NELSON MANDELA UNIVERSITY

Professorial Inaugural Lecture

Professor Stephen Mago
(Faculty of Business and Economic Sciences)

Title:

What is the future of financial inclusion?

Tuesday, 13 September 2022

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Inaugural lecture

By Professor Stephen Mago

Title: What is the future of financial inclusion?

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Abstract

Purpose: The purpose of this lecture is to explicate the future of financial inclusion with a focus on Africa. Understanding financial inclusion, its advantages, and its trajectory into the future sets a scene for future research and debates.

Materials and methods: In preparing this lecture, I used systematic literature and bibliometric analysis complemented with field research done in two selected areas (Masvingo district in Zimbabwe and the Kirkwood area in the Eastern Cape, South Africa).

Results/Findings: Results show that financial inclusion benefits poverty alleviation, job/employment creation, small business growth (through innovation and creativity), sustainability, closing inequality gaps, inclusive economic growth and development (local, national, regional, and global), closing gender gaps, and the promotion of digital finance. In other words, it creates opportunities for individuals, businesses, and economies in various ways. It also contributes to the attainment of sustainable development goals (SDGs). Globally, stakeholders such as governments, supranational organisations (the UN, the WB, the IMF, the G20) and development banks are working together to achieve financial inclusion. Alleviation or elimination of financial exclusion (FE) is the ultimate.

Social implications: Financial inclusion promotes socio-economic transformation and livelihood enhancement. The unbanked, or the financially excluded, and the underbanked benefit from financial inclusion, thus allowing them access to financial services.

Conclusions and recommendations: Extant literature and empirical research demonstrate the immense contribution of financial inclusion. It helps to defy the triple challenges of poverty, unemployment, and inequality. This lecture therefore recommends deliberate policy intentions by governments in developing countries to support financial inclusion to benefit the marginalised and promote the attainment of Sustainable Development Goals(SDGs). There is a need to digitise the financial systems for inclusivity. I argue that the future of financial inclusion is achieved not only by technology, but also by acceptance, behaviour, and collaboration/synergy, built around strong ecosystems. An underlying thesis is that financial inclusion benefits economies in many ways.

Key words: financial inclusion, financial exclusion, poverty alleviation, gender gap, inclusive economic growth and development, inequality, job creation, digitising finance.

1.Introduction

The purpose of this presentation is to discuss the future of financial inclusion or 'inclusive finance'(Chen & Yuan, 2021) with a focus on Africa. Understanding what financial inclusion is, its advantages and its trajectory into the future sets a scene for future research and debates. Globally, access to financial services is an important issue that has attracted the attention of governments, development institutions, supranational organizations, academicians and/or researchers. Research has, to an appreciated extent, empirically demonstrated the relationship between access to financial services and the three social ills-—poverty, unemployment and inequality. Segments of the population that lack access to finance face various socio-economic challenges leading to vulnerability and failure to manage socio-economic shocks. Such vulnerability exposes them to circumstances that compromise their livelihoods, thus perpetuating conditions of poverty, unemployment and inequality. Financial services need to be accessible, affordable, sustainable, safe & secure/appropriate protection, of good quality, convenient, simplified and provided in a dignified manner. People should be able to do their transactions/payments, mobilize savings, and access credit. African economies face real challenges associated with the three socio-economic ills.

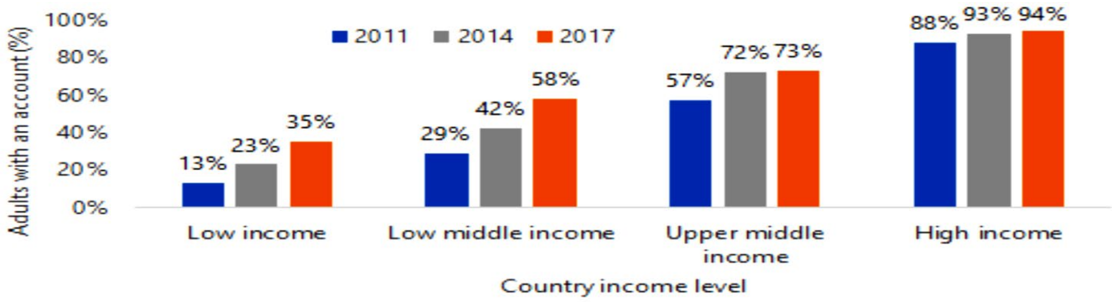
2.Background

The triple challenges of unemployment, poverty and inequality cause problems across the spectrum in both developed and developing countries. Extant literature shows that financial exclusion plays a part in worsening the triple challenges and reversing the gains of SDGs progress. New boundaries are being pushed at various levels to achieve financial inclusion.

The global context & trends

"Globally, financial access rates have increased significantly since 2011"(World bank Group, 2018)

Figure 1: Financial Services Access rates(global)



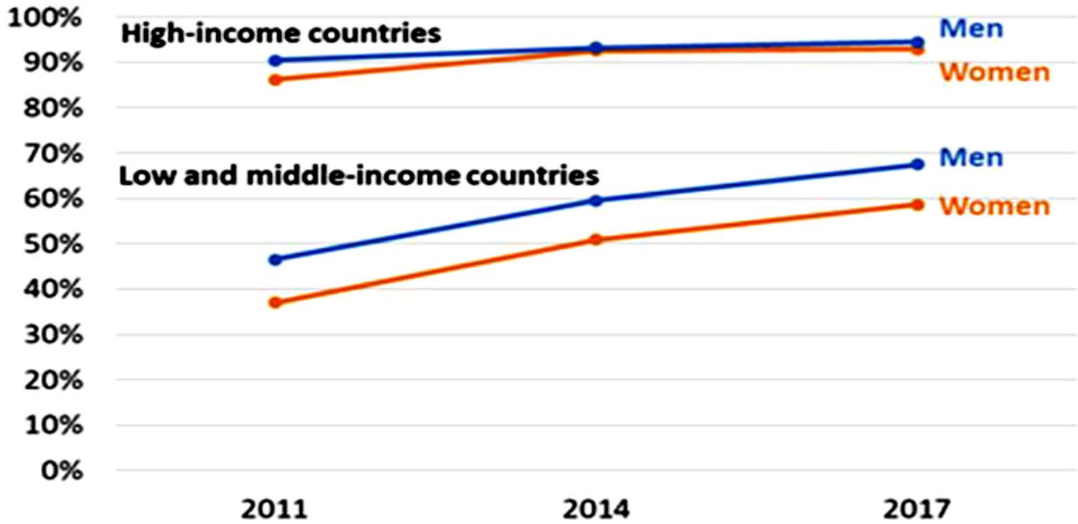
Source: World Bank(2018)

- 2014-43% of adults had an account with a financial institution or mobile money provider (developing countries)

- 2017-71% of adults had an account with a financial institution or mobile money provider (developing countries). Improvement by more than 50%

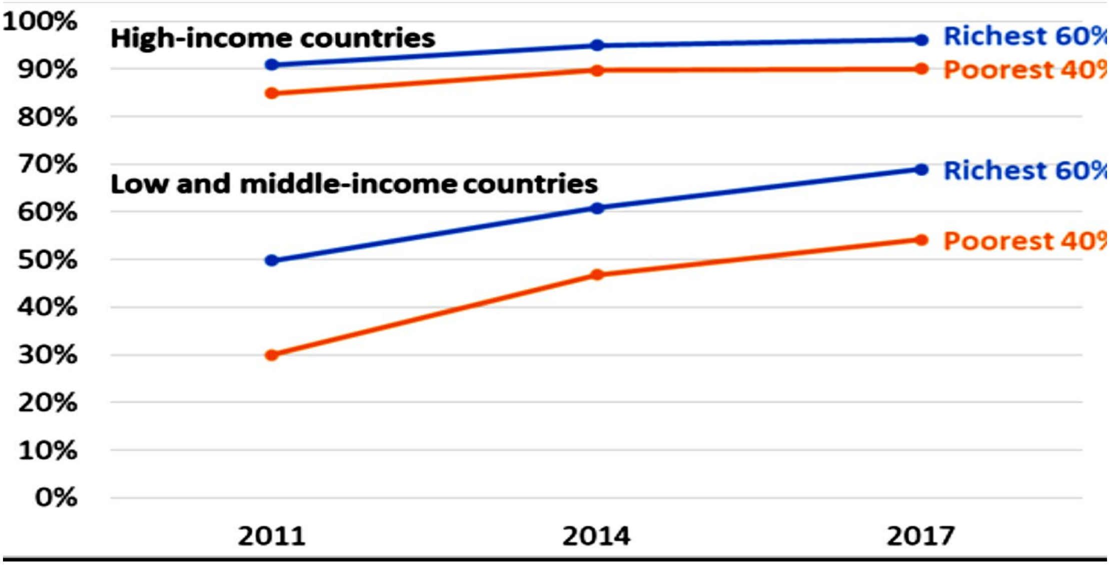
- Digital financial services-SSA-33% of adults now use a mobile money account.

