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FINANCIAL REFORM AND EQUITABLE DEVELOPMENT: A REVIEW OF THE GENERAL LITERATURE ON THE FINANCIAL INCLUSION AND ECONOMIC GROWTH NEXUS

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Abstract

Financial inclusion is considered as an essential strategy for boosting economic growth. This paper provides a brief review of the role of financial inclusion in fostering economic development and identifies areas for further research. The review finds that a growing number of studies provide overwhelming evidence which indicate financial access enhances equitable growth, reduces poverty and promotes social inclusion. The review reveals that an inclusive and efficient banking and financial system is an important element for rapid equitable growth and development in any economy. The review identifies a number of key factors associated with financial inclusion and these include the quality of institutional and policy environment, the restrictiveness of banking activities, the degree of disclosure of credit information, media freedom and the level of development of physical infrastructures. The review shows that studies analyzing the impacts of the different dimensions of financial inclusion on growth are still in their infancy stage, and more research is required to provide better insights on the challenges that impede access to financial systems.

Keywords: Financial inclusion, economic growth, financial systems, equitable development, banks, financial development

INTRODUCTION

Financial inclusion is an essential strategy for fostering social justice and equitable development. The general evidence suggests that financial services have positively impacted a range of economic indicators including employment, household consumption, business development and human well-being (Bauchet, Marshall, Starita, Thomas & Yalouris, 2011; Banerjee & Duflo, 2011). Evaluations have shown that financial services benefit small and medium enterprises (SMEs) and positively impact the broader welfare of people (Cull, Ehrbeck & Holle, 2014). There is evidence that access to finance including microcredit has not only spurred business development but increased household consumption and expenditures, reduced corruption, reduced rural poverty and enhanced local economic activities (Angelucci, Karlan & Zinman, 2013).

The World Bank defines financial inclusion as the percentage of the population and enterprises using financial services, while the Consultative Group to Assist the Poor (CGAP) considers financial inclusion as an opportunity to create a world where everyone can access and effectively use the financial services they need to improve their lives without developing separate financial markets for the poor. Financial inclusion is referred to as accessibility to a wide array of affordable financial services (Mehrotra & Yetman, 2015), provided by a variety of sound and sustainable institutions. It is also defined as the state in which individuals can access a full suite of financial services at affordable prices, in a convenient manner and with respect and dignity (Center for Financial Inclusion, 2018). While the World Bank's definition focuses on the actual use of financial services, other definitions prioritize the potential ability of individuals and enterprises to use such services.

In spite of significant economic development and modernization of the global economy, gaps in financial access remain severe. More than half of the world's working-age population, an estimated 2.5 billion adults do not have access to quality, affordable financial services. 2.2 billion of the 2.5 billion unbanked adults live in Africa, Asia, Latin America, and the Middle East countries (McKinsey, 2010). The situation remains almost unaltered until recently as the World Bank data indicates that almost 50% of the world's adult's population do not have account at a formal financial institution. The scenario is especially bad in developing economies, where more than 7% of the adult population is financially excluded.

Access to finance still tops the list of constraints in Sub-Saharan Africa (SSA). One reason for the limited access to finance is the increase in lending of banks to the public sector in recent years (European Investment Bank, 2018). Higher issuance of public debt reduces lending to the private sector by providing a potentially attractive alternative investment, and, as observed throughout Africa, offering higher lending rates. Crowding out has increased throughout Africa during 2014-2018, and its prevalence is elevated in SSA. The European Investment Bank noted that the lack of adequate collateral and the high costs of providing financial products to SMEs and individuals in SSA constitute the major obstacles to achieving financial inclusion objectives (European Investment Bank, 2018).

Financial inclusion can be considered as a tool to address the immense social, political and economic injustices suffered over several decades of unmitigated debt accumulation (Graeber, 2011). As microfinance gradually gives way to this “broader push to extend financial markets which introduces new products, new providers, and new target markets” (Cull, Cull, Demirguc-Kunt & Morduch, 2013, p.1), a re-evaluation of the developmental, social, and business logics of financial inclusion is urgently required. This reassessment is essential given the expansion of financial inclusion with the promotion of novel digital financial technologies deployed to reduce the increased use of cash, the crystallisation of the “fintech–philanthropy–development (FPD) complex” as a powerful force reshaping transnational governance (Gabor & Brooks, 2017, p.2), and the reconfiguration of social policy targets to increase the financial assets of investors by collateralising, securitising, and capturing government-to-citizen payments.

