

# Why financial inclusion needs a new frontier—asset building

November 5 2015, by Graunt Kruger

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A Kenyan woman does a financial transaction using her mobile phone. Credit: Africaknows/Joshua Wanyama

The concept "financial inclusion" is used in mainstream business and development circles as an all-encompassing term for innovation in

financial services for the poor. Financial inclusion is promoted as part of an important economic development programme to solve the lack of access to formal financial services for billions of people around the world.

The success of financial inclusion is [measured](#) in terms of the density of locations for [financial services](#) (such as the number of ATMs), product penetration (number of bank accounts opened) and geographic access (proximity of financial services to [people](#)).

These objectives show that financial inclusion has focused on enhancing a poor person's [cash flow](#). Or put differently, financial inclusion seeks to solve income poverty.

But this is not enough. This is because the way in which individuals' short-term income needs are solved can sometimes lead to unintended consequences of asset destruction. Such consequences result from the fact that, while people are encouraged to enter the formal financial system, not enough consideration is given to encouraging them to build assets.

Fortunately this is not the case for all financial inclusion projects. There are a few noteworthy efforts that set out to build assets. Most focus on helping people enhance their cash-flow. This approach makes it possible to solve both income and asset poverty.

## **Financial inclusion in its narrowest sense**

Approximately 2 billion people around the world lack access to formal financial [services](#). Such services can be a bank account, credit, insurance, a safe place to keep savings and a secure and efficient way to make and receive payments through a registered financial institution.

These measures underscore a preoccupation on the part of researchers and practitioners with how people access and use formal financial services. Seen from this perspective, financial inclusion is achieved when members of a local economy are given [bank accounts](#) with electronic means to move money and make payments facilitated by retailer networks or mobile phones. Financial inclusion thus becomes a modernisation project – a technical problem to which technical solutions have to be found.

Access to credit as a measure of financial inclusion is more complicated. This is because people can be worse off once they are financially included through loans, perhaps best illustrated by the events in Andhra Pradesh. Caught in a cycle of debt, drought and crop failure, thousands of farmers [committed suicide](#) over 10 years. This amounts to adverse inclusion.

This was the case for a large number of [miners in the Marikana region](#) in South Africa. One of the largest lenders to the miners was [African Bank](#). By the end of 2014, the bank had [gone under](#) due to a worsening credit book. The bank had overextended itself by issuing more loans to its customers than they could repay.

The core problem was that these were unsecured loans not given to enhance cash flow while building assets. The downward debt spiral can be severe. Multiple loans and compounding interest on outstanding loans added up to negative cash flow. Some borrowers started with a loan for furniture, but eventually many people needed loans to buy food and other basic [necessities](#).

The challenge then is to rethink financial inclusion. Is it possible to think beyond income and cash flow management to include perspectives on building assets? For individuals, this would be measured as net worth, or the difference between assets and liabilities.

## Drawing on Foucault

The work of Michel [Foucault](#) is relevant to this debate.

The French philosopher drew attention to social control through the interplay of power and knowledge in societal institutions. He sought to interrogate how society draws its boundaries. His concept of [subjectification](#) opens up for exploration the individual's own self-management within social structures.

From his perspective we should turn to the core economic and financial positions that individuals stake out for themselves, how they identify the problems that pertain to that position, the strategic actions they take to overcome the problems and the forms of control they enact to govern their financial practices in line with their interpretations of social and ethical norms.

What this means is that when thinking about how individuals engage financial services we should go beyond the simple binary relationships that locate people as consumers of services provided by the financial industry. One example of this is financial education. Educating people to be trustworthy consumers of financial services is different from engaging them to safeguard and build their family wealth. Following Foucault's logic, instilling financial roles such as 'owner' or 'investor' could spur people to turn down the next offer of credit.

Such an approach would encourage a perspective of the individual as an 'owner' rather than simply as a 'consumer'.

## Wealth management for the poor

Four noteworthy financial inclusion projects support an asset perspective

by engaging with individuals as owners rather than just consumers.

In the US the Assets for Independence Act of [1998](#) supports a network of nearly 650 community-based asset-building programmes for [low-income people](#). The programme works to solve asset poverty alongside income poverty while encouraging the use of formal banking services. It supports citizens to invest in education, homes and small businesses.

[Kshetriya Gramin Financial Services](#) in India positions itself as a wealth management service for the rural poor.

Fundación Paraguaya, with its Poverty [Stoplight](#), puts clients in the driver's seat of their financial destiny. Fundación Paraguaya works directly with low-income people in a way that ensures they decide what about their lives they want to change.

Finally, Muhammad Yunus was awarded the Nobel Peace Prize in [2006](#) for making finance accessible to millions of borrowers. Less reported is the fact that he also created 7.5 million shareholders in a new bank. Borrowers own 95% of the bank, and the Bangladeshi government 5%.

These are just a few examples of exciting interventions in financial inclusion that are venturing beyond the boundary of income poverty. While I am not against financial inclusion efforts already under way, I am arguing for an expansion of the effort to reconnect to the fundamental social mission of poverty alleviation by adding asset building alongside income enhancement.

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