Figure 2: Inequalities in Account Ownership by men & women



- The access has empowered women through narrowing the gender gap(reduced by 4% globally-WB, 2022).Developing countries have reduced the gap from 9% to 6%.

Figure 3: Inequalities in Account Ownership by rich & poor countries



- The account ownership gap between the rich and the poor is still wide. However, account ownership may not translate to real inclusion because of the dormancy rate. Global Findex(2017) established that 25% of the adults with bank accounts had not used them at all.

- The COVID-19 pandemic, despite its various negative effects, accelerated the adoption of digital payment systems, thus promoting financial inclusion. Although catastrophic, the emergence of the COVID-19 pandemic, and the urgent need for social distancing, accelerated the need for digital financial services (World Bank Group 2021). A window of opportunity was opened.

- Digital payment systems are more affordable, and efficient, reduce corruption through using PINs, encryptions and records (easy to track), less exposed to fraud, theft & other risks(money received securely). In China 80+% of adults use mobile phones for payments with 40% in developing countries.

- Cellphones are getting cheaper, penetration is increasing, barriers are lowering and digital programmes are getting support from various organizations (WB, IMF, Bill and Melinda Gates Foundation, Mastercard)

- Reaching the ‘unbanked’-(i)-build trust in service providers, (ii)-build confidence in financial products (iii)-develop new/innovative products (iv) build strong consumer protection mechanisms.

- 2022-about 1.4 billion are still unbanked globally (Malpass, 2022-WB President)

The African context

Inequality:

Country	Gini Coefficient
South Africa	69.3 in 2008 and 63 in 2014 (World Bank 2022
Zimbabwe	50.3 in 2019
Botswana	53.3
Mozambique	54
Zambia	57.10
Namibia	59.10
Algeria	27.6
Mauritius	36.8 in 2017 (World Bank, 2022).

Unemployment:

Highest: South Africa tops with an average of 34.5 % (March/2022 report), Namibia 33.4%(Dec, 2018), Nigeria, 33.3%(Dec 2018), Angola, 32.9%(Dec 2021). Niger enjoying the lowest 0.6% (Dec 2021); Benin 1.6%(Dec/21); Chad 1.7%(Dec/21) and Madagascar 2.6%(Dec/21) .

Zimbabwe 5.7% (Dec/2020) (they incorporated informal employment into their definition of employment). Zimstat told Reality Check that the reason the 2014 figures are relatively low is that they included people like subsistence farmers, who consume all their own output, as employed(https://www.bbc.com/news/business-42116932)

Poverty:

Financial exclusion drives poverty, unemployment and inequality. The three challenges catalyse other social challenges such as conflict, corruption, disease, deaths (including high infant mortality), low life expectancies (averages 63.82 years in Africa and 80.4 years in Europe), poor human development and further exclusion. Long term impacts of the COVID-19 pandemic are likely to affect the progress in the life expectancies. The effect of climate change is weighing heavily on the poor. Their agricultural activities are hampered. For example, in Zimbabwe, the Elnino effect has dried the wetlands where rural people used to grow brown rice and other healthy crops. Currently, they cannot grow such crops leading to hunger and malnutrition among children. Financial inclusion will contribute to the reduction of such circumstances, thus improving the communities' coping strategies through farm and non-farm activities. Most African countries have larger populations residing in the rural areas. However, this is declining due to urbanisation which creates another problem of urban explosion, especially by the youth.

