The overriding message is that much good can come from advances in financial inclusion, and there are some areas in which policy can act effectively to bring this about. At the same time, there are notes of caution: policy should not operate mechanically, targeting a specific level, nor aiming to close a specific gap. Rather, the policy question should dig deeper, to identify the frictions that constitute the greatest constraints to a particular type of financial inclusion and explore the most cost-effective way of ameliorating them. Finally, tradeoffs should be considered when relevant, most notably between financial inclusion and fiscal costs, and between financial inclusion and stability.

This last consideration points to an area in which research can greatly contribute going forward, namely, improving our understanding of the possible tradeoffs involved in increasing financial inclusion. In most studies, policies are evaluated in their ability to increase households’ or firms’ access to financial services—the additionality effect—and the resulting impact on economic outcomes. Certainly more empirical research is needed to assess the additionality of different polices. However, what is lacking most is a full cost-benefit analysis. One prominent example is PCGs, where the costs—both direct and contingent—are often not well understood or measured, let alone compared to the potential benefits of alternative uses of scarce fiscal resources. As for financial stability, the empirical literature appears to point to a meaningful tradeoff when expanding credit in situations with low quality regulation and supervision. Thus, advances in theoretical models that incorporate financial stability effects would be welcome as well, to understand the mechanisms through which greater access to credit can eventually lead to undesirable outcomes, a “too much finance” phenomenon applied to inclusion. Further empirical work could draw on the literature linking credit accelerations to financial distress, exploring, for example, the financial inclusion implications of these accelerations.
References


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Galiani, Sebastián, Paul Gertler, and Camila Navajas Ahumada, 2020, “Trust and Saving in Financial Institutions.”


Figure 1: Household Financial Inclusion

Source: World Bank, Global Findex Database.

Figure 2: Mobile Money and Accounts in Financial Institutions

Source: World Bank, Global Findex Database.
Figure 3. Financial Inclusion and Real GDP Per Capita—Cross-Country Correlation

![Graph showing Financial Inclusion and Real GDP Per Capita Cross-Country Correlation, 2017 or latest date available.](image)


Figure 4. Stylized Financial Possibility Frontier

![Graph showing Financial Possibilities Frontier.](image)

Source: Adapted from Barajas, Beck, Dabla-Norris, and Yousefi (2013)
Figure 5. Mobile Money and Financial Inclusion

Source: World Bank Global Financial Development Database and authors’ calculations
Figure 6: Financial Inclusion Observed Levels Compared to Structural Benchmarks

A. India

B. Colombia

Sources: World Bank Finstats Database.

Figure 7. Financial Inclusion and Financial Depth

Figure 8. Estimated Impact of Increases in Financial Inclusion and Financial Depth on Economic Growth

Sources: Adapted from Sahay and others, 2015.

Note: The graph on the left shows that, for a country with a private credit-to-GDP ratio ("privy") at the 25th percentile, an increase in the availability of ATMs from the 25th to the 75th percentile is associated with an increase in average economic growth of 3 percentage points. When the private credit-to-GDP ratio is at the 75th percentile, the effect of a similar increase in ATMs yields considerably less additional growth, about 2 percentage points. The graph on the right shows a similar relationship between the percentage of firms not identifying access to credit as a major obstacle and the private credit-to-GDP ratio.

Figure 9. Finance and Occupational Choice in the DNJTU (2015) Model

Sources: Dabla-Norris, Ji, Townsend, and Unsal (2015).
Figure 10. Simulated Effect of Reducing the Financial Inclusion Friction ($\psi$)

Sources: Dabla-Norris, Ji, Townsend, and Unsal (2015).

Figure 11. Risk Sharing through M-Pesa (Mobile Money) in Kenya

Source: Suri (2017).
Figure 12. Reported Reasons for Not Having a Bank Account

Source: Global Findex Database.

Figure 13. Nearly Half of All Unbanked Live in Just Seven Countries

Source: Global Findex Database.