks by Prime Minister Indira Gandhi, brought banking facilities to previously unreached areas of the country.^[24] The "branching" of banks into rural areas increased lending for agriculture and other unserved rural populations and Indira Gandhi spoke of it as a tactic to "accelerate development" and to address poverty and unemployment.^[25]

The Lead Bank Scheme followed nationalization as a way to coordinate banks and credit institutions by districts to more comprehensively ensure that rural areas had their credit needs met.^[26] In 1975, the Government of India followed this with efforts to specifically reach rural areas by establishing Regional Rural Banks (RRBs) meant to exclusively meet demand in the rural economy and the number of RRBs has significantly increased over the years.^[27]

By the early 2000's, the term 'financial inclusion' was being used in the Indian context. In 2004 the Khan Commission, created by the Reserve Bank of India (RBI), investigated the state of financial inclusion in India and laid out a series of recommendations.^[28] In response, RBI Governor Y. Venugopal Reddy, expressed concern regarding the exclusion of millions from the formal financial system and urged banks to better align their existing practices with the objective of financial inclusion in both his annual and midterm policy statements.^{[29][30]} The RBI has continued in its efforts in conjunction with the Government of India to develop banking products, craft new regulations, and advocate for financial inclusion.

Since financial inclusion was established as a priority for the GOI and RBI, progress has been made. Mangalam, Puducherry became the first village in India where all households were provided banking facilities.^[31] States or union territories such as Puducherry, Himachal Pradesh and Kerala announced 100% financial inclusion in all their districts.^[32] The Indian Reserve Bank vision for 2020 is to open nearly 600 million new customers' accounts and service them through a variety of channels by leveraging on IT. However, illiteracy, low income savings, and lack of bank branches in rural areas remain a roadblock to financial inclusion in many states, and there is inadequate legal and financial structure.^[33]

Financial sector strategies

In India, RBI initiated several measures to achieve greater financial inclusion. These rely on efforts of the financial sector.

No frills accounts (NFAs), now known as basic savings bank deposit accounts (BSBDAs) can be opened with zero or minimal balances, removing a cost barrier to banking. Banks are also meant to charge minimal overdraft fees on NFAs.^[34] The RBI continues to change and relax policies regarding these accounts in an effort to better serve bank customers.^[35]

Know-your-customer (KYC) requirements for opening bank accounts were relaxed for small accounts in August 2005, eliminating a documentation barrier to banking. The new procedure only requires an introduction by an account holder who has been subjected to the full KYC screening.^[36] Additionally, banks were permitted to accept more easily produced forms of documentation for proof of identity and address.

The business correspondents (BC) model was launched in January 2006, when the RBI permitted banks to engage intermediaries in the banking process.^[37] This model enables banks to service neglected areas by allowing intermediaries to facilitate transactions and deliver other banking services directly.^[38] Originally, a fairly limited number of entities, including NGO's and certain microfinance institutions were eligible to act as BCs, however in 2010 the list was expanded to include for-profit companies.^[39] In 2018, operators of Common Service Centers (CSCs) who work with local governing gram panchayats also began working as BCs to further improve penetration of banking services.^[40]

Expanding financial technology, or fintech, has been proposed as an effective strategy to achieve financial inclusion. While incorporation of technology does pose some risks, it is being used to deliver banking services to those in rural and remote areas who are typically unserved.^[41] The United Nation 2030 Agenda for Sustainable Development (UN-2030-ASD) and the G20 High-Level Principles for Digital Financial Inclusion (G20-HLP-DFI) describes the importance of using Fintech to reduce financial exclusion and income inequality which means that the financial inclusion through Fintech may show significant signs on the reduction of inequality.^[42] Banks have been advised to make effective use of information and communications technology (ICT), to provide banking services to people directly through the BC model where the accounts can be operated by even illiterate customers by using biometrics, thus ensuring the security of transactions and enhancing confidence in the banking system.^[43] In 2018 the World Bank and International Monetary Fund (IMF) launched the Bali Fintech Agenda to provide a framework for domestic policy discussions around deepening access to financial services in a variety of different contexts.^[44]

Unique credit cards are now offered by banks, the most popular being general purpose credit cards (GCCs), and Kisan credit cards. These unique cards offer credit to those in rural and semi-urban areas, farmers, and others with adjusted collateral and security requirements with the objective of providing hassle-free credit.^[36]

Electronic benefit transfer (EBT) is being implemented by banks at the advice of the RBI with the goal of reducing dependence on cash, lowering transaction costs, and address corruption.^[45]

Increasing the number of rural banks remains a priority for the RBI. In 2009, the RBI relaxed previous policies requiring authorization before opening new branches in the hopes that simplified authorization would increase branches in underserved areas. Beginning in 2011 the RBI required 25% of new branches opened in a given year be in unbanked rural areas centers to ensure a more even spread of banking facilities.^[46]

The self-help group (SHG) linkage model has also been proposed to improve financial inclusion by linking community groups to the formal banking sector through government programs, credit cooperatives, NGOs, or other microfinance institutions. Group-based models in which members pool their savings have also been seen as tools for social and economic empowerment, particularly when women are leaders and participants.^{[47][48]}

Government policy strategies

The Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) is meant to provide supplemental employment at a guaranteed minimum wage and facilitate financial inclusion to empower women and rural laborers.^[49] While achieving financial inclusion is not its main goal, the program directly deposits wages into bank accounts as a way to limit corruption, speed delivery of benefits, and connect wage laborers to bank accounts.^[50]

The Pradhan Mantri Jan Dhan Yojana policy scheme was announced by Prime Minister Narendra Modi in his 2014 Independence Day Speech and launched in August 2014 in an effort to provide "universal access" to banking through the creation of basic banking accounts that come with other basic financial services.^[51] Modi informed all Indian banks

of the initiative and declared it a national priority.^[52] On the inauguration day of the scheme, 1.5 crore (15 million) bank accounts were opened and since then, more than 18 million bank accounts have been created.^[53]

In 2016, the Government of India instituted a sweeping demonetisation policy in an attempt to stop corruption and the flow of black money. This move forced people to deposit their money into banks or see its value evaporate, with the goal of integrating citizens into a cashless and taxable economy and banking system.^[54] While India has seen new bank accounts continue to open in the wake of this policy change, and an overall increase in use of digital payment systems and other financial services, the policy change caused an extreme disruption to the financial system and debate continues on its efficacy.^[55]

Measuring financial inclusion

Readily available data outlining gaps in access and contextualizing the situation of financial inclusion is necessary for both service providers and policy makers looking to achieve financial inclusion. Several organizations conduct surveys to measure indicators of financial inclusion and collect both supply and demand side data.^[56] MIX is one platform that produces data driven reports to track progress towards financial inclusion across the globe.^[57]

In 2013, Finance Minister of India, P. Chidambaram launched the CRISIL Inclusix, an index to measure the status of financial inclusion in India.^[18] CRISIL, India's leading credit rating and research company is collecting data from 666 districts in India and ranking on a scale from 0 to 100 based on four parameters of financial services. CRISIL publishes semi-frequent reports based on their findings with regional, state-wise, and district-wise assessments of financial inclusion.^[58]

Some key conclusions from the 2018 report are:

- The all-India CRISIL Inclusix score of 58.0 is above average as of April 2016, this is a significant improvement from 35.4 in 2009.^[59]
- Deposit penetration is the key driver of financial inclusion—the number of deposit accounts (1646 million) is almost eight times the number of credit accounts (196 million).^[59]
- The top three states are Kerala, Karnataka and Andhra Pradesh.^[59]

Controversy

Financial inclusion in India is often closely connected to the aggressive micro credit policies that were introduced without appropriate regulations, oversight, or consumer education policies. As a result, consumers quickly became over-indebted to the point of committing suicide and lending institutions saw repayment rates collapse after politicians in one of the country's largest states called on borrowers to stop paying back their loans.^[60] The crisis threatened the existence of the \$4 billion Indian microcredit industry, has been compared to the subprime mortgage crisis in the United States.^{[61][62]} The crisis serves as a reminder of the necessity of appropriate regulatory and educational frameworks and it remains a challenge to separate microcredit from the large and complex field of financial inclusion.^[36] A report by Dvara Research also points to the exclusion in the Direct Benefit Transfer scheme of the Government.^{[1][63]}

IV. CONCLUSIONS

Financial inclusion in Tanzania

With a population of 55.57 million people and only 19% of its population enrolled into an account with a formal bank, Tanzania remains largely unbanked.^[64] Poverty alleviation is often linked with a given population's access to formal banking instruments, and mobile money can serve as a crucial bridge for offering savings, credit, and insurance to Tanzania's rural population.

In 2006 just 11% of Tanzanians had access to a financial account, but with the advent of digital financial services that number has increased to 60%. The current situation in Tanzania has improved steadily over the past 12 years with the introduction of mobile money by Tanzania's main telecom providers.^[65] The quick expansion of financial inclusion in Tanzania is almost entirely due to the proliferation of mobile banking options. While a recent cooling effect has taken place due to a government crackdown on counterfeit SIM cards, over half of Tanzania's population has access a degree of financial services through mobile banking.^[66]

Financial inclusion in the United States

The United States began to adopt MFI (Microfinance) ideals in the late 1980s and early 1990s. Compared to other countries, the United States was late to implement these changes, but nevertheless, once active the US had the experience of other countries to draw upon. According to the Board of Governors of the Federal Reserve System, the expansion opened a new avenue to disadvantaged communities, primarily African Americans to "expand economic opportunities and to foster community economic development".^[67] This action is tailored to the needs of low- to moderate-income entrepreneurs. One criticism of MFI in the US is that its services didn't extend outside of providing credit, where other MFI programs overseas "extended their offerings to deliver education, training, and other relevant services".^[67] To address this gap, MFI non-profit organizations emerged, many focused on specific minority populations, such as African Americans, who are excluded from mainstream credit.

