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Financial Inclusion in Developing Countries

This article explores the pressing issue of social inequalities in developing countries and how financial inclusion can act as a public policy tool for empowering marginalized populations. By examining government aid programs, disruptive financial technologies, and open data in financial services, the article highlights the potential of a financially integrated population to improve social conditions. The adoption of an inclusive and amplified public policy, alongside access to basic infrastructures and formal education, can significantly impact social inequalities in developing countries.

Social inequalities in developing countries and how financial inclusion should or not be seen as a public policy tool for empowering their population is one of the most pressing issues of the present day. Social improvements in governmental aid and the use of the financial system to provide payments can remove unbanked and underbanked people from the margin of society. New financial technologies can bring an invisible part of the population into formality and whether these technologies are beneficial for implementing diversity and inclusion. Especially when some aspects of open data in financial services and its effects on marginalised populations are added to this equation. In conclusion, this article presents how a financially integrated population can improve social conditions when an inclusive and amplified public policy is holistically adopted alongside other premises, like access to basic infrastructures and formal education.

Developing countries undergo many issues regarding social inequalities. In Latin America, very few people are far wealthier than the most significant part of the population. As an example of these contrasts, Brazil's bottom fifty per cent of the population earns twenty-nine times less than the top ten per cent of its citizens. The concentration of capital in Latin America also shows that the top ten per cent of the population holds seventy-seven per cent of total household wealth, compared with one per cent held by the bottom half of the population (Chancel et al. 2022).

In addition to social differences, emerging and developing nations face challenges regarding policy-making. Many public policies in these countries arise from pressing events, such as catastrophes or sanitary emergencies, created without being thoroughly and technically analysed or discussed with interested and affected parties (Azevedo, 2021). The hurriedness in announcing such allegedly life-changing policies can lead to ineffective or overly expensive government action (Fonte, 2015).

On the other hand, governmental aid in developing countries, particularly with social programs of conditioned redistribution of wealth, are public policies that can eradicate misery and promote social inclusion. When Brazil launched *Bolsa Família* [1], the government defined that women would preferably get the payments, as its studies showed that women tended to be more prone to spending aid on food and household expenses than men (Neri, 2014). The money would be distributed through a deposit account at correspondent banks of *Caixa Econômica Federal* - CEF. (Bartholo et al. 2017) The aid was paid monthly, conditioned to maintaining children in schools and being fully vaccinated, and pregnant women supervised on regular prenatal appointments in the public health system.[2]

The use of payment accounts in correspondent banks to distribute governmental aid became paramount for the financial inclusion of unbanked[3] families, finally bringing them into the financial system (Neri, 2014). It improves local economies and strengthens the capacity for beneficiaries to become regular consumers of banking products (Dias and Seltzer, 2009). Without that, this extract of society has much more difficulty accessing the

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[1] A Brazilian social program for redistribution of wealth, formally established by the federal government at the beginning of 2004, unified multiple existing social programs. It started helping around six million families, increasing to an average of fourteen million families being helped simultaneously.

[2] Bolsa Família was extinct on December 2021 by Bolsonaro's administration. It launched a substitute and similar program called "Auxílio Brasil". On November 2022, upon Lula's election, it was announced that the program Bolsa Família shall be reinstalled in 2023, with some reviewed aspects.

[3] According to the Federal Reserve, unbanked is someone who does not have a checking, savings, or money market account.

formal economy, consequentially being more likely only to find work in precarious positions and informal jobs.

The unbanked population struggles to move money around and resorts to alternative methods to obtain credit, such as relatives or moneylenders. Consequently, they are subject to higher violence, fraud and insecurity rates, as observed by the Reserve Bank of India, 2020. The capability of improving population life through financial inclusion is one of the main reasons for considering government aid using the financial system as a relevant public policy in emerging and developing nations.

The second argument on sustaining the importance of financial inclusion to undermine social inequalities is the role of disruptive and innovative technologies in bringing the lower-income population into the financial system.

The financial system comprises traditional institutions and innumerable players whose business models rely on new technology and innovation. These players, fintech companies, cover a wide range of products and services in scale and scope, divided into various categories: (i) credit, deposits, and capital-raising services; (ii) payments, clearing and settlement services, including digital currencies; (iii) investment management services; and (iv) insurance (Tok and Heng, 2022).