Rural population in Africa (2021 stats)(Word Bank)

	SSA average	**58%**
Highest	**Burundi**	**86%**
	Niger	**83%**
	Rwanda	**82%**
	Malawi	**82%**
	South Sudan	**79%**
	Zimbabwe	**68%**
Lowest	**Gabon**	**10%**
	Sao Tome and Principe	**25%**
	Equatorial Guniea	**26%**
	Botswana	**28%**
	Congo Republic and South Africa	**32%**

From the three fronts, African countries are in trouble hence the need to emancipate the citizens. Various strategies need to be implemented to ensure that they are emancipated, and financial inclusion is one of them. Though it may not be the 'magic bullet', it has the potential to immensely contribute to the alleviation or elimination of the social ills also referred to as 'wicked problems' by some authors (see for example Walls, 2018).

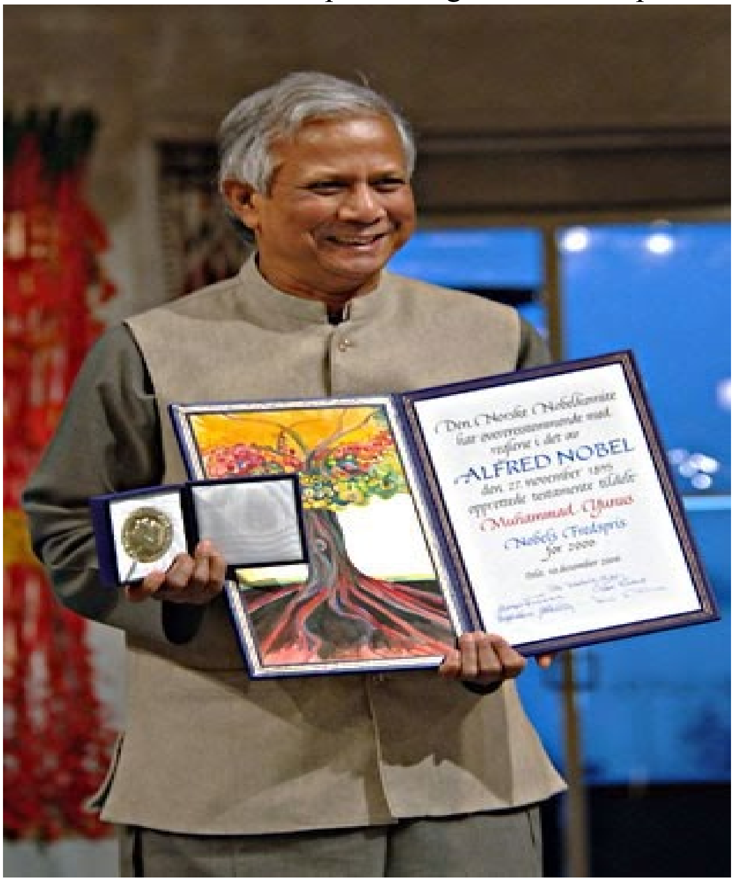
3.What is financial inclusion?

The clarion call to act on financial inclusion (FI) resulted from financial exclusion (FE). FI is linked to inclusive growth and social inclusion.

"Financial inclusion means that individuals and businesses have access to affordable financial products and services – payments, transactions, savings, credit and insurance" (Evans, 2018:568). "Microfinance, as the origin and pioneer of financial inclusion in the 1990s…"(Chen & Yuan, 2021:1).

The financial inclusion 'movement' (Mader, 2017) has a large and powerful stakeholder composition at a global level. These include the World Bank (WB), the IMF, the African Development Bank (ADB), Mastercard Foundation ACCION, Centre f Financial Inclusion, Bill and Melinda Gates Foundation, social entrepreneurs like Muhammad Yunus (popular for popularising the old concept of microfinance-Nobel Prize winner. "Awarded for founding the

Grameen Bank and pioneering the concepts of microcredit and microfinance".



