FINANCIAL INCLUSION IN DEVELOPING COUNTRIES. A REVIEW OF THE LITERATURE ON THE COSTS AND IMPLICATIONS

Danstun NGONYANI, PhD*

Abstract

This article examines research reviews of financial inclusion comprehensively in terms of its nature, basic reasons behind financial exclusion, costs, and implications of financial exclusion in developing countries. Specifically, the study intends to analyze the extent to which the existing published academic papers have addressed the challenges associated with financial exclusion in these countries. A qualitative systematic literature review approach was employed in conducting this study. The study findings indicate that most developing countries and Tanzania in particular, still encounter challenges regarding effective financial inclusion, resulting in very slow improvement in this field. Therefore, measures are needed to curb existing bottlenecks, and the government and other stakeholders need to establish guiding policies to enhance financial inclusion efforts. Similarly, Policymakers and financial services providers need to initiate innovative infrastructure systems to enhance the extension of financial services to rural areas at affordable operating costs.

Keywords: access to finance, financial exclusion, borrowing cost, socio-economic development.

JEL Classification: G20; G21; G23

1. Introduction

Financial inclusion has been increasingly receiving great attention due to its potential in contributing to socio-economic and financial development. It also serves to broaden financial and non-

* *Department of Finance, Accounting and Economics, Faculty of Commerce and Business Studies, St. John's University of Tanzania, Dodoma, Tanzania..*

financial resources' allocation while bringing up inclusive growth and greater income equality among underserved individuals (Yoshino and Morgan, 2016). In developing countries, a large segment of low-income people has little access to both formal and semi-formal financial services. Consequently, the majority are obliged to rely on self-financing including informal sources of finance available unreliably and at a significantly high cost. The existing inequitable and poor access to inclusive finance is worse among least developed countries which record more than 70 percent being excluded from the realm of the services of banking and non-banking financial institutions (Kumar, 2017).

The growth of the economy in any country is dependent among others prevalent of vibrant and effective financial services that are inclusive in the society. The existence of a monetary policy that encourages inclusive finance contributes to poverty reduction and the growth of various sectors of the economy. Tanzania being among developing countries needs to further invest and strengthen efforts of ensuring a wide range of financial services is made available to the majority of low-income individuals. Currently, evidence from Choudhury and Bagchi (2016); Isukul et al, (2019) indicates that poor people are the most disadvantaged category in accessing and use of financial services. As such, without effective strategies for promoting inclusive financial services, most people particularly small, medium, and large entrepreneurs are unlikely to build assets and cushion themselves from various shocks hence shrinking the growth of the economy (Ahmed and Wei, 2014).

There has been noticeable evidence of improved access to financial services among people in Tanzania and other developing countries. Alliance for Financial Inclusion - AFI (2016), and National Financial Inclusion Framework - NFIF (2017) point out that the provision of credit, insurance, and financial advisory services to individuals and firms has recently been increasing. The existence of new technology has enabled mobile money transfers, savings, and varied payment transactions to enhance the growth of businesses. However, the observable extent of widening financial inclusion is considered to have not been deeply rooted to influence positively disadvantaged groups such as the poor, women, and youth in their livelihood. This necessitates having more efforts of involving various stakeholders to encourage financial service providers to widen and deepen the outreach of their services to the majority of the population financially excluded (Lotto, 2018; Demirgüç-Kunt and Klapper, 2012b).

Inclusive financial development has been a concern of various stakeholders both nationally and internationally. In Tanzania, the Banking and Financial Institutions Act, 2006 (BAFIA 2006) provided the foundations for licensing, regulation, and supervision by the Bank of Tanzania to different deposit and non-deposit-taking institutions such as banks, microfinance entities, and other financial institutions. BAFIA 2006 integrated microfinance companies into the entire system of national financial institutions. Moreover, BAFIA 2006, provides recognition to non-bank formal financial institutions hence the microfinance institution, Insurance companies, and Social security institutions. Microfinance institutions for example were recognized as legal businesses and an integral part of the national financial system in Tanzania. This intends to hasten the spread and use of financial services for the majority of the needy individuals (Rubambey, 2005; Nyamsogoro, 2010; NMP, 2000; NMP, 2017).

The deepening and intermediation of the financial sector in Tanzania have been growing gradually to reach individuals interested in accessing financial services. The slow-growing demand in up taking financial services to people retards the initiative towards broader efforts of ensuring that services reach both center and peripheral dwellers (Demirgüç-Kunt and Klapper, 2012a). FinScope (2017), has reported a low level of growth in financial inclusion in Tanzania. This report reveals only 16.7 percent of individuals engaged with the services of the banking sector in Tanzania. This was an increase of only 2.7 percent from the study findings as observed by FinScope (2013). Furthermore, FinScope (2017) indicates individuals engaged and used financial services from other formal financial providers than banking institutions constituted 48.6 percent. This meant a significant increase of only 5 percent from the previous report released via the same source. On the other hand, NFIF (2017); FinScope (2017) have recorded that about 28% of adult Tanzanian are completely excluded from accessing financial services. The existence of such escalating figure has raised concern which calls for necessary strategies of encouraging individuals to access and use financial services.

