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ROUND TABLE

Financial inclusion: Policies and practices

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Abstract As a key enabler for development, financial inclusion is firmly placed on the agenda of most governments as a key policy priority. Against this background, this round table provides a global and regional perspective on the policies and practices of financial inclusion. Using macro data, the collection reveals the diversity in the efforts towards achieving financial inclusion and the need for a progressive approach in financial inclusion. Further to this, the round table provides the regional perspectives on the policies and practices of financial inclusion in India, South Africa, and Australia.

Financial inclusion: policies and practices—an overview

Thankom Arun and Rajalaxmi Kamath

Globally, financial inclusion is a major policy concern with governments across the world. The lack of access of a large percentage of working age adults to the formal financial sector is a genuine global policy concern (as evidenced in the G20 Pittsburgh Summit in 2009 and Alliance for Financial Inclusion's Maya Declaration in 2011). However, other than the aspect of providing access, financial inclusion includes issues such as helping people manage their resources in a better way and building financial capabilities. A comprehensive approach by the Center for Financial Inclusion defines full financial inclusion as a "state in which everyone who can use them has access to a full suite of quality financial services, provided at affordable prices, in a convenient manner, with respect and dignity" (http://www.centerforfinancialinclusion.org/).

The financial reforms of the 1980s and 1990s that took place in most economies were expected to improve financial depth and the use of formal financial services such as loans, savings, payment services, and other related services. However, the degree of access to and use of formal financial services is still very low. Although we have theoretical and empirical support for financial market liberalisation (McKinnon, 1973; Shaw, 1973), there are concerns about the way in which the reforms have been carried out (Stiglitz, 2000). One of the main causes of the difference between the financial liberalisation theory and evidence rests with the idealistic assumptions, such as perfect information (Arestis & Demetriades, 1997), without considering the challenging nature of legal and institutional frameworks in countries. It is worthwhile to note that the global economy could be boosted by additional savings of up

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to $157bn a year, if the "unbanked" adults save through microfinance programmes (Allan, Massu, & Svarer, 2013). Furthermore, a broader outreach of finance enables talented newcomers from disadvantaged groups to be empowered (Beck & de la Torre, 2006), and can have a larger impact on the design and implementation of other development policies. Financial inclusion can improve the efficacy of government payment of social safety net transfers and the new types of financial innovation can lower transaction costs which can bring more private sector involvement in international development (Cull, Ehrbeck, & Holle, 2014). In all likelihood, the financial inclusion agenda will have a major role in the post 2015 sustainable development agenda.

Many national governments and international institutions have been leading major policy initiatives to bridge the gap between financial inclusion and the poor. The Pradhan Mantri Jan Dhan Yojana in India is an example of a state-led initiative towards universal financial inclusion taken up on a mission mode. There is no denying that this ambitious aim of a universal zero-balance, no-frills bank account faces many a hurdle. Banks and their staff have to gear up to meet the large increase in accounts, especially in the remote regions of the nation. There are still large sections of the population with no access to a bank-branch. However, this much-publicised initiative sends an important message that formal financial institutions such as banks are best suited to take forward the mission of financial inclusion. The access to credit, savings, and remittance instruments begins with the existence of a bank account. It is a break from the past where most financial inclusion initiatives were supply-led. Here, by asking people to open no-frills bank accounts, this process has willy-nilly become demand-driven. Technology could also play a role in enhancing the financial inclusion agenda, as in sub-Saharan Africa, where 12% of adults have a mobile money account and 45% of them rely on mobile phones alone for formal banking.

Against the background of growing supply side initiatives and the increasing awareness of the demand side barriers, this round table attempts to understand the global picture of financial inclusion and the intricacies of the challenges involved in achieving full financial inclusion. The round table includes three papers that were presented in the track on financial inclusion at the ninth Annual International Conference on Public Policy and Management at the Indian Institute of Management Bangalore (IIMB), India, in 2014. It also includes two other contributions that have been included to provide a global macro perspective of the situation on policy and practice.

The article by Elisabeth Rhyne shows that despite countries taking measures for financial inclusion, a wide diversity of performance exists across countries. The paper uses Global Microscope data to assess the financial inclusion policies. In addition, the paper presents a sample of Peru, India, Kenya, and China, and highlights the area in which each country excels and one in which it lags. The Microscope data used in the paper reveals a strong correlation between the countries that performed well in supporting microfinance and on financial inclusion. Furthermore, the 2014 Microscope data endorse the global trend towards regulation which is reassuring in the context of the efforts made towards greater inclusion. This measure takes forward the idea of expert-judgemental scorecards, where lacking historical data, businesses use expert judgements to assess new or potential market segments. This is a subjective measure as it relies on country expertise and organisational know-how of experts. However, there have to be purposeful attempts in the selection of experts to make the measure unbiased. Statistical indices, on the other hand, by their very formulation take into account all data points and tend to be objective and unbiased.

The paper by Jain, Zubenko, and Carotenuto is an inquiry into the policy environment for financial inclusion and measures adoption and degree of usage of financial products for 30 countries. The paper follows a progressive approach to financial inclusion, enabling access to and driving usage of the different financial products such as payments, lending, long-term savings/investments, and insurance. The study reveals the progression of financial inclusion in the countries, based on usage of payment products. Such a framework enables the countries to have an indicative and a reflective appraisal of the requirements for the implementation of the financial inclusion agenda.

The paper by Rao and Anand sheds light on the development of the financial inclusion agenda in the context of financial sector reforms in India since 1991. The paper rightly identifies the concern regarding high interest rates, one of the most relevant issues in an uneven rural credit market. Furthermore, the paper discusses the lack of transparency about and information on the functioning and financing of microfinance institutions (MFIs). The suggestion of a single point regulator with a mechanism for monitoring activities of lending entities, and the discussion on the emergence of newer organisational forms in the journey of financial inclusion offers valuable insights into the future policy developments in the sector.

The paper by Kostov, Arun, Annim, and Adjasi discusses the potential lack of demand for financial services, providing a demand perspective into the access to finance debate. In South Africa, a behavioural lethargy towards new and emerging financial institutions exists due to the perceived high cost nature of financial services. Even the entry level accounts such as Mzansi become increasingly dormant, affected by voluntary non-participation. The paper highlights a careful reconsideration of behavioural constraints on financial inclusion.

The paper by Godinho, Singh, and Russel discusses the case of Indigenous people in Australia who are socio-economically marginalised and financially excluded. Their situation has been aggravated by the lower physical and digital access to banking and other service infrastructure, which restricts the capacity of user centred financial inclusion policies. This paper reminds us that financial exclusion, induced by social, cultural, and geographical exclusion is not a problem of the developing world alone. There are pockets of such socially and geographically induced financial exclusion even in the developed countries, which could learn from the chequered history of financial inclusion in the developing world. The paper suggests measures such as the sustainability of remote financial service delivery practices and culturally relevant policies to enhance the financial capability of indigenous communities which would enable their financial inclusion.

The papers have taken stock of the progress made so far in promoting financial inclusion globally and at country levels, and provided multiple perspectives of financial inclusion. The combined efforts of the entire financial sector in developing viable business models and in setting financial inclusion