Following the work of Sarma (2008), other researches (Gupte, Venkataramani & Gupta, 2012; Prathap, 2011; Arora, 2010) developed the indices of financial inclusion. The development of financial inclusion indicators enabled the conduct of several studies on financial inclusion with a narrow focus on measurement of financial inclusion (Crépon, Devoto, Duflo & Parienté, 2015). The over concentration of studies on the measurement of financial inclusion creates a significant knowledge and research gap on how financial inclusion can enhance equitable development; hence, the motivation for the current research.

THE ROLE OF FINANCE IN ECONOMIC DEVELOPMENT

Regardless of the fact that the empirical finance-and-growth literature is historically old, views still diverge on whether financial development stimulates economic development. While the majority of researchers have argued that over the period, the contribution of financial markets to economic growth has been very obvious others have complained that the importance of financial markets in economic development is severely exaggerated in academic discussion (Miller,1998). Moreover, the global financial crisis of 2008 to 2009 reinforced the view that finance can degenerate into a rent-seeking activity (Zingales, 2015), and a substantial force for planting the seeds of future financial crises with adverse implications for long-term growth and social welfare. This section evaluates the evidence on the finance-growth nexus.

Hicks (1969) argues that financial system played a crucial role in igniting industrialization in England by facilitating the mobilization of capital for critical development activities. Levine(1997) supports this argument and emphasized the importance of the financial revolution over the industrial revolution. Schumpeter (1912) contends that well-functioning financial systems spur technological innovation by identifying and funding those entrepreneurs with the best chances of successfully implementing innovative products and production processes.

McKinnon(1973) also produced considerable evidence that establish a strong correlation between financial development and economic growth. Recently, endogenous growth literature has reinforced the role of financial intermediaries by showing that such intermediaries can contribute to economic growth through various aspects of productive activities. Many models in the recent literature emphasize that well-functioning financial systems and markets ameliorate information and transactions costs and foster efficient resource allocation and long-run growth (King & Levine, 1993).

By contrast, several prominent economists are sceptical of the view that finance plays any major role in economic development. Robinson (1952) maintains that where enterprise leads finance follows. According to this view, economic development creates demands for particular types of financial arrangement and the financial system responds automatically to these demands. Moreover, some economists do not endorse the view that the finance-growth relationship is important. Lucas (1988), for instance, asserts that economists over-emphasized the role of financial factors in economic growth, while development economists frequently express their scepticism about the role of the financial system by ignoring it (Chandavarkar, 1992).

Despite the claim made by Chandavarkar (1992), Lewis (1955), one of the pioneers of development economics, in his, ‘The Theory of Economic Growth’, postulates a two- way relationship between financial development and economic growth. Lewis (1955) indicated that financial markets develop as a consequence of economic growth which in turn feeds back as a stimulant to real growth. A number of endogenous growth models (Greenwood & Smith, 1997; Greenwood & Jovanovic, 1990) show a two-way relationship between financial development and economic growth.

Levine, Loayza and Beck (2000) in their paper evaluated whether the exogenous component of the development in the financial system influences economic growth and whether cross-country differences in legal and accounting systems explain differences in the level of financial development. Using both traditional cross-section instrumental variable procedures and recent dynamic panel techniques, they found the exogenous components of financial intermediary development are positively associated with economic growth. Their findings also suggest legal and accounting practices can boost financial development and accelerate economic growth.

There are very few studies that attempted to analyze the impact of banking development on local economic growth of developing countries. Among the few studies, Cheng and Degryse (2010) considered the impact of bank and non-bank financial development on local economic growth of China. Their study is a follow-up of a stream of studies that dealt with similar issue on China, such as Ayyagari, Demirguc-Kunt and Maksimovic (2010), and Hassan, Wachtel and Zhou, (2009), and the studies found positive relationship between financial development and local economic growth.

Financial institutions act to identify investment opportunities by selecting the most profitable projects, mobilizing savings, facilitating trade and the diversification of risk while also improving corporate governance mechanisms. In one such study, Levine and Zervos (1998), applying data for 49 countries for the 1976-1990 period, pointed out a strong correlation between the rates of real per-capita output growth and stock market liquidity. Demirguç-Kunt and Levine (1999), with data for 150 countries spanning the 1990s, concluded that wealthy countries have better developed financial systems, defining development in terms of the size and the efficiency of the financial sector.