Due to their nature of being disruptive in a traditional market and more willing to take calculated risks, some fintechs target lower-income populations who otherwise would not have access to the financial system. Therefore, it is legit that this segment is responsible for digital financial inclusion, especially for underbanked citizens where the traditional delivery of financial services is less available (Plaitakis and Staschen, 2020). It is also true that the poor refrain from reaching out to banks and financial institutions for loans or other traditional services, believing their requests will not be deferred or because their necessities are not featured in marketing and campaigns (Santiago et al., 2020).

Implementing new technologies and more straightforward methods of payments and transactions, such as instant payment and the initiation of a transaction without having to access different and multiple institutions (PISP)[4] to buy or sell goods, are facilitating the inclusion of economically marginalised people (Rangel, 2021). These tools tend to stimulate retail and improve the competitiveness of small businesses, allowing these citizens who have been overlooked to promote their entrepreneurship skills, hire people and develop the economy of their communities, generating a virtuous circle of inclusion and growth.

Nevertheless, introducing technologies and innovation *per se* only benefits some of the population. It can be challenging for the elderly and those living in areas with low coverage of telecom infrastructures, such as the internet. They also might have difficulties understanding the operations and fully utilising the products and services only offered through apps on smartphones or websites (Plaitakis and Staschen, 2020). Some countries also have pointed to a gender gap, meaning that digital financial inclusion does not necessarily include female users as much as males, either for cultural reasons or for the former being more resistant to embracing novelties than the latter (Carrière-Swallow, Haksar and Patnam, 2021).

Despite these negative externalities, the studies that show fintechs have adverse effects on financial inclusion are scarce and contradictory. They could not be decisive since the obstacles highlighted in the research are focused on traditional products and services that fintechs do not usually provide. Even with that inconclusion, policy-makers should be aware of the risks that complete digitalisation might cause those that have difficulties with infrastructure or technology.

The third argument for considering financial inclusion as a public policy for closing inequality gaps is using open data as an instrument of empowerment. Data has always

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[4] PISP - Payment InitiationService Provider. These players are authorised to initiate a transaction into or out of an user's account.

been the fundamental baseline for policy-making. Well-built public policies are developed by understanding the population and achieved with information on their habits and needs. The aforementioned financial inclusion is a path to improve society as a whole, and using financial technologies combined with data has the potential to affect society positively.

Many authorities worldwide have turned to Open Banking as a solution for increasing competition in their exclusive financial systems. Open Banking is a data-sharing technology with the premise that competitors possessing clients' data might offer better products and services with better prices or other advantages more appealing to consumers (Rangel, 2021). Financial inclusion, therefore, can be seen as a collateral effect of the competition boost provoked by Open Finance[5]. Moreover, the inclusion happens because of the understanding that the data belongs to the consumers and, in consequence, can only be shared with the participants under the explicit consent of the owner (Luca, 2021).

Nevertheless, Open Banking or Open Finance might face challenges in emerging and developing countries since the lower-income population tend to have insufficient data to be analysed (Plaitakis and Staschen, 2020). Consequently, in these regions, it can be particularly relevant to consider broadening the access to different data resources, such as government registries regarding health, and social security and taxes and implementing an open data assessment rather than keeping it just focused on the financial system (Luca, 2021).

Open Finance can also represent adversity for those who made poor choices in their lives and, because of that, have their data impacted and might have worse conditions and opportunities with the opening of their information (Carrière-Swallow, Haksar and Patnam, 2021; Plaitakis and Staschen, 2020). To tackle this issue, as seen in the Reserve

[5] Open Finance is the ecosystem that goes beyond the data-sharing of bank products and services, adding financial products such as insurance, investments, and mortgages, for example.

Bank of India, 2020, RBI issued guidelines for financial literacy and rural branches of banks. The Indians are also incorporating financial education into the school curriculum, understanding that educating citizens can help them to make wiser financial decisions.

In a nutshell, the use of Open Finance in emerging countries is beneficial to financial inclusion both when the data sources are broadened and when other public policies are implemented in order to educate the population to understand the consequence of their financial decisions better.

In conclusion, as exposed in the present essay, social inequalities in emerging nations can be overcome with a combined adoption of public policies for financial inclusion. As demonstrated, government aid is paramount for bringing people into formality when making use of the capillary of the financial system. That, associated with innovative tools in financial services and products, presents the possibility of bringing people into the formal economy, developing a virtuous circle of growth and inclusion of previously marginalised society, as long as the authorities observe the inclusion of the elderly and people from more remote areas. At last, it was shown that open data is particularly important for empowering citizens.

Most importantly, regulators and policy-makers in developing countries should adopt these policy tools holistically, promoting financial education along with stimulating access to the financial system to increase the population's awareness about the perks of using a formal financial system, about how to spend money, invest and ultimately grow.

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