**FINANCIAL INCLUSION: DOES IT IMPACT POVERTY RATES?**

Financial inclusion:

At its very core, financial inclusion is defined as the availability and equality of opportunities to access financial services. It refers to a process by which individuals and businesses can access affordable financial products and services on a timely basis.

Financial inclusion efforts are typically targeted toward those who are unbanked (those without their own bank account) or underbanked (cannot access banking products and services), and attempts to direct sustainable financial services to them. According to a 2015 paper titled “Deepening Financial Inclusion Beyond Account Opening: Road Ahead for Banks”, published in Business Perspectives And Research, financial inclusion must be planned to go beyond a person’s own bank account, as it is show to be very much possible for banked individuals to be excluded from financial services.

Inclusive financial systems have been strongly linked towards healthier economies and more sustainable economic growth and development – thus, achieving financial inclusion has become a priority for many countries around the globe.

The goal of financial inclusion is not to mandate financial services for every individual human, but rather remove all barriers on supply and demand sides to make them more accessible, should an individual wish to. Supply-side barriers are indicators of poor financial infrastructure, and include lack of nearby financial institutions, high costs-to-opening accounts, and/or documentation requirements. Demand-side barriers are an indicator of poor financial literacy, lack of financial capability, and/or beliefs of various origins that impact their financial decision-making skills.

Financial inclusion has garnered some sceptical expertise around the world about its effectiveness, and research on various microfinance initiatives has indicated that wide availability of credit for micro-entrepreneurs can produce informal intermediation, which is an unwanted, unnecessary, and unintended form of entrepreneurship.

Poverty rates:

Global Extreme Poverty, a paper written in 2013 and recently revised in 2019 by Max Roser and Esteban Ortiz-Ospina, states that two-thirds of the global population lives on less than 10 $-int a day, and that every tenth person on the planet lives on less than 2 $-int a day.

The World Bank is the main source for global information on extreme poverty, and is the organization that sets the Internation Poverty Line. The last revision of the poverty line was in the year of 2015 – ever since, an income of less than 1.9 $-int a day is considered to be the line below which persons are said to be extremely poor. While it is a standard to use the monetary value of consumption of a person to set the bar, it may sometimes amount to using a person’s monetary value of income, should consumption numbers be not available or reliable.

Poverty rate is defined as the ratio of the number of people below the poverty line of income, divided among specific age groups. The poverty line is usually taken to be half the income earned by a median household in the total population. The classifications range as child poverty (0-17), working-age poverty (18-66), and elderly poverty (>66). While poverty rates may be the same for two different countries, their relative income-level of the poor may vary. (Source: OECD (2020), Poverty rate (indicator). doi: 10.1787/0fe1315d-en (Accessed on 22 June 2020)).

Poverty rates are an indicator of inequality prevailing in a given society. Unequally-divided societies are shown to be considerably poorly sustained than equal societies where progress of the entire community is faster in the long run. Various other indicators of social inequality include Gross National Income, household disposable income, adult education level, employment rates, and so forth.

Financial inclusion of the poor:

Various research studies conducted in varying socio-economic conditions have shown that access to finance has a low impact on poverty rates when it comes to the lower-middle and low-income economies.

An estimated two billion adults worldwide have no access to formal financial services. More than 50% of that population is of Asian origin, where access to finance is a major constraint when it comes to running businesses, especially at small-scale and medium-scale levels. The situation is seen to prevail even after various publishings show that access to finance positively correlates to economic growth and employment, despite the causal relationship not having been established firmly.

The above statement could be the effect of largely varying definitions of financial inclusion. Due to the absence of a single conceptual definition, there is no standard of measure to be globally accepted as something to compare against. Other factors that affect inequality and financial inclusion happen to do so simultaneously rather than causally, leading to the same problem as above.

Policy-wise, a solid measure to asses financial inclusion and establish contributing factors is required to understand cross-country measurement variations. Such a measure, in tandem with financial inclusion, can become a guaranteed path to achieving inclusive growth of the society, economically.

The World Bank made the Global Financial Inclusion Index database available to all to measure and track the progress of financial inclusion for a hundred and fifty distinct economies. With working indicators drawn from the Global Findex database, various conclusions can be achieved.

The degree of financial inclusion varies widely across countries, with high-income countries tending to showcase greater financial inclusions (alongwith exceptions). Commonly cited factors that contribute to financial inclusion or are said to influence financial inclusion include economic growth, financial sector development, and technological advances per economy.

An ADB study concluded that for all countries in their sample, the results suggest that none of the factors have a significant bearing on any level of financial inclusion. On the other hand, limiting the samples to high and upper-middle income classes lead to the result that higher financial inclusion leads to higher output growth and financial sector development.

Conclusion:

In a nutshell, a greater access to finance curbs income inequality only when it empowers those close to or below the poverty line.

Various studies have concluded that financial inclusion only helps to lower poverty and income inequality when overall economic conditions of the society empower people to utilize access to finance for productive purposes (such as expanding businesses and/or investments). Such relationships are more reliable in high-income economies where political, legal, and regulatory conditions provide an enabling environment for a wide range of development outcomes.

This could be a counter-causality of the fact that structural impediments in developing countries often constrain inclusive growth, including those related to education, health, and infrastructure, where proactive public policy interventions are required.

The only way to remove impediments and increase productivity in a large part of Asia is to focus on its major share of developing markets – agriculture and small-and-medium enterprises (SMEs). Bringing such sectors into focus improves the generation of economic opportunities in rural areas and for various SMEs across the continent.

Public policy interventions are used to help build the required and necessary legal and institutional frameworks required for financial inclusiveness, and crete a level-playing field for businesses that are provided the finance they need to start up and grow.

Recognizing the positive impact of financial inclusion on growth and poverty reduction has led to G20 leaders issuing their first pronouncement on financial inclusion in 2009, leading to an endorsement of nine high-level principles for Innovative Financial Inclusion the following year.

So, does financial inclusion lower poverty or income inequality? While the question is an asking of something obvious to us, the answer may not be as simple as we might expect it to be.