Providing a review of the literature and the empirical evidence on the relationship between financial development and economic growth, Khan and Senhadji (2003) concluded that the results of empirical studies analysing the relationship between financial development and economic growth indicate that, while the general effects of financial development on the outputs may be positive, the size of these effects varies. The differences in the effects were attributed not only to differences in variables and financial development indicators but also due to differences in estimation methods and data frequency.

Rajan and Zingales (1998) pointed out that the positive correlation usually returned by financial development and economic growth might derive from a problem of omitted variables. They argued that there is no clear causality between financial development and economic growth and proposed further tests to analyse the mechanism through which financial development may promote growth taking into account both the country and sectorial effects. Thus, rather than adhering to the traditional explanation of economic growth by proxies of financial development, Rajan and Zingales (1998) tested the hypothesis that financial markets and banking institutions not only reduce the cost of financing but also help to combat problems provoked by asymmetrical information.

Koetter and Wedow (2010) studied the importance of financial intermediation by banks to the economic growth taking place in 97 German economic planning regions between 1993 and 2004 and concluded that the quality of these banks, as reported by bank cost efficiency, robustly contributes to growth, while the quantity of bank credit provided does not clearly correlate with economic growth. Similar conclusions were obtained by Hassan, Wachtel and Zhou (2009) who studied whether regional growth in eleven European countries is influenced by bank costs and profit efficiency over the time period 1996-2005. Their findings indicated how, in these countries, an increase in bank efficiency generates five times more influence on economic growth than the same rise in the level of bank credit provided.

There is also a strand of literature developed by scholars like Robinson (1952), Gurley and Shaw (1955), and Greenwood and Smith (1997) that cast doubt on the one-way causality of financial development on economic growth. The scholars indicated that there may be a reverse causality between economic growth and financial development. Furthermore, other authors support the aforementioned assumption and assumed that the relationship between financial development and economic growth represents a two-way causality (Calderon & Liu, 2003; Shan, Morris & Sun, 2001).

Hassan, Sanchez and Yu (2011) studied how financial development links to economic growth through applying Granger causality tests for a sample period between 1980 and 2007. They categorized low and middle-income countries into six geographic regions: East Asia and the Pacific, Europe and Central Asia, Latin America and the Caribbean, Middle East and North Africa, South Asia, Sub-Saharan Africa; and two groups of high-income countries: OECD and non-OECD countries. Their findings support the hypothesis that in developing countries growth leads finance because of the increasing demand for financial services.

FINANCIAL INCLUSION AND EQUITABLE DEVELOPMENT NEXUS

Theoretical models show that an inclusive financial system reduces poverty and inequality by helping people invest in the future, smooth their consumption, and manage financial risks. Several low-income adults rely on informal financial services around the world. Access to formal financial services allows people to make financial transactions more efficiently and safely and helps poor people break the cycle of poverty by making it possible to invest in education and business. By providing ways to manage income shocks, financial inclusion can also prevent people from falling into poverty. However, the empirical literature present mixed evidence on the effect of financial inclusion on socio-economic development. A summary of the key studies and findings on the role of financial inclusion in enhancing socio-economic outcomes is presented here.

Over the past decades, scholars have assessed the impact of financial access on economic growth. A study using state-level panel data in India provides evidence that local differences in opening bank branches in rural unbanked locations were associated with a significant reduction in rural poverty (Burgess & Pande, 2005). However, the push ultimately proved unsustainable. High bank loan default rates during the 1980s led to the demise of the rural branch expansion program after 1990.

In a study conducted in Mexico, Bruhn and Love (2013) showed that the rapid opening of Banco Azteca branches in more than a thousand Grupo Elektra retail stores had a significant impact on the region's economy, leading to a 7% increase in overall income levels relative to similar communities where no Banco Azteca branches had been opened. Households were better able to smooth consumption and accumulated more durable goods in communities with Banco Azteca branches (Ruiz, 2013). At the same time, the proportion of households that saved declined by 6.6% in those communities.

Bruh and Love (2014) used an experiment to argue that increased access to financial services leads to growth in income for low-income individuals. Similarly, Burgess and Pande (2005) have documented a decrease in rural poverty in India due to an expansion of bank branches in rural areas, although these findings have been questioned (Kochar, 2011). The IMF has associated financial inclusion with a host of macroeconomic outcomes, including growth, stability and equality (Sahay et al., 2015).

The limited knowledge on the link between financial inclusion and economic development is partly due to the availability of limited and inadequate data. Establishing the correlation between financial inclusion and growth requires a sufficiently long time-series on financial inclusion measures. Analysis of the factors shaping macroeconomic growth and inequality often requires decades of data. Until very recently, data on financial inclusion on a comparable global level have not been available. Data on financial inclusion collected by financial institutions have been available for select economies starting as early as 2004. There was no comparable global demand-side data on financial inclusion collected from the perspective of individuals until the World Bank launched its first Global Findex database in 2011 (Demirguc-Kunt, Klapper, Singer & Van Oudheusden, 2015).

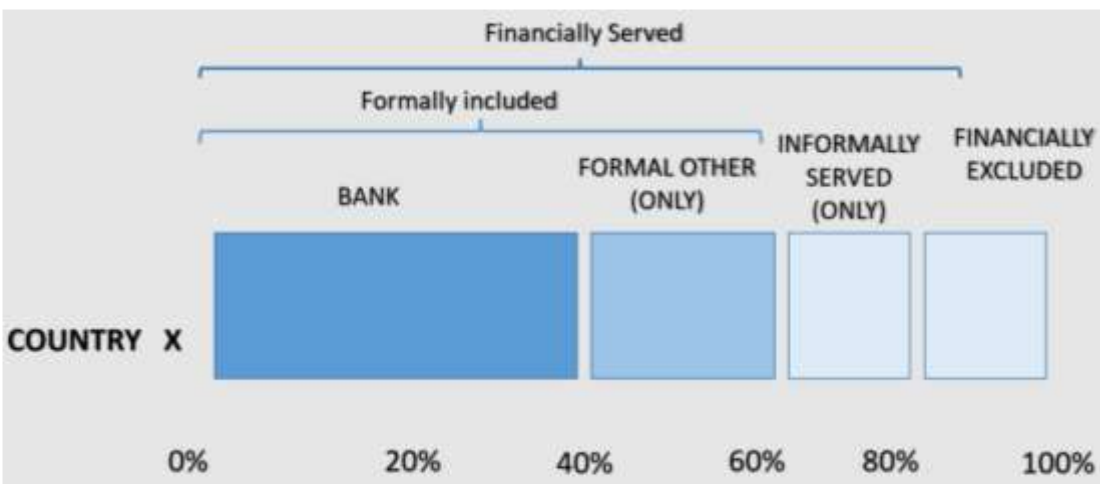
Sarma and Pais (2011) analyzed a cross-section data from several countries to examine the factors associated with financial inclusion. They find levels of human development and financial inclusion are positively correlated. More specifically, lower income inequality, higher literacy levels and better physical and communication infrastructure are all associated with greater financial inclusion.

Turegano and Herrero (2018) investigate whether financial inclusion contributes to reducing income inequality across countries after controlling for economic development and fiscal policy, and find financial inclusion contributes to reducing income inequality while the size of the financial sector does not improve financial inclusion. Kabakova and Plaksenkov (2018) investigate the factors enabling financial inclusion in developing economies, and find socio-demographic, political factors and economic factors were significant factors affecting financial inclusion in developing countries.

Owen and Pereira (2018) analysed 83 countries over a 10-year period, and find greater banking industry concentration is associated with more access to deposit accounts and loans, and countries in which regulations allow banks to engage in a broader scope of activities have greater financial inclusion. Yangdol and Sarma (2019) analyzed the demand-side factors affecting financial inclusion, and show that, being a woman, less educated, jobless and poor are negatively associated with financial inclusion for individuals while higher level of education and income increases the level of financial inclusion for individuals.

The World Bank has differentiated between those who are financially served, formally included and financially excluded as shown in figure 1.

Figure 1 Financial Access Strand in Institutional Dimension



Source: Compiled by James Francis Davis

The 'formally served' include the segment of the population who have access to financial services from a bank and/or other formal providers. The World Bank (2005) described the 'financially served' as the segment of the population who are formally served as well as people who use informal financial service providers. In contrast, the term 'financially excluded' is used to illustrate individuals who have no access to any form of financial service (World Bank, 2005).