He claimed that "microfinance would send poverty to 'poverty museums'"(his popular statement).

The Global Partnership for Financial Inclusion (GPFI), G20's Alliance for Financial Inclusion (AFI), and the Consultative Group to Assist the Poor (CGAP)Financial development is not new as it dates back to the … where it is known for driving economic growth and development. Financial inclusion or inclusive finance is a component of financial development in the financial system. Academicians, researchers, organisations and other stakeholders have provided several definitions of FI. For example, the World Bank's (2014) definition:

Financial inclusion means that individuals and businesses have access to useful and

affordable financial products and services that meet their needs – transactions, payments, savings, credit and insurance – delivered in a responsible and sustainable way.

FI is gradually replacing 'microcredit' and 'microfinance' by bringing a 'broader push to extend financial access' and wider inclusion. Microfinance has had challenges including high-interest rates, and high payment default rates leading to extreme psychological issues including suicide, mixed results regarding poverty alleviation/reduction-women empowerment-employment creation-economic development etc. This led to the need for microfinance's heir apparent (Mader, 2018). Some criticised it as “mere re-branding, because much of today’s financial inclusion activity is still microfinance: small, short-term, high-interest loans extended to low-income people” (Mader, 2018:463). It is a continuation and expansion of microfinance and not an alternative or a replacement. FI does not focus on ‘lack of money’ per se but puts ‘lack of financial intermediation and choice’ at the centre (a lack of financial tools).

“Financial exclusion is approached in two ways: 1) through the use of banking products, measured by the number of financial products consumed; and 2) through the state of financial vulnerability, that is, being unbanked or underbanked” (Fernaˊndez-Olit et al. 2018:253). Unbanked (the excluded), underbanked (partially exclude/included) or fully banked(fully included/not excluded). marginally banked”

The poor and low-income groups currently get lower-quality financial services at higher prices, hence the need to emancipate them—the social justice strand of FI. Social exclusion (the inability to participate in normal social activities) (Fernández-Olit et al. 2018:253).

4. Theoretical reflections

The field of study still requires mature theories to underpin financial inclusion. A few approaches have been used to explain financial inclusion and the related benefits:

1. The financial geography approach- “Financial access is determined by geographic factors”(Simpson and Buckland 2016) and Aalbers (2015).

2. Financial Ecologies- FI is viewed as an interconnection of elements defining the relationship between individuals and the economic environment (Salignac et al. 2016).

3. Social and sociological perspective-looks at the social reality of the need for financial access by members of society from a sociological perspective. FI allows people to fit in a financialised society(the process of financialization). [see for example Rogers and Clarke (2016), Polillo (2011), Wainwright (2011), Kear (2017)]

3. Economic psychology and financial socialization approach- This explains how people build their behavioural and financial knowledge systems. The understanding of finance is “made up of compartmentalized and incomplete pieces of information that become integrated over time” (Friedline, 2012). “Financial Socialization (FS) is a process of learning and advancing values, knowledge, norms, standards, attitudes, and behaviours that promote financial viability and individual well-being” (Danes, 1994). People who receive a salary and disappear from work for a week or so are not financially socialised. Children/students need to be introduced to the same process so that they do not get made when they receive their first paycheck.

4. The moral approach: access to financial services is considered to be a social right. According to Yunus and Sen, access to credit is essential to overcome poverty and related challenges.

To appreciate FI, let me start by defining Financial exclusion (FE).

5. Financial exclusion

FE defines the barriers faced by the poor. FE involves intentional or non-intentional barriers created to discourage access to the formal financial system for certain groups of the population. FE is a global problem, with prevalence in developing countries (Koku, 2015). Refers to "those processes that serve to prevent certain social groups and individuals from gaining access to the financial system" (Koku, 2015:). About "2 billion people worldwide are effectively excluded from the formal financial system" (FINCA, 2022). FE is linked to social exclusion.

What drives FE?

People are described as financially excluded if:

Forms of financial exclusion

(1).The financial geography approach: From the perspective of economic geographers, political economists and urban scientists, access to financial can be viewed from a spatial lense (Aalbers, 2015). geographical location, the cost of services and a lack of proper information and education. Those in the rural areas are the hardest hit. Rural development is hindered.

