Sarah Ralston – MA Applicant Fall 2011

Analytical Essay

Financial inclusion (FI) – access to quality financial services – has increasingly become a focus of government, private sector, and civil society actors who recognize its tremendous potential as a tool for achieving economic growth and improving standards of living in underserved communities. This increased recognition is likely an indication that the principals of inclusion will be embraced on a much wider scale in the near future. The expansion of FI is highly desirable, but it must be pursued responsibly, with an awareness of the potential negative consequences that can accompany inclusion.

I first became familiar with the concept of FI while on detail in Treasury's Office of International Affairs. There, I helped organize and execute the inaugural meeting of the G-20 Financial Inclusion Experts Group (FIEG). At the meeting, held at Treasury in December 2009, G-20 leaders in conjunction with the Consultative Group to Assist the Poor (CGAP) and the International Finance Corporation (IFC) convened FI experts to discuss scalable innovations in the field, as well as successful regulatory and policy approaches that support expanded inclusion.

Prior to working on this initiative, I thought of FI as another term for microcredit. However, I quickly realized that FI includes a vast array of financial services provided by businesses, banks, insurers, and microfinance institutions (MFIs). These services include (but are not limited to) savings, credit, insurance, and payment products. Often, inclusion involves the use of innovations, such as correspondent banking and mobile money that specifically target underserved communities. These products and services empower individuals to improve their own standards of living by shielding them from economic shocks, smoothing their incomes, and allowing them to build assets.

Part of the appeal of FI is that it presents an opportunity for businesses – particularly financial and technology service providers – to expand their client base in profitable, dynamic markets. Because it capitalizes on the traditional motivating factors for business to bring benefits to the underserved, FI is a powerful tool for economic development.

WriteCustomPapers.com

However, despite the great potential of FI as a force for positive change, it's important that all involved in its promotion are aware of the risks and potential downsides associated with its expansion. These downsides became glaringly evident in the Indian state of Andhra Pradesh when, in early October 2010, a spate of farmer suicides attributed to over indebtedness provoked public backlash and spurred the local government to pass severely restrictive legislation that could threaten the future of microfinance in the country. A number of factors contributed to the crisis, but a primary cause appears to have been the fact that local MFIs and their investors pursued unsustainable growth rates to achieve profit.

As the principals of FI continue to spread, it is important that governments provide consumer protection and facilitate stable growth through the use of appropriate policies, legislation, and regulation. MFIs themselves must be aware that while achieving scale can be a noble goal, sacrificing client focus to achieve growth often has deleterious effects on borrowers, lenders, and market stability.

The stable expansion of FI in a way that benefits the poor is possible if all actors – government, private sector, and civil society – play a responsible and proactive role. If its potential weaknesses are addressed, FI represents a powerful development tool that can be embraced around the world to improve lives. It is therefore critical that those interested in development identify models for expanding financial inclusion that are responsible, sustainable, and scalable.

WriteCustomPapers.com