THEORIES OF FINANCIAL INCLUSION

The policy literature contains many idealistic interpretations on how to achieve financial inclusion while the academic literature is mostly focused on the relationship between financial inclusion and poverty levels and income inequality as well as the effect of financial inclusion on the economy. These two literatures are quite interesting even though there is no synergy between the academic and policy literatures. But theories are powerful because they can help to bring the two literatures together. The most relevant theories of financial inclusion are briefly discussed here.

Theories of Financial Inclusion Beneficiary

Conflicting ideas exist on who benefits from financial inclusion outcomes. Some studies argue that poor people are the ultimate beneficiaries of financial inclusion (Bhandari, 2018), others think that women are the beneficiaries of financial inclusion outcomes while some think that the economy and the financial system are beneficiaries of financial inclusion (Mehrotra & Yetman, 2015; Swamy, 2014; Ozili, 2018). Apart from women and poor people, there are other potential beneficiaries of financial inclusion that have been ignored to a large extent in the literature, such as young people, elderly people, institutionalized and ill people, disabled people, and individuals who have been previously expelled from the financial sector for various reasons such as committing criminal offenses. There are a number of theories that identified several beneficiaries of financial inclusion and they include the following: public good theory of financial inclusion, dissatisfaction theory of financial inclusion, vulnerable group theory of financial inclusion and systems theory of financial inclusion (Ozili, 2020).

Theories of Financial Inclusion Delivery

There are several suggestions about who should deliver financial services to the people. Some think the government should deliver financial inclusion to the people (Aggarwal & Klapper, 2013; Staschen & Nelson, 2013). Others argue that private companies such as banks and fintech businesses can deliver financial inclusion more efficiently (Gabor & Brooks, 2017; Ozili, 2018). There are also ideas suggesting that financial inclusion can be delivered through cooperation by the public and private sectors (Arun & Kamath, 2015; Pearce, 2011). Some theories or perspectives on financial inclusion delivery include the following: community echelon theory of financial inclusion, public service theory of financial inclusion, special agent theory of financial inclusion, collaborative intervention theory of financial inclusion, and financial literacy theory of financial inclusion (Ozili, 2020).

Theories of Financial Inclusion Funding

The question: who should fund financial inclusion expenditure-is an important question. Some think public money (tax-payers) should fund financial inclusion programs and activities (Marshall, 2004). Others believe that the capitalists in the private-sector should fund financial inclusion because they contributed to widening the income inequality gap between the poor and the rich (Mohiuddin, 2015). There are also ideas suggesting that financial inclusion should be jointly funded by the public and private sectors (Dashi, Lahaye & Rizvanolli, 2013; Cobb, Wry & Zhao, 2016). A number of theories have attempted to explain the sources of funding for financial inclusion and they include: private money theory of financial inclusion, public money theory of financial inclusion and intervention fund theory of financial inclusion (El-Zoghbi, Gähwiler & Lauer, 2011).

The Theory of Active or Supply Leading Financial Development

This theory articulates that equipping people with the relevant tools of financial instruments is the key to tackle the problem of financial exclusion. The theory postulates that when the financial needs of people are legitimately met by the financial system, they will start earning other economic entitlements, and this economic empowerment of the people will in course reinforce financial development. Ozili (2020) noted that the expansion of branches of major commercial banks in India since 1969 was in line with the preposition of this theory. Recent financial inclusion strategies in several countries are based on the spirit of this theory. Figure 2 illustrates the theory of Active Financial Development.

Figure 2 Theory of Active Financial Development

Source: Compiled by James Francis Davis

The Theory of Passive or Demand Following Financial Development

This theory states that economic development and empowerment of people pave the way for financial development. It is argued that when people are actively involved in economic activities generating employment and income, the demand for various kinds of financial products increases (Ozili, 2020). The increase in demand for financial products will act as stimuli for the establishment of financial institutions.

The financial inclusion brought about by this path will be sustainable. The mushroom growth of informal financial entities in the rural areas of countries can be cited as a best example of how the need for financial services forces people to obtain credit at any price from whatever sources available to them. The entire argument contained in this approach can be illustrated with the help of figure 3.