Sinclair, (2001); Oshora, et al (2021) added that if the majority of productive age are financially excluded from using financial services, it may result in a considerable negative impact on the growth of the economy. In addition, Were, et al, (2021) pointed out that when a country does not have implementable policies of inclusive finance, there is a danger that most business and productive sectors are being financed by informal practices hence lowering the output of the economy. Turvey, (2017) noted when people avoid using formal financial institutions it indicates there is more saving in informal ways such as keeping cash at home or buying illiquid assets, which may be costly, risky, or inconvenient.

Individuals have been taking up existing financial institution services quite gradually. Singh, (2017); Clamara et al. (2014) considered that to be a drawback to efforts to promote financial inclusion. It is also argued that most banking institutions exhibit some conditions including the presence of minimum account and loan balances and account fees including the presence of difficult documentation requirements for their customers. Such conditions negatively influence towards outreach mission of financial service providers. Consequently, eligible clients for using financial products and services ignore financial institutions' financial and non-financial services. Their decision to decline using formal financial services may result in relying on informal financial service providers including self-financing which bears higher costs and is unreliable. This challenge has been prevailing across many developing countries including Tanzania. On the other hand, Atkinson and Messy (2013) add that the quality of services has a significant contribution to customer satisfaction because it is affected by various factors such as human interaction, physical environment, value, price, performance, etc.

The need for developing an inclusive financial sector has been a concern of many stakeholders such as policymakers, academicians, and practitioners. This has raised the need for devising various strategies in addressing observed barriers impeding far-flung rendering, and uptake of conventional financial services in most developing countries. Tanzania has recognized the role of inclusive finance in empowering individuals economically and socially, by embracing various regulations and policies encouraging the proliferation of the financial sector in the country. The existence of the National Microfinance Policy - NMP, 2000 and 2017, respectively, and the National Financial Inclusion Framework - NFIF, 2017, among others, have contributed to the growth and outreach of the financial sector in Tanzania. There has been an increasing demand for using non-bank financial institutions such as microfinance services, insurance, and social security institutions in Tanzania. The growth of microfinance, for example, is attributed to its existence in semi-urban and some peripheral areas with easy access to credit services contrary to the spreading of banking services.

On the other hand, Beck, (2007); Beck, & Demirguc-Kunt, (2006) state that the problem of financial exclusion is more prone to the poor than the non-poor individuals. While most low-income individuals are detached from the financial system, those few accessing financial services are being charged very costly. Consequently, they have been discouraged from further access since these institutions have been deepening their poverty than assisting them. However, most financial institutions explain high-interest rates charged to their clients for several arguments – including a high risk of microcredit, high fixed costs associated with small loans, financial institutions' operating expenses, and the need for profits to enhance sustainability than depending on donors Isukul and Tantua, (2021). In so doing, the poverty penalty is a relatively higher cost shouldered by the poor compared to the non-poor while accessing financial markets and services (Brown, et al, 2015).

Most practitioners and various stakeholders are in favor of the strong financial sustainability of banking and non-banking financial institutions for enhanced outreach of services. Conversely, it is noted that most deprived people fail to benefit from available financial services and remain excluded. Accordingly, in order to invite the majority of low-income people into up taking various financial products, financial institutions must design products and services that meet clients' demand at bearable rates. On the other hand, semi-formal financial institutions should not follow the example of commercial enterprises whose main objective is to earn large profits (Triki and Faye, 2013). Instead, to moderately package their financial products in a manner that can be accessible in an affordable way to individuals excluded from financial service. Therefore, concerted efforts must be devised to address the barriers hindering widespread supply and uptake of formal financial services in most developing countries. This will contribute to the reduction of poverty as the majority would have the capital for initiating business and entrepreneurship projects to improve their incomes and growth of the country's economy for sustainable development (Beck, et al, 2007).

2. Literature review

Inclusive finance facilitates socio-economic development and the reduction of poverty among individuals and the country at large. It also guides to enhance the effectiveness of monetary policy transmission and stabilizes the financial sector in the country. Tanzania being among developing countries, realized the role of financial services as explained in its national development vision and poverty reduction strategies for 2020 - 2025. The need for financial services especially for the poor and underserved cannot be overemphasized, since they are highly unreached by formal financial institutions. As a result, they are unable to capitalize on their meagre resources on investment opportunities to unchain from poverty circles (Mandell, and Klein, 2009).

Atkinson and Messy (2013) defined financial inclusion as the process of promoting affordable, timely, and adequate access to a wide range of regulated financial products and services and broadening their use by all segments of society, through the implementation of tailored existing and innovative approaches including financial awareness and education to promote financial well-being as well as economic and social inclusion. Similarly, financial inclusion involves the degree of access of households and firms, especially poorer households, and small and medium-sized enterprises (SMEs), to financial services (Yoshino and Morgan, 2016).

The existence, availability, and measurement of financial inclusion have been an issue of concern to most academicians, policymakers, and interested parties. However, the agreeable measurement for financial inclusion involves the percentage of adults 15 years old and above, who reported having at least one account in their name with an institution that provides financial services and emanates under some form of government regulation (UNCTAD, 2021)

On the other hand, financial exclusion refers to the inability to access necessary financial services in an appropriate form due to problems associated with access, conditions, prices, marketing, or self-exