THE IMPORTANCE ACCESS TO FINANCE IN MUSLIM AND NON-MUSLIM COMMUNITIES

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ABSTRACT

The paper offers clear insight into the ways that financial services providers and governmental bodies can overcome the stymieing hurdles that they face so as to achieve their objectives optimally. The goal of this paper is to illuminate the importance of access to finance in Muslim and Non-Muslim communities with a special focus on the economically deprived. Both public and private sector stakeholders need to intensify their efforts at increasing the outreach of financial products and services. It is imperative for all the players in the financial services sector to adopt innovative solutions to solve the challenges facing them while striving to net more people into the formal banking structure through the provision of quality and affordable financial products and services.

Keywords: Access to finance, financial products and services, institutions, poverty.

INTRODUCTION

In the developed countries, financial services are ubiquitous. The access to financial services is part and parcel of the day-to-day lives of the majority of the population in the First World. In the industrialized nations, people across the social divide can access most banking and financial services round the clock. The residents of developed countries have access to savings, cash, and credit facilities and other financial instruments 24 hours a day. However, this phenomenon is a far-fetched dream in some parts of the world. In most regions of the developing countries, sound financial services that are commonplace in the developed nations are a preserve for those in the upper echelon of the society. In this day and age, there are countries where more than half of the population does not have access to a bank account. In Africa, the percentage of adult population with a bank account is 23% while it is 89% in the developed countries, 39% in Latin America, and 33% in Southeast Asia (Otchere, 2016). Omission from access to the provision of financial services creates and compounds the conundrum of economic deprivation.

It is said that money makes the economy go round. Money plays a critical role in any modern economy since the extinction of large-scale barter trade system that was more dominant in days of antiquity. Money provides a store of value, a measure of wealth, and is the legal tender for settling debts and incurring payments. Financial exclusion exacerbates the problems of poverty. The way out of privation embraces financial inclusion for all – including the poor and the disadvantaged. All-inclusive financing involves the delivery of financial services at affordable costs to individuals, households and groups (Oxford City Council, 2015). As at December 31, 2014, 62% of adults in the world had an account with a formal regulated financial institution (Demirguc-Kunt, Klapper, Singer, & Oudheusden, 2014). At the same time, the number of the unbanked – represented by individuals who do not have an account with a formal registered financial institution – stood at 2 billion adults

(Demirguc-Kunt, Klapper, Singer, & Oudheusden, 2014). The segment of the unbanked population varies from country to country. The sections of the populace with the utmost risk of being unbanked due to the nature of their circumstances include: single people; lone parents; people living in social housing; those living in deprived districts or boroughs; people living on benefits, specifically Income Support, Housing Benefit, and Council Tax Benefit; individuals who are unemployed or on low income, often unable to work through long-term illness or disability (Aynsley, 2011). However, those who are financially excluded due to being unbanked are not a homogeneous group (Aynsley, 2011). People who do not have ready and convenient access to affordable financial products and services are usually those living in penury and or experiencing a sort of severe disadvantage and are thus not able to not able to access affordable credit, savings, and insurance services; experience difficulty in obtaining a bank account; are financially at risk though not having home insurance; struggle to budget and plan for contingencies; struggle to pay utility bills; live in decrepit housing; and do not know how to make the most of their money (Oxford City Council, 2015). The developing countries have higher unbanked populations, unlike their developed counterparts. Financial exclusion is more prevalent in sub-Saharan countries and some countries of Asia that have some of the lowest GDP per capita in the world. In the past one decade, financial penetration rates have improved due to the employment of newer technologies, official government support, and aid from donors. Ending poverty was one of the millennium development goals initiated by the signatory member countries of the United Nations (Ward & Zurbruegg, 2000). Surefire ways of ending poverty incorporate the empowerment of the economically deprived through financial inclusion at their core. There is nothing religious about poverty. When poverty strikes, it does not discriminate against faith. Muslims and non-Muslims alike are affected by the vagaries of penury. Provision of access to financial services to the poor has a multiplier effect that ultimately leads to economic growth. Those emancipated from the jaws of poverty brought about by financial exclusion provide increased demand that expands the market for consumer goods and services, actualise the potential of offering skilled and professional labour that is a critical factor of production, and push up the level of business in a country by taking the initiative of creating entrepreneurship ventures. Access to financial services by both Muslims and non-Muslims alike improves the quality of life by facilitating them to stand a better chance of making use of improved health facilities that afford them longevity of life. From a vantage point of view the multitudinous stakeholders in a country stand to benefit from increased access to financial services by the war poor.

Economic, physical, cultural, and regulatory factors underpin low accessibility rates to financial products and services (United Nations Conference on Trade and Development, 2014). People may not access financial products and services due to voluntary and involuntary reasons. Voluntary exclusion from access to financial products and services stems from the lack of money, religious reasons, and “family member has one”, while involuntary exclusion arises from large geographical distance between an individual and the location of the financial services provider; financial products and services being too expensive; the lack of requisite documentation; and the lack of trust (Allen, Demirgüc-Kunt, Klapper, & Peria, 2012). In some Asian countries, voluntary financial exclusion is more pronounced than involuntary financial exclusion, with the primary reason being the lack of money (Fungáčová & Weill, 2014). About 40% of people in the nations of Malaysia and Philippines attribute their lack of account ownership to the deficiency of money (Fungáčová & Weill, 2014). The lack of money is the most common barrier to not having a formal account in all countries. In a survey done in Asian countries, it was revealed that the percentage of individuals citing lack of money as the reason behind their not having a bank

account ranged from 56.6% in Thailand to 83.9% in Indonesia (Fungáčová & Weill, 2014). 43.7 percent and 49.8 percent of cases of people with no formal banking accounts in Indonesia and Philippines can be attributed to the financial services being beyond reach because of being too expensive (Fungáčová & Weill, 2014). The overall costs of owning an account at a formal financial and banking institution outweigh the benefits of having an account to individuals without sufficient cash earnings (Allen, Demirgüc-Kunt, Klapper, & Peria, 2012).

To make the world a better place for the collective human race, access to the needful financial products and services for people from all walks of life and most especially the vulnerable needs to be ensured. Financial services need to be accessible to all at an affordable cost in a fair manner provided by the mainstream financial and banking institutions. The provision of financial services needs to include the impoverished people in all societies that mutually improve the agricultural and industrial wage earners, the unemployed, women, senior citizens, people with disabilities, and those who have been traditionally marginalized. Clear determined efforts need to be expended to ensuring that financial products and services that include bank accounts, savings facilities, financial advisory services, affordable credit, payment and remittance services, and savings facilities are within the convenient access of all and sundry. The capitalism method that drives most markets has evolved to include practices like conscious capitalism that check on the excesses of this market system. At the heart of conscious capitalism is the perfect of economic goals with humanitarian practices at the core. The best way of embracing conscious capitalism in the financial services sector is aiming for financial inclusion that benefits all the diverse stakeholders in the society. Financial inclusion the ability of an individual, household, or group to access appropriate financial services or products. Without this ability, people are often referred to as financially excluded (Oji, 2015). To increase the outreach of financial products and services, it is necessary to ensure that everyone can access the financial products and services needed to participate fully in the modern-day society and economy (Andrews, Jefferis, Hannah, & Murgatroyd, 2012).

Access to financial products and services is not an end in itself, but rather a means to an end (Demirguc-Kunt, Klapper, Singer, & Oudheusden, 2014). Financial services on their own are not the panacea to the vagaries of penury. They need to be coupled with income generation activities or livelihood programs so as to secure stable revenues in the future. Only in this way can the accumulation of savings, the remittance and transfer of cash, access to the apropos credit, insurance, and financial advisory products and services make a significant contribution to effectively lifting the destitute from the hardships of economic and financial deprivation (Azaiez, 2005).

Between 2011 and 2014, 700 million people of the age of majority became account holders while the unbanked – those without an account – dropped by 20 percent to 2 billion. This phenomenon was driven by a 13 percent gain in account penetration and innovations in technology, especially mobile money that is hastily dilating access to financial services in sub-Saharan Africa (Demirguc-Kunt, Klapper, Singer, & Oudheusden, 2014).

Now more than ever has there been an immense necessity to facilitate access to quality financial services, provided at affordable prices, in a convenient manner, and with dignity for all people (Gardeva & Rhyne, 2011). The financial services of advisory, savings, credit, insurance, payments, and pensions delivered by a range of providers –who are mostly private – should treat everyone who can use them, including the physically challenged, the poor, and the rural populations (p.1).

METHODOLOGY

Through extensive, fastidious and meticulous literature review from credible primary, secondary, and tertiary sources, this paper aims to provide clear theoretical and practical insights onto the importance of funding to the needy while at the same time seeking to stimulate original thinking on the topic

RESULTS

The research undertaking finds that there is heightening interest around the matter of increasing access to financial products and services in both Muslim and Non-Muslim communities. Various stakeholders have expended considerable efforts aimed at financial deepening. However, the currently employed avenues of increasing the access to financial products and services have not realized their full potential. There have been myriad stumbling blocks along the way. The hurdles need to be fully addressed if the endeavors in this direction have to achieve the envisaged fruition.

DISCUSSION

Merits of Access to Finance by Muslim and Non-Muslim Communities

Increased Contribution to Economic Growth and Development

That increased access to financial services by all and sundry contributes to economic expansion is not in doubt. Finance avails the liquidity and resources necessary to sustain and fund business operations. The initial finance contribution to a business venture known as capital breathes life into business ideas. Capital actualizes the business dreams and goals of entrepreneurs. Finance in the form of working capital provides the liquidity necessary to sustain the operations of a business undertaking. Working capital covers business expenses as and when they fall due. For example, working capital facilitates the payment of salaries and wages, payment of trade creditors, purchase of raw materials for production, payment of selling and distribution expenses, payment of advertising, the footing of utility bills, the settlement of dues to the financiers of a business, and the settlement of expenses that are auxiliary to the production of goods and services. As infrastructure services, financial services have essential consequential linkages with the economy at large, providing valuable inputs for activities in the primary, industrial and tertiary sectors, and for individuals as well. Through a variety of banking, securities and insurance services, financial services facilitate domestic and international transactions, mobilize and channel domestic savings and expand the availability of credit for small and medium-sized enterprises (SMEs) and households. Trade is also facilitated not only by a more friendly business environment but also by specific products such as letters of credit and insurance (United Nations Conference on Trade and Development, 2014). Access to financial products and services is pivotal to economic empowerment of the marginalized people and communities as it enables the less privileged to engage in economic activities where goods and services are traded for cash (Oji, 2015).

Once people meet their bread and butter issues, they tend to satisfy their higher needs. The elevated requirements include the need to obtain education and the need to engage in business activities to generate future income. As expected once the rational people who had been excluded from access to financial services obtain savings, credit, and insurance facilities and adequately cover their bread and butter issues they tended to engage in profitable economic activities. An increase in the number of people generating wealth in an economic system eventuates to economic development and growth.

Ideally, the overarching goal of the economic planning of any democratically-forward nation should be to realize a sustained high rate of inclusive economic growth. All-encompassing

economic growth results in a wider access to sustainable socio-economic opportunities for a broader number of people, regions or countries, while protecting the vulnerable, all being done in an environment of fairness, equal justice, and political plurality (Ondiege, 2015). Inclusive economic growth entails equal access by different sub-groups, including the rich and the have-nots, to employment and other sources of livelihood, consumption of goods and services, such as finance, health care and the expression of voice and accountability, among other dimensions (African Development Bank, 2013).

Increased Security in the Society

Desperate economic exigencies drive the commission of some crimes. The stress imposed upon people's lives by economic deprivation forces some to make ends meet through hook and cook. The ever-present need to provide for one's family on top of survival makes some poor people to turn to crime out of desperation. The financial empowerment of the individuals currently engaged in transgressions will divert their attention away from participation in iniquitous felonies. All members of the society stand to benefit from the peace brought about by the plummeting levels of insecurity indirectly instigated by the financial empowerment of people who used to commit misdemeanors.

Increased Life Expectancy

Ease of access to financial services provides cover against diseases. Regions with higher financial exclusion report higher infant mortality rates as compared to those areas that have a higher rate of financial inclusion. Increased access to financial services avails a motley crew of insurance products that include life and medical cover that cater to the healthcare needs in case of sickness. Penury is linked to lower life expectancy as the economically deprived people find it challenging to afford quality healthcare and basic needs like food.

Savings in Government Budgetary Expenditure

One of the conundrums facing many a modern government is cutting costs incurred in the provision of goods and services by the regimes. Increased access to finance increases personal and collective hygiene as well as higher literacy levels. Consequently, the instances of occurrence of diseases that can be prevented through the drop in the occurrence of cases related to poor hygiene. This cuts government expenditure incurred on the provision of health services.

Access to financial services affords many with diverse opportunities of engaging in productive activities. This phenomenon distracts people from engaging in criminal activities that pose security threats. The natural corollary of this is that governments spend less on the provision of security services.

The savings accruing to government budgetary expenditure due to increased access to financial services can be channeled to other deserving causes that guarantee higher rates of social and economic returns. The savings can be used at the national level to deepen the provision of social services, enlarge the provision of education, and expand the role of the state in creating an enabling environment for increased uptake of newer technologies.

Greater Efficiency in the Provision of Subsidies

Governments all over the world provide subsidies to stimulate local production. However, government subsidies may not be effective at realizing their respective envisaged goals if the people that they are aimed to not financially empowered. Increased access to financial services increases the likelihood that the needy and those targeted by subsidies utilize these

government subventions. In the absence of access to services provided by regulated formal banking institutions, governments are forced to provide subsidies indirectly. With increased access to financial services, the governments credit the subsidies directly into the banking and financial accounts of those in need of government aid. Direct credits improve efficiency and pellucidity in the provision of government subsidies as they avoid the corruption and loopholes that may occur as the government subventions are provided indirectly through unscrupulous intermediaries.

Reduction in Income Inequalities

The gap between the wealthy and the have-nots widens not because the poor keep on getting more poorer but because the rich accumulate more wealth at a faster rate than the economically deprived. Provision of financial services without discrimination affords the poor with more opportunities of creating and accumulating wealth at rates that may match or even outpace those of the materially endowed.

Increased Literacy Levels

Illiteracy poses severe limitations on a person. Lack of knowledge constricts the purview of the mental, intellectual, action-centric horizons of an individual. Financial illiteracy is a major contributor to financial exclusion. Increased access to financial services driven by increased awareness efforts raises the literacy levels of those who had been economic deprived and locked out of the formal financial system.

There is a direct relationship between literacy levels and lack of access to financial services. Efforts aimed at increasing the level of access to financial services bring along with them increased awareness and financial literacy. Furthermore, people who access financial services may use the funds acquired to pursue various formal and informal educational opportunities. Studies show that improved access to financial products and services increases the capacity of people to invest in education (Demirguc-Kunt, Klapper, Singer, & Oudheusden, 2014).

Greater Mobilisation of Savings

Increased access to financial services stimulates savings mobilization. Savings an important catalyst to development as they are a vital precursor to investment. The greater the savings held by a person, the greater the potential investment power. Savings provide means of catering to contingencies. Accumulation of savings gives a person sufficient peace of mind to face the future with confidence.

Greater economies of scale of mobilizing savings can only be realized if they are channeled into a collective pool. The funds from the collective pool can be appropriated and lent other people to serve emerging needs on a leveraged basis. Leveraging makes it possible for a person to borrow an amount of money exceeds the deposited savings and repay the loan over a specified period of time through installments.
Financial institutions are a critical component of the savings mechanism in any economy. Bringing more people into the coverage of regulated banking and financial institutions stimulates the level of collective savings in an economy.

Increased Self-Esteem

According to Abraham Maslow’s needs theory, people effectively rise to the degree of the satisfaction self-esteem needs after meeting their desires for safety and basic physiological requirements such as food, shelter, and clothing. Access to financial services provides those who have been economically deprived for long periods of time with the means necessary to

rise above the shackles of poverty. There is a sense of accomplishment that comes with the meeting of basic needs that proved to be a challenge before. This is similar to the feeling that improves the mental health of a person from meeting other goals of life (Demirguc-Kunt, Klapper, Singer, & Oudheusden, 2014). Greater self-esteem enhances the quality of life as it brings along with it a more positive and sanguine outlook of life. Increased self-esteem helps people to do we the limitations imposed upon them by the desperation and disillusionment caused by poverty that stemmed from a lack of access to financial services.

Increased Participation in Spiritual Activities

The major religions of the world place a premium on charity. Islam promotes the act of giving. There is more joy in giving than in receiving. Islam encourages Muslim faith. Acquire and accumulate more wealth so that they can have more to give to the needy. As increased access to financial services leads to more creation and accumulation of wealth, the number of people engaging in philanthropic activities is bound to increase. Financial empowerment of some of the Muslims who were poor will lead to an increase in the number of charity endowments such as *Waqf* as well as *Zakat* offering payments to the poor. Access to financial services by Muslims will make the Islam adherents to increase savings out of which they can use to fund their annual *Hajj* pilgrimages to Mecca. In Muslim-dominated countries such as Egypt, some financial institutions offer credit to Muslims to fund their *Hajj* pilgrimages (Habaradas & Umali, 2013).

Increased Corporate Profits

Some of the larger financial institutions postulated that it is economically viable to exclude targeting the poor in their product offerings. They claim that the lower transaction volumes that those in the lowest categories of the social order bring to them do not have large margins. However, impressive financial returns recorded by some of the banking and financial institutions that target the poor have succeeded at making nonsense of this theory. The provision of financial services to a wider clientele helps a corporate entity to enjoy substantial economies of scale as the cost associated with the delivery of these services are spread out over a wide base. Companies that produce fast-moving consumer goods report higher net total profits as they offer their products at marginal profits that are spread over many units of sold goods. The same model as been effectively applied by service organizations, which include financial institutions, to package of their service offering with modest margins that make them more attractive to large segments of the population. Empirical evidence points out that mitigation of operating risks is better with the commercial provision of items of trade over a large diversified consumer base as opposed to trade with a few number of customers.

Improved Efficiency in the Provision of Social Security Services

Formal financial institutions play a critical role in the dissemination of the welfare services provided by governments. Increased access to financial services facilitates faster dispensation of aid from the state to the qualifying citizens and residents. Governments can send social security monies directly to the accounts of the recipients of welfare through electronic benefits transfer (EBT).

Improved Risk Management

Access to financial advisory services and insurance aids in the mitigation of risks. The knowledge imparted through financial advisory enlightens the personal financial management practices of the served customers. Insurance encourages participation in business activities as it transfers the risk of occurrence of the insured activity to the insurer thus leaving the insured with a settled and sufficient peace of mind to face the future with confidence.

Increased Consumer Base

Some businesses thrive well by serving niche markets. This is more so when the goods and services provided are associated with ostentation. However, empirical evidence shows that financial institutions stand better chances of increasing their bottom-lines and up-lines by offering the products and services to wider consumer bases (Allen, Demirgüc-Kunt, Klapper, & Peria, 2012.

Improved Collection of Official Data

The exclusion of some of the members of the population from the formal financial structure poses challenges to the capturing and compilation of accurate statistical data for governmental planning. Financial institutions collect sensitive data as they go about doing the business so as to meet regulatory requirements. For instance, the mainstream financial institutions are required to collect 'Know Your Customer Data'. Such information can be relayed to governmental authorities to supplement data gathered from the national census that is usually carried out after an extended period e.g. ten years. The information obtained by the financial institutions can be relied upon by the government to conduct effective planning that addresses the current issues on the ground.

Long-Term Financial Security and Planning

Access to financial services in the current period increases the likelihood of future security of revenue streams if the obtained funds are put into productive use. Formal banking institutions do not provide credit facilities and haphazard manner. They provide market-driven financial services that provide the likelihood of highest rates of return to the funds invested by the financiers and owners. As such, they provide credit and other financial facilities only to those clients that currently meet and are most likely to uphold certain risk criteria. This is beneficial to all as it decreases the chances of occurrence of moral hazard problems. Moral hazard problems do not only jeopardize the best interests of the lenders, but they also endanger the future financial well-being of the loanees as they spend the money that they get even from other sources in a not-so-prudent, haphazard, and self-defeatist manner. The presence of high standards that have to be met in ensuring timely payment of installments inculcates shrewd spending habits acumen amongst the loanees in addition to improving the work ethic. These measures serve to prevent those who had been excluded from the formal banking structures from falling back to the level of poverty as a return to the sorrowful standard of economic deprivation would be catastrophic and translate to an inability to service back to the loan repayments.

To safeguard the financial security of the loanee and thereby increase the chances of repayment of loaned amounts to the lenders, formal credit institutions require the commitment of apposite collateral at the time of the issue of loans. However, in some instances, the guarantee securities have proved to be inhibitive to the uptake of credit facilities. Some financial institutions that place a premium on financial inclusion such as micro-finance institutions resort to the use of ingenious methods such as the use of social collateral. In the lending of money through social collateral, money is lent to groups. The group members are jointly and severally responsible for the payment of the loaned amount of each member as and when it falls due. In such a setting, the group members exert a healthy peer pressure on the each other to make timely installments that go towards loan repayment. This phenomenon also serves to strengthen the bond of economic productive cordial relations at the level of the society. Such a novel method of credit disbursement has been used by the trailblazing and innovative Grameen Microfinance Bank.

Increased Entrepreneurship Activities in the Economy

Access to financial services increases the practical likelihood of people to start and expand businesses (Demirguc-Kunt, Klapper, Singer, & Oudheusden, 2014). The destitute are at an unfavorable disadvantage when it comes to the starting of economic ventures since they have to grapple with the most pressing issues that have to be met to ensure survival. Access to financial services provides resources to meet personal development goals according to their immediacy, as well as funds to start business activities from the surplus remaining after covering their contiguous requirements.

Factors Inhibiting Access to Financial Services

Financial Discrimination

Most of the big financial institutions have been concentrating on providing banking and financial services to the individuals at the upper echelon of the society. Too often the poor are marooned from accessing financial services because banks view them as a poor credit risk, or do not understand their financial needs (Aynsley, 2011). Several barriers locked out so many people who wished to have access to financial services provided by formal banking and financial institutions. For instance, some of the corporate banking giants insist on the maintainers of some specified account balances that are beyond the reach of some of those in most need of financial services. Other institutions demand that their clients deposit money with them for extended periods of time before they can have access to financial services like credit facilities.

Financial Illiteracy

Knowledge is power. Lack of knowledge on financial matters that includes personal finance has locked out many a person from accessing financial services. In places where there is financial exclusion, there are low levels of financial awareness. Only those in the know who happen to be the well-educated or those who take up high places in the social order due to family ties and inheritance enjoy the benefits of financial services that are minimally known by many members of the populace. Financial illiteracy is a barrier to increased access to financial products and services that plays out on the demand side. It makes people unaware of what to demand and expect from the banking and financial system.

Lack of financial education limits the ability of a person to put credit and savings into productive use. Too much credit at the hands of individuals with little financial literacy increases the likelihood of over-indebtedness (Schicks & Rosenberg, 2011). Low levels of financial literacy lock out many people from exploring alternative vehicles of wealth creation and accumulation like participation in the stock market (Van Rooij, Lusardi, & Alessie, 2011).

Financial Exploitation

When people cannot access financial services from the formal mainstream banking and financial system, borrowing money from friends, relatives, and private lenders is the most popular way of obtaining credit (Fungáčová & Weill, 2014). The local moneylenders and pawnbrokers who exploit the desperation of the destitute local lenders can prove to be inconvenient, costly, risky and even harmful. The moneylenders and pawnbrokers are usually not regulated by the governmental authorities. In non-Muslim communities, they lend money at exorbitantly high interest rates. When the borrowers default on the full payment of the loaned amounts their hard-earned assets that are usually the items around which their livelihoods revolve are sold at throwaway prices. In some Muslim communities where there is widespread economic deprivation, the local unregulated moneylenders also discharge of

the properties that acted as guarantees for the loaned amounts. The disposal of assets which can potentially be used as collateral further compounds to the financial woes of the poor and the needy as it becomes increasingly hard to qualify for loans without adequate property that can act as a guarantee.

Transient, Migrant, and Displaced Populations

Some communities – especially those living in deserts – live a nomadic way of life. They move from place to place in search of food and water for their livestock. It is a herculean task to provide a regular access to the traditional banking and financial products and services that are available in brick-and-mortar premises of financial services providers.

Wars and the occurrence of natural catastrophes displace people from their usual places of habitation. The incidences of disasters have the aftermath of cutting off people from the access of financial products and services.

Psychological, Religious, and Cultural Barriers

Afghanistan and Malaysia are Muslim-dominated countries with high Gallup religiosity indexes of 97 percent and 96 percent respectively (The World Bank, 2014). 34 percent of the unbanked Afghan population cite religious reasons for not having an account at a formal financial institution, while only 0.1 percent of Malaysians do so (The World Bank, 2014, p. 36). According to the Global Findex, 51 million adults residing in the OIC countries cite religious reasons behind their not opening accounts in formal financial institutions (p. 36).

Lack of Interest by Policymakers

Some regimes allocate priority to government activity according to the extent of the inherent potential political currency to be gained by pursuing a particular course of action. Such government establishments only undertake those activities that have the highest payoff in the near future – especially in the forthcoming elections in democratic countries. However, some ideals like improving access to financial products and services are given low priorities. In the case of countries under the rule of draconian and barbaric authoritarian political regimes, the governments do not support the financial empowerment of residents out of fear of uprisings.

Inadequate Client Protection

Availing increased options to the deprived notifications dangerous and creates new avenues for taking advantage of the destitute (Gardeva & Rhyne, 2011). To realize impressive gains in access to financial products and services through enhanced client protection, it is of paramount importance to provide a redress mechanism to address the imbalance of power between financial institutions and their clientele (Andrews, Jefferis, Hannah, & Murgatroyd, 2012).

Public Mistrust of Financial Institutions

Inducing clients into making commitments to acquiring things that they do not Hcw sufficient knowledge about has the effect of reinforcing the notion that financial institutions cannot be trusted (Gardeva & Rhyne, 2011). Numerous banking and financial services providers have gone under with clients' money. Some banking and financial entities have been rocked with rampant cases of mismanagement and corruption. These scenarios have served to create negative images of financial institutions that dwindle the level of confidence that the public has in banking entities.

Outdated Regulations that lag Behind Technology.

The presence of outmoded legal infrastructure that lags behind technology makes it hard to implement innovations that have the momentous potential of increasing access to financial products and services. Outdated regulations are an impediment to the replication of high levels of success realized elsewhere through the application of novel best practices that aim to deepen financial outreach.

Lack of Adequate Demographic Information on the Financially Excluded

Unavailability of sufficient demographic records eventuates inadequate and inaccurate demand-side information. Demand-side information puts in the picture details of who lacks access to financial resources and what kind of products and services better serve their interests.

Lack of Credit Bureaus

Credit bureaus facilitate the sourcing and sharing of credit and risk information of current and prospective clients among the stakeholders in the banking and financial segment of the economy. Credit bureaus should incorporate practical models that suit the best interests of new customers who have little information captured by the formal banking systems (Vercammen, 1995). Credit bureaus prevent over-indebtedness of clients. In this way, they help the destitute by preventing them from being exposed to high levels of borrowings that may jeopardize their future credit ratings due to high risks of failure of non-repayment of loaned amounts as per the lending contracts.

In the absence of credit bureaus, there is increased credit risk attached to loans due to insufficient information on the repayment patterns of the loanees. The credit ratings offered by credit bureaus can be used to negotiate a reduction in the borrowing costs attached to obtaining credit. Additionally, the credit scores can be used as collateral to get loans. The guarantee is pegged on the past ability and success of the borrower to repay loans within the stipulated terms and conditions. The absence of credit bureaus locks out many from accessing financial products and services since because of the requirement to produce collateral before obtaining a loan. In most cases, the guarantee involves the commitment of productive assets whose market value is worth several times the qualified loan amount. Obtaining such high-value assets is a challenge to most of the people who do not have access to financial products and services.

High Costs of Building and Operating Branches

Prohibitive costs of opening up new branches in the excluded and underserved areas hamper the expansion of financial networks. Apart from the usual enterprise costs of capital outlay, other charges like infrastructure costs and expenses associated with insecurity have to be incurred while expending efforts to increase business outreach. In the case in point of Paraguay, the enormous costs of investing in metal detector entryways and guards in all the branches and the high cost associated with transporting cash dispirit the initiatives of investors to open up new branches (Gardeva & Rhyne, 2011, p. 27).

Measures to Stimulate Increased Access to Financial Services

Relaxation of Account Opening Requirements

Some of the requirements for opening accounts imposed by banking institutions do not favor a vast majority of the population. Some of the document required for opening bank accounts include proofs of residence documents that include bills for utilities that most of the unbanked do not enjoy. For instance, the "account opening requirements in a country like

Tanzania, where there is no national IDs, no residence address system or in general street addresses makes it hard to fast track customers' account opening" (Gardeva & Rhyne, 2011, p. 26). Various banking institutions charge account opening fees and demand minimum account balances that proved to be inhibitive to potential account-holders.

To admit more people into the formal banking structures, it is imperative for banking institutions to relax their account opening requirements. For instance, in some parts of the developing countries, the production of the official national identification card is sufficient to provide recognition of personality. The information systems used by banks can be defended and integrated into the government information systems and fetch data regarding their customers instead of demanding for documents that only amounts to a duplication of effort and ultimately lengthened the red tape. The opening of no-frills accounts will go a long way in attracting and capturing the unbanked into the web of formal banking institutions. No-frills accounts are savings accounts with standard facilities that have minimal operating requirements. No-frills accounts have proved to be a huge success in the rural and semi other areas of the countries with some of the highest rates of unbanked population.

Branch Network Expansion

Several formal banking outfits dedicate their branch networks to the service of urban populations. If people who live in the rural areas need to access their services, they have to travel to the cities that house their brick-and-mortar branches and headquarters. The centralization of branches only in urban areas has locked out many people who live in the semi-urban and rural areas. Investments into the extension of the financial network through modernization efforts that include branchless banking have high expected probabilities of paying off high returns in the future.

Employment of Newer Technologies

Innovation is usually pegged at the necessity to improve the existing business processes with the aim of increasing efficiency, effectiveness, productivity, reduce wastages, and stimulate creativity. New, improved, and better technology acts as a catalyst for fuelling innovation. Information Communication Technology (ICT) development plays an imperative role in encouraging access to financial products and services (Andrianaivo & Kpodar, 2010). ICT has increased modernization of finance worldwide (Andrianaivo & Kpodar, 2010). However, some parts of the world, especially in Africa, remain challenged by a financial infrastructure gap (Andrianaivo & Kpodar, 2010, p. 3).

Increased employment of newer technologies in the banking and financial services sector has the effect of closing in on the geophysical barriers. Sophisticated technology makes it possible to initiate, effect, and complete financial transactions without having to visit the brick and mortar premises that house financial entities. Formal banking and financial services providers need to the forefront of adopting new technologies that facilitate access to ubiquitous 24-hour banking services to all including those people in the marginalized rural and semi-urban areas.

Public-Private Sector Partnership

Financial deepening can only be successfully achieved through symbiotic collaborations between the public and private sectors. The public sector is usually represented by the government while the private sector is generally represented by the network of banking and financial institutions. The government should actualize its commitment to the goals of ensuring that adult denizens have access to the appropriate financial services at an affordable

cost. The government should see to it that the populace can manage its money on a day to day basis, effectively plan for the future and deal conclusively with financial distress (Aynsley, 2011).

Enactment of Favorable Laws

Some innovative financial products and services have not been introduced to the markets in various countries due to obsolete legislation that is not in tandem with modern developments in technology. It is of particular necessity to enact and pass futuristic laws that are friendly to the spirit of innovation.

Increased Deployment of Agency Banking

The agency banking model helps banking and financial institutions to not only extend their reach to rural areas with poor branch penetration but also up to the doorstep of people who are reluctant or unable to make a trip to the nearest branch (Deloitte Consulting, 2014). Additionally, agency banking provides financial services providers with a cost-effective model for rationalizing their operating expenses while reducing the cost to customers while providing room for wider reach (Deloitte Consulting, 2014).

In the case of Philippines, the Central Bank of Philippines, *The Bangko Sentral ng Pilipinas* (BSP), has very recently issued regulations that effectively allow banks of all sizes to execute correspondent banking activities. New rules from the BSP are expected to pave the way for a wider range of services for low-income segments (Gardeva & Rhyne, 2011, p. 27).

Increased Payment of Utilities, Wages, Remittances, and Government Transfers from Cash into Accounts

Increasing the opportunities to spur greater use of accounts along by the unbanked as well as by those who already own bank accounts stimulates the expansion of financial outreach. (Demirguc-Kunt, Klapper, Singer, & Oudheusden, 2014). In developing economies 1.3 billion adults with an account utility bills in cash, and more than half a billion pay school fees in cash. Digitizing payments like these would enable account holders to make the payment in a way that is easier, more affordable, and more secure (Demirguc-Kunt, Klapper, Singer, & Oudheusden, 2014). Governments of developing countries should be at the forefront of supporting the uptake of the modern digital platforms of clearing transactions by using information communication technologies as a conduit for transferring social security payments and the payment of wages and salaries to the civil service.

Mobile Phone Banking

There is a direct relationship between mobile phone services penetration, economic growth and access to financial products and services (Andrianaivo & Kpodar, 2010). The case of Kenya shows how the expansion of the outreach of financial services through mobile financial services implementations can be a success story (Deloitte Consulting, 2014).

For many decades financial exclusion proved to be the greatest impediment to actualizing accelerated economic growth rate in the East African country of Kenya. Kenya is a country where the majority of the population is Christian and Muslims form 30% of the populace. Kenya is the global pioneer of the model of mobile banking that facilitates the transfer of funds from one handset number – that does not necessarily have to be attached to a smartphone – to another. As a matter of fact, even the cheapest feature phones that can read some specific network information from the SIM card can perfectly facilitate the novel mobile money transfer services as internet connectivity through a cell phone is unnecessary

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when effecting the transactions. The innovative model of mobile money transfer in Kenya facilitates deposit and withdrawal of cash via a network of local agents all without the need for an app that connects to the internet. Payment of utility bills, settling of school fees, withdrawing cash from ATMs, payment of insurance premiums, receiving money from overseas countries, payment of stock dividends, payment of salaries and wages, and the payment of taxes are some of the financial services that are carried out on the mobile banking and money transfer system that has been in Kenya since 2007. The proprietary mobile system was globally pioneered by Safaricom, which is the leading telecommunication services operator in Kenya (Safaricom, 2016). Other telcos have joined the bandwagon, but Safaricom is reaping big the fruits of first-mover advantage.

The proprietary mobile banking system offered by Safaricom is dubbed M-Pesa (The M stands for Mobile while *Pesa* is the Swahili word for money) (Safaricom, 2016). M-PESA is the most successful mobile-money system in the world (Ministry of Information, Communications and Technology of the Government of Kenya, 2016). It has revolutionized banking and micro-financing, allowing individuals across Kenya to deposit, withdraw and transfer money at tens of thousands of locations (Safaricom, 2016). To access the M-Pesa services all that one needs is to have a registered mobile phone number. The registration for M-Pesa services is a straight-forward affair. A person only needs to produce an officially recognized identification document such as a passport or the national identification card. Only that! The registration process takes a few seconds, and one can then begin transacting through the M-Pesa infrastructure.

Simplicity is the height of sophistication. The mode of mobile banking and money transfer services pioneered in Kenya is simple and straightforward on the side of the end users. The clients do not even need to have Internet connectivity to access the system. As at April 2014, the total number of mobile subscribers in Kenya was 31.13 million. 26.02 million of those were registered and active users of the revolutionary mobile banking and money transfer system that was globally debuted in Kenya. At the same time, there were 93,689 agents in the mobile banking and money transfer ecosystem (Deloitte Consulting, 2014). The M-Pesa system is used to transfer over 25% of Kenya's total GDP (Deloitte Consulting, 2014). The funds held in M-Pesa are deposited into the local banks in Kenya. In the case of bankruptcy of Safaricom, the customer's deposits are under the control of the vigilant Central Bank of Kenya (Deloitte Consulting, 2014).

The revolutionary system of mobile banking and money transfer services initiated in Kenya has proved to be effective at roping in the previous unbanked into the formal banking structure. A bank account; a bank card; a tied post-paid contract; or a smartphone is not necessary to set off or complete the mobile banking and money transfer services.

The colossal success of mobile banking and money transfer in the developing country of Kenya can be replicated elsewhere in the world to increase the level of financial participation through financial inclusion. The increased access to mobile phones by the unbanked, especially in Africa, provides the most cost-effective and economically efficient method of providing financial services to those who have been perennially excluded from full participation in the financial services industry (Ondiege, 2015).

Financial Education

Increased the knowledge at the hands of individual members of the society works to improve access to financial products and services in a myriad of ways. Firstly, financially literate

clients have the power of knowledge that gives them increased protection from exploitation by unscrupulous practices of some rogue players in the financial services sector. Secondly, financial literacy in part upon people good money management skills that touch on savings, credit, and income generation that discourage falling into indebtedness. Thirdly, increased financial awareness stimulate increased expansion of the range of products and services offered at the marketplace and positions new and prospective clients to better make good use of the diverse financial products and service offerings.

In most of the developing countries that bear the heaviest brunt of the paucity of harnessed financial resources, the best place to introduce people to new concepts is in formal schools. In these nations, it is imperative to incorporate monetary studies into the official curriculum. Financial education boosts the financial capability of individuals by imparting the skills and the motivation to plan ahead, find information, know when to seek out advice and apply it to their lives (Aynsley, 2011).

Opening Up of the Financial Services Sector to Increased Competition

The financial sector of most of the countries that have the lowest financial services accessibility rates feature market giants that enjoy near monopoly status. The increased dominance has made some financial bigwigs to grow complacent and dictate 'what the market should want'. Such entities lack business models for reaching out to the unbanked. Consequently, in the market, there is under-inclusion whereby people receive limited or inadequate services. It is not uncommon to find monopolies adopting a single-product approach in some countries. The opening up of the financial service industry to new players increases the range of services disseminated to the markets while boosting efficiency.

Proper Prioritization

To better address the hurdles faced in stimulating access to financial products and services, there needs to be increased prudent classification of the challenges in order of priority. For instance, if the cardinal priority is to have as many low-income people open bank accounts, the focus should be on increased creation of awareness of financial services and products and the removal of documentation barriers and obstacles to the agency banking. If the chief objective is the strengthening of microfinance and Small and Medium Enterprises (SME) finance, then efforts need to be concentrated at the creation and enhancement of credit bureaus and addressing other operating environment bottlenecks (Gardeva & Rhyne, 2011).
For instance, in Afghanistan – a country where Islam is the dominant faith – the major impediment to the dissemination of financial products and services is not lack of donor funding to the financial institutions – that are most micro-finance institutions – that focus on meeting the needs of the poor but misplaced priorities. One large program that was spent providing financial access to agricultural enterprises and rural areas through the existing financial service providers that included commercial banks and micro-finance institutions did not see the light at the end of the tunnel. What proved to be the styming hindrace to the fruition of this agenda was the absence of financial services providers offering agriculture-centric products, lack of proper distribution infrastructure, and the disinclination of the qualified institutions to partner with the program in a productive manner (Gardeva & Rhyne, 2011, p. 27).

Adoption of Islamic Finance to Facilitate Financial Inclusion

Islamic finance offers a responsible faith-based way of conducting banking and financial activities. Islamic finance involves the carrying out of economic activities pursuant to the principles of Shari'ah. Islamic finance is characterized by the absence of usury; the non-

engagement with prohibited items like drugs and alcohol; and the avoidance of gambling and excessive risk taking. Some Muslim communities live in countries where the dominant financial system is the Western conventional banking and finance system. Some adherents of Islam choose voluntary exclusion from the access to financial products and services offered under the Western conventional banking and finance system since they incorporate usury that is not compatible with the ideals of Islam. About 700 million of the world's poorest live in Muslim-dominated countries (The World Bank, 2014, p. 36). Shari'ah compliant financial instruments have the potential of playing a pivotal role in encouraging increased uptake of financial products and services amongst the Muslim populations. Islamic finance can appeal to most of the financially excluded Muslims and capture them into the formal banking infrastructure.

Islamic banking has outperformed conventional banking in recent years (Deloitte Consulting, 2014). The colossal success of Islamic finance can be attributed to continuous product innovation; strong financial institutions; a broad range of innovative Islamic investment products; and well-structured markets that are enhanced by regulatory and supervisory agencies (Deloitte Consulting, 2014).

Islamic finance provides effective tools for channeling *Zakat* and *Qard al-Hasan*. *Zakat* entails the donations made to the needy. *Qard al-Hasan* is an interest-free loan that is advanced by the borrower to the loanee and is repayable at the agreed time without usury as the payments and receipts of usury are forbidden in the Quran. 67 percent of women business owners of growth-oriented SMEs that majorly interact with those at the nadir of the economic order in the society cited high interest rates as the major hurdle to their operations. (International Finance Corporation, 2012). Increased access to *Qard al-Hasan* would be a life-saver to many businesses and individuals.

CONCLUSIONS

All is not lost in the quest to expand access to financial products and services. Numerous colossal opportunities stand to stimulate increased uptake of financial services. These include opportunities for: mobile phone banking; institution and strengthening of credit bureaus; expansion of the range of product offerings; financial education; agency banking; reaching out to new client group; competition; institution, expansion, improvement, and transformation of micro-finance activities; commercial bank downscaling; linking government transfers to deposit accounts; product banking and cross-selling; the formation of state banks; and prudential regulation and supervision (Gardeva & Rhyne, 2011). It is encouraging to note that in recent times more than 50 countries have set and actively pursued targets aimed at expanding access to financial products and services by all members of the population (Demirguc-Kunt, Klapper, Singer, & Oudheusden, 2014). To effectively curb the menace of exclusion from access to financial services, an approach that incorporates combined effort at the core should be relentlessly pursued. The public and private sectors need to join forces to complement each other's endeavors at striving to increase the outreach of financial services. The national governments should develop supportive regulatory frameworks, build the germane financial infrastructure, and facilitate financial literacy programs aimed at the unbanked. The private sector contribution to this cause should be to create operators that can provide stellar financial products and services at an affordable cost to the convenience of the majority of the population (Ondiege, 2015).

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