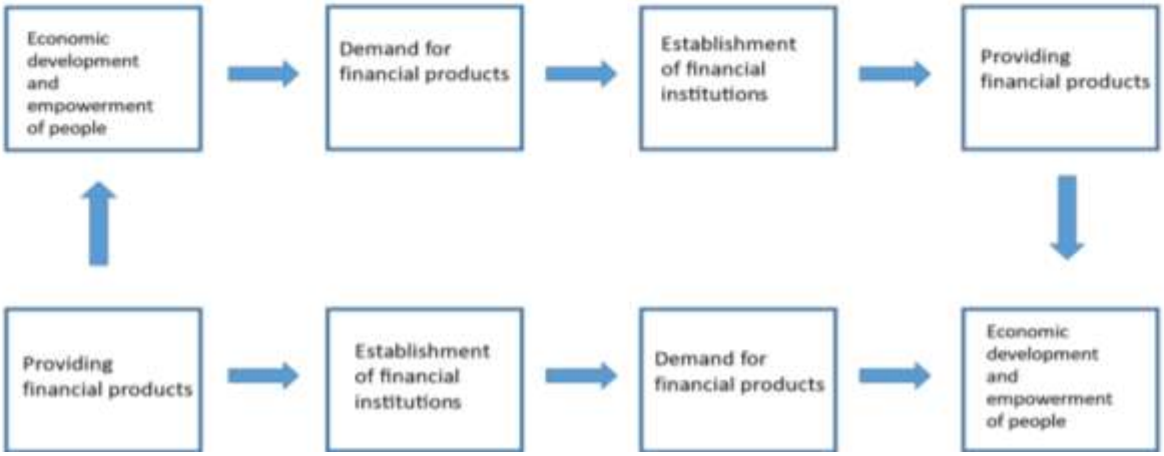
Figure 3 Theory of Passive or Demand Following Financial Development

Source: Compiled by James Francis Davis

The Theory of Intertwining Financial Development

This theory argues that it is wrong to say that either financial development or economic development precedes each other. The theory articulates that sometimes financial development may lead to economic development and vice versa. Hence, it is difficult to point out where the process ends or starts. There is a likelihood that the process happens both ways. Figure 4 captures the entire argument of this approach without any ambiguity.

Figure 4 Theory of Intertwining Financial Development



Source: Compiled by James Francis Davis

Social Integrationist and Redistributive Approaches to Financial Inclusion

Two theories are presented in this part of the paper, which are predominant in the realm of Sociology in the analysis of the process of social exclusion. Since 1990s, the increasing popularity of the concept of social exclusion among sociologist has led to attempts to identify the multi-difficulties faced by the socially disadvantaged groups and to suggest measures to help the socially disadvantaged to overcome difficulties (Abrahamson, 1997). Differences surfaced among Sociologists regarding the nature of solutions to be adopted to attain social inclusion. These divergent views led to two widely quoted discourse of social exclusion: The Social Integrationist Approach and the Redistributive Approach (Levitas, 2006). These approaches bear relevance to the problem of financial exclusion as well. Below, an attempt is made to relate these approaches to the problem of financial exclusion.

The Integrationist Approach to Financial Inclusion

The crux of this approach hovers around the whole dynamics of the labor market. This approach suggests that in order to eliminate the presence of financial exclusion people must be provided with the opportunities to participate in the paid work in the labor market (Seman, 2016). Interestingly, this approach defines the concept of social exclusion in a different fashion that exclusion is nothing but exclusion from the paid work in the job market and hence it prescribes integration through paid work as the better panacea to solve the problem of exclusion.

Despite the bright side of this approach, critics argue that it has too many drawbacks. These include obscuring the inequality between the paid workers, overlooking the gender inequality in the labor market and ignoring the values of unpaid works such as taking care of the children in the family (Levitas, 2006). Critics question the suitability of the labor market in generating employment for the people with learning difficulties.

The Redistributive Approach to Financial Inclusion

This approach argues that the product and labor market are prone to creating inequality leading to the exclusion of those who cannot fall in line with the parameters of market. Seman (2016) noted that the redistributive approach is built on the premise that lack of endowments to participate in the customary life of society is the cause of exclusion. The creation of a just society rerouting the movement of resources from the 'abundant' hands to the 'scarce' hands appear to be the solution to tackle exclusion (Seman, 2016). Therefore, active interventionist policies through the arms of tax reforms, expansion of benefit systems, reduction of earning differentials, financial recognition of unpaid works, introduction of minimum wages and minimum income for those who are unable to participate in the job market are suggested to address the problem of exclusion (Chau & Hu, 2002).

FACTORS ASSOCIATED WITH FINANCIAL INCLUSION

Although the issue of financial inclusion has been discussed since the 1990s, the discussions on its factors have been commonly normative rather than positive. Possibly, prior studies are mainly interested in explaining and describing the factors associated with financial exclusion (Carbo, Gardener & Molyneux, 2007; Collard, Kempson & Whyley, 2001) rather than providing empirical evidence on what determines financial inclusion. In the same spirit, it was noted that “the great challenge before us is, to address the constraints that exclude people from full participation in the financial sector” (Anna, 2003,p.5). Literature on barriers to financial inclusion suggests that some areas of constraints do exist within the institutional settings. It further that the factors that influence financial inclusion could have positive or negative effects. The subsequent paragraphs review the determinants of financial inclusion.

Using the determinants of the depth of the financial sector, Beck, Demirguc-Kunt and Levine (2007) explore the factors associated with financial outreach which affect access to credit. Despite having significant link with the overall level of economic development, the findings also reveal that both outreach and depth indicators are positively associated with the quality of the institutional environment, the degree of credit information sharing, the level of initial endowments, and the development of the physical infrastructure. The importance of physical infrastructure in promoting financial access is also supported by other studies (Beck, Demirguc-Kunt & Martinez-Peria, 2008).

Qian and Strahan (2007) argue that legal and institutional differences shape the ownership and terms of bank loans across the world. Using demand-side factors, credit risk factors, as well as country level factors, they show that under strong creditor protection, loans have more concentrated ownership, longer maturities, and lower interest rates. The results support the reason underlying the law and finance literature, pioneered by La Porta, Silanes, Shleifer and Vishny (1998), that some environments are more conducive to operate financial contracts than others, and that better contracting leads to better outcomes. Sharing the similar result, Ge, Kim and Song (2012) also find that the favourable effect of firm-level governance on loan contracting terms is stronger in countries with strong legal institutions than in countries with weak legal institutions.

Using information from 209 banks in 62 countries, Beck, Demirguc-Kunt and Martinez-Peria (2008) show that the effectiveness of creditor rights, contract enforcement mechanisms, and credit information systems, are weakly correlated with barriers. On the other hand, they signify strong associations between barriers and measures of restrictions on bank activities and entry, bank disclosure practices and media freedom, as well as development of physical infrastructure. Specifically, barriers are higher in countries where there are more stringent restrictions on bank activities and entry, less disclosure and media freedom, and poorly developed physical infrastructure.

The literature reviewed here elaborated a number of factors associated with financial inclusion. These include the quality of institutional and policy environment, the restrictiveness of banking activities, the degree of disclosure of credit information, media freedom and the level of development of physical infrastructures. Although not exhaustive, the factors of financial inclusion unraveled in the literature provide a starting point for further examination and identification of the essential determinants of financial inclusion.

CONCLUSIONS

The literature review shows that financial inclusion can be instrumental in reducing poverty and income inequality if it is well-targeted. Financial inclusion is very relevant for low-income countries, where financial access is very limited. However, the literature reveals that not all financial services/products are equally effective in addressing development challenges, such as reductions in poverty and inequality. Current evidence suggests that the biggest impacts come from savings accounts – provided that they are inexpensive and serve a specific purpose.

The literature on measuring the impact of financial inclusion has been rapidly growing in the past couple of years. But research on the impact of the different dimensions of financial inclusion on economic development is still in many ways at its beginning. In the areas of payments, savings, and insurance, very limited studies exist at the moment and more needs to be better understood.

Empirical studies on financial inclusion suffer from uncertainty about whether positive findings are applicable to other countries and groups of people (Demirguc-Kunt, Klapper & Singer, 2017). For example, would a savings product that benefitted women in Liberia be helpful for women in Germany? Replicating successful interventions in different settings will address such questions and clarify the circumstances under which financial inclusion improves livelihoods. Similarly, more research is needed to understand why financial inclusion may have a beneficial impact in some circumstances but not others.

Discussions on the factors of financial inclusion have been normative and primarily based on theoretical knowledge. There is limited empirical evidence on the determinants of financial inclusion and hence, present difficulties for understanding ways in which the challenges of financial inclusion can be addressed. The key challenge in financial inclusion is to address the constraints that prevent people from accessing the financial system (Anna, 2003).

Progress in technological developments has made it possible to deliver financial services in new ways and will continue to change how financial services will be delivered. As financial services evolve, so might their potential link to economic development. While more research is needed to establish the role of financial inclusion in fostering equitable development, an essential aspect to also consider is to establish the relationship between financial inclusion and the welfare of households.

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