Racial inequality in the United States reduces the opportunity for African Americans to receive financial support compared to White Americans. This is due to the preexisting conflicts in the US that continue to remain relevant in the modern world. Organizations such as Main Street Launch, an Oakland, California-based microfinance organization centered on empowering African American entrepreneurs, were able to flourish due to the value they brought to local communities. The big banks viewed microfinance organizations as a "tax incentive", considering the money they offered these organizations was exempted by the US government.^[68] Another beneficial aspect that these MFI organizations brought was economic prosperity to entrepreneurs and most importantly to their local community. Through the empowerment of their local communities, MFI organizations are able to reach larger marginalized communities to support and promote upward mobility. Over the past several decades that MFI organizations have been operating within the United States, they have loaned over several billions over dollars (~15 billion) and have had a ~97% repayment rate.^[69]

During the COVID-19 pandemic, digital financial exclusion has become more prominent in the US as some businesses no longer accept cash for purchases.^[70]

Financial inclusion in Indonesia

Indonesia's national strategy for financial inclusion was established in 2016.^[71] The strategy is a guideline for all government institutions in Indonesia and private stakeholders to improve public access to financial services. Priority segments of Indonesia's financial inclusion programs are:

- The lowest income families, particularly those with limited access to financial services or without access at all;
- Micro businesses and small entrepreneurs with limited resources to expand their business; and
- Female, people with disability as well as migrant workers, communities in disadvantaged and remote areas, the elderly, former convicts, homeless communities, students and youth.

By the end of 2019, 75 percent of adult population in Indonesia is expected to have access to formal financial services. The National Council for Financial Inclusion, led by the President of Indonesia, is established to coordinate and synchronize the implementation of the strategy, to determine plans and policies in solving problems and obstacles within the implementation as well as to support governors and regent/mayors in determining regional financial inclusion policies at provincial and district/city levels.

In 2019, 76.19% of adult population in Indonesia were said to have accessed financial services.^[72]

Digital financial inclusion

Technology-enabled innovations represent an opportunity to promote financial inclusion. Inclusive digital financial services refer to mobile money, online accounts, electronic payments, insurance and credit, combinations of them and newer financial technology (fintech) apps, which can reach people who were formerly excluded. For example, digital financial services can provide low-income households with access to affordable and convenient tools that can help increase their economic opportunities or access to credit.^[73]

There is evidence that digital financial services can empower women to earn more and build assets, helping address that 35% of women worldwide—approximately 980 million—remain excluded from the formal financial system.^[74] Digital financial services have been shown to help give women greater control over their own finances, including safe, convenient, and discreet access to banking accounts.^[75] This greater financial power can increase gender equality and economic growth.^[76]

Tracking financial inclusion through budget analysis

While financial inclusion is an important issue, it may also be interesting to assess whether such inclusion as earmarked in policies are actually reaching the common beneficiaries. Since the 1990s, there has been serious efforts both in the government agencies and in the civil society to monitor the fund flow process and to track the outcome of public expenditure through budget tracking. Organisations like International Budget Partnership (IBP) are undertaking global surveys in more than 100 countries to study the openness (transparency) in budget making process.^[77] There are various tools used by different civil society groups to track public expenditure. Such tools may include performance monitoring of public services, social audit and public accountability surveys. In India, the institutionalisation of Right to information (RTI) has been a supporting tool for activists and citizen groups for budget tracking and advocacy for social inclusion.^[77]

Financial inclusion and bank stability

The theoretical and empirical evidences on the link between financial inclusion and bank stability are limited. Banking literature indicates several potential channels through which financial inclusion may influence bank stability. A recent study appeared in *Journal Economic Behavior & Organization*^[78] a robust positive association between financial inclusion and bank stability. The authors show that the positive association is more pronounced with those banks that have higher retail deposit funding share and lower marginal costs of providing banking services; and also with those that operate in countries with stronger institutional quality.

Evidence on the effectiveness of financial inclusion interventions

Results from research on the effectiveness of financial inclusion programs to improve economic, social, behavioral and gender-related outcomes in low- and middle-income countries have been mixed and programs to improve access to financial services often have small or inconsistent effects on income, health, and other social outcomes. Programs geared toward savings opportunities have had small but more consistently positive effects, and fewer risks, than credit-oriented programs.^[79]

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