(2) Access exclusion- people are restricted by risk management processes.

(3) Condition exclusion- the conditions attached to accessing financial products exclude certain groups of people.

(4) Price exclusion- the free market system uses the price mechanism to allocate financial products.

(5) Marketing exclusion-financial institutions use target marketing strategies to select preferred customers.

(6) Self-exclusion- people may decide not to apply for formal finance believing that they will be turned down. Due to past experience, they will say "they don't accept people who live round here."(Koku, 2014).

(7) Socio-cultural-based exclusion- Demographic issues (gender, age and origin of respondents), socio-cultural and religious factors and so on.

6. What are the historical developments?

- ACCION-founded in 1961 as a Community development initiative by a university student (Joseph Blatchford)- is a global non-profit committed to creating a financially inclusive world, with a pioneering legacy in microfinance and fintech impact investing
- "…financial inclusion – traces its roots to the late 1990s, when UNCDF's work at the local level often included support for microcredit institutions." The UN Capital Development Fund
- FI gained credence in the 2000s.
- "In 2005, UNCDF made a strategic shift to focus its interventions on financial inclusion more broadly."
- "UNCDF has been continuously assessed and recognized as a leader in the SmartAid Index by the Consultative Group to Assist the Poor (CGAP) since 2007. The SmartAid Index measures an organization's effectiveness in supporting financial inclusion." https://www.uncdf.org/50/history-on-financial-inclusion
- Accion established the Center for Financial Inclusion (CFI) (an Action Tank/think tank) in 2008
- Today, UNCDF's "last mile" programme is driven by financing models that support financial inclusion. These include development and support of microfinance institutions, cooperative banks, money transfer companies and mobile network operators.
- UNCDF supports digital finance innovations to open opportunities for the unbanked, the poor and the remote populations. Digital finance services are safer than using cash. They also promote transparency by creating transactions audit trails and fraud reduction.
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- 2011- Maya declaration-Mexico at
- Global Policy Forum (GPF) organised by AFI-developed targets & developed a AFI Data Portal (ADP) to access trends…
- "The World Bank (2018), along with private and public partners, has set ambitious Universal Financial Access (UFA) goals for 2020 to enable 1 billion people to gain access to a transaction account through targeted technical, financial and advisory support,"
- October 2021-reached 885 Maya Decla targets.
- Membership- "AFI members include roughly 101 central banks and other financial regulatory institutions from nearly 90 emerging and developing economies."

7. My journey/trajectory

1993: Board member of the Masvingo Credit Against Poverty.

2011: Graduated with a PhD: Title-Rural microfinance and poverty alleviation.

From 2012 to date: Published on microfinance and related issues. Selected examples.

1.Bote, D., Mago, S. and Hofisi, C., 2014. Innovative rural financing in Zimbabwe: A case of cattle banking. *International Business & Economics Research Journal (IBER),* 13(4), pp.815-822.

2.Ecofarmer paper- Mago, S., 2014. EcoFarmer in Zimbabwe: A New Agricultural Development Phenomenon. *Asian Journal of Business Environment*, *4*(2), pp.13-15.

- "EcoFarmer enabled farmers to insure their crops against the risk of false rainfall, excessive rainfall and excessive dry days"(https://www.ecofarmer.co.zw/about). ECONET Zimbabwe owns EcoSure among its products(insurance product delivered digitally).

3. **Mago, S., 2020.** Migrant entrepreneurship, social integration and development in Africa. *Journal of Small Business & Entrepreneurship*, pp.1-37

4.Matindike, S. and **Mago, S.,** 2022. Financial Inclusion on Entrepreneurship in South African Townships: Lessons for Practioners and Policy Makers from Literature. *AfricaGrowth Agenda*, *19*(2), pp.22-23.

5.Mago, S. and Modiba, F.S., 2022. Does informal finance matter for micro and small businesses in Africa?. *Small Business International Review*, *6*(1), p.e415.

6.Modiba, F.S. and Mago, S., 2022. Policy roadmap for a sustainable informal business sector. *Development in Practice*, pp.1-13.

7.Kirkwood research project: Title: Transforming livelihoods through financial inclusion.

8. Mentorship project-to help a lecturer up the ladder to senior lectureship by embarking on field research activities and publication.

9. Hosting Postdoctoral fellows researching on financial inclusion and SDGs.

8. What can be achieved through FI?

"The G20 made a commitment to adopt financial inclusion as a major support towards the achievement of its 2030 Agenda for Sustainable Development of all member countries"(Achugamonu et al. 2020:1).

"Within the 2030 Sustainable Development Goals of the United Nations, financial inclusion is incorporated as a target in eight of the 17 goals (United Nations, 2014)" Singh and Stakic,2021:239).

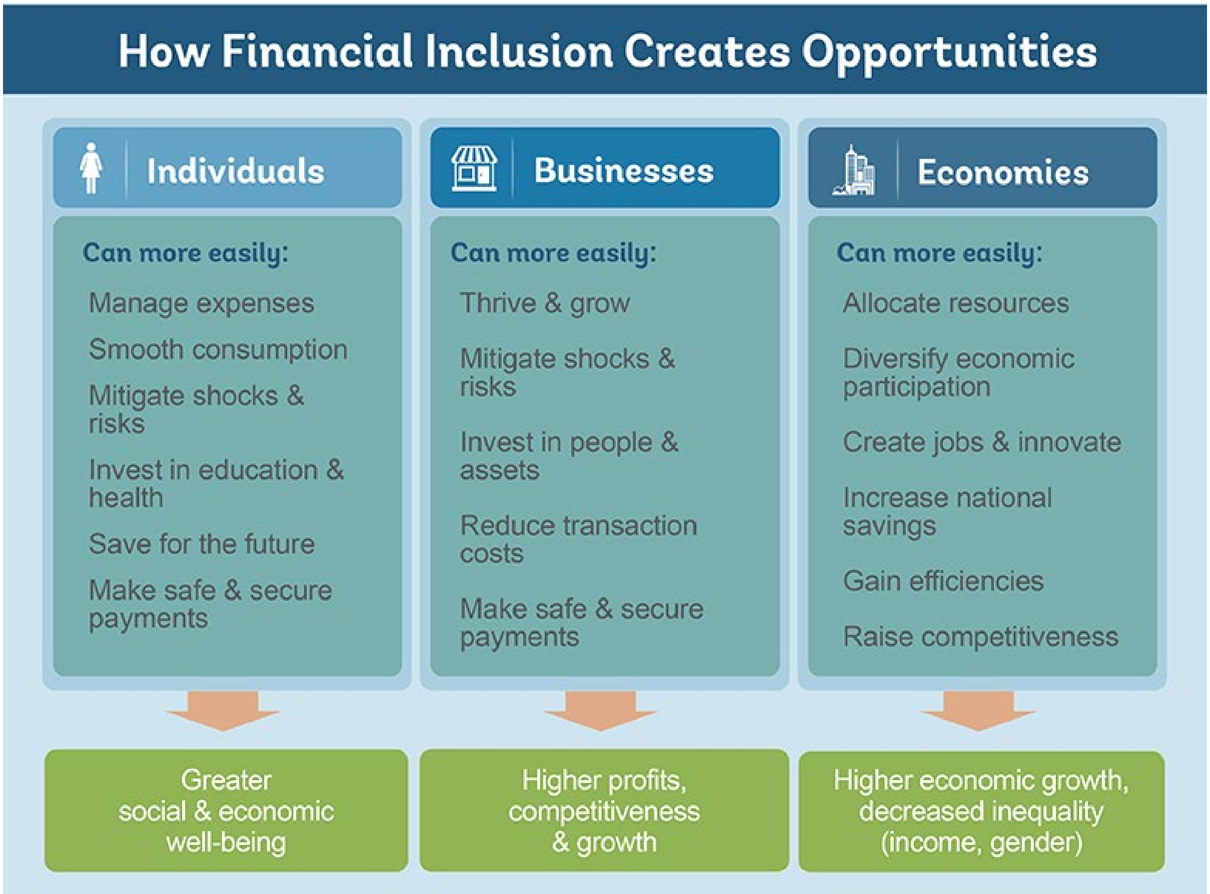
"Financial inclusion is positioned prominently as an enabler of other developmental goals in the 2030 Sustainable Development Goals" (UNCDF, 2022). It targets eight of the 17 SDGs namely:

- SDG1(eradicating poverty),
- SDG 2 (ending hunger),
- SDG 3 (profiting health and well-being),
- SDG 5 (achieving gender equality and women empowerment),
- SDG 8 (promoting economic growth and jobs),

- SDG 9 (supporting industry, innovation, and infrastructure) and SDG 10 (reducing inequality).

FI promotes:

- "Economic inclusion and inclusive development" (Mader, 2018) leading to inclusive growth.
- Maximizing aggregation of welfare.
- Economic growth.
- Rights and capabilities for human beings (Sen, 1999; Nausbaum…)
- Policies that "…eliminate corrupt and inefficient intermediaries" (Signh 2017).
- Economic empowerment
- Poverty reduction
- Inclusive growth
- Innovative start-ups
- Savings
- Reduction of socio-economic inequality (e.g. income inequality)



Source: World Bank(2016)

Financial inclusion "…remains a key challenge in the Asian and African regions" (Cicchiello et al. 2021:1). Asia and Africa still experience access gaps "… between men and women, poorer and richer households and rural and urban populations (Demirgüç-Kunt et al., 2018 in Cicchiello et al. 2021:2).

Financial exclusion- deprivation of access to services available in the financial system.

Financing has been existing forever but has been changing with winners and losers. It has become a melting pot in the field of development studies and cognate fields such as economics, sociology, business and …. Globally, many people lack access to financial resources, triggering the attention of governments, researchers, social entrepreneurs, entrepreneurs and the poor to financial inclusion. Financial inclusion refers to:…

How is this achieved?

Source: World Bank (2016)

https://www.worldbank.org/en/news/infographic/2016/10/04/gateway-to-financial-inclusion

9. What about the future?

What should be done in the future? /solution statement

- Financial infrastructure-Digital technology-upscaling of FINTECH firms (Financial Technology Firms), Question: "Can the internet and mobile phones spur the inclusion of the financially excluded poor?" digitalisation and FI-technology as an enabler.
    - Use of Artificial intelligence (AI) and data analytics for credit scoring.
- Governance and policy support- National Financial Inclusion Strategy (NFIS),
- Consumer protection-create frameworks to protect the 'unbanked' against all forms of exclusion and exploitation.

- Universities- to establish Financial Inclusion Research Centres. Need for more empirical research and avoid reliance on anecdotal data.
- A need to widen the financial net. “This no doubt will promote SDGs of employment generation, wealth creation, poverty and inequality reduction as well as hunger elimination” (Achugamonu et al. 2020:3)
- The need for a model (Cicchiello et al. 2021) and the use of financial inclusion index (FII) for each country or region. This is captures context specific variables for an effective measure of financial inclusion.
- Use of Artificial intelligence (AI) and data analytics for credit scoring.

10. Concluding remarks

Extant literature and empirical research demonstrate the immense contribution of financial inclusion. It helps to defy the triple challenges of poverty, unemployment, and inequality. This lecture therefore recommends deliberate policy intentions by governments in developing countries to support financial inclusion to benefit the marginalised and promote the attainment of Sustainable Development Goals (SDGs). There is a need to digitise the financial systems for inclusivity. I argue that the future of financial inclusion is achieved not only by technology, but also by acceptance, behaviour, and collaboration/synergy, built around strong ecosystems. I recommend that governments should develop deliberate policies to promote financial inclusion. They should also provide funding for financial infrastructural development. Financial systems nets need to be widened and focus on promoting SDGs. Universities should contribute through establishment of appropriate research centres to focus on FI. Models could also be developed to ensure scientific measurements of financial inclusion and its impact on livelihoods. An underlying thesis is that financial inclusion benefits individuals, businesses and economies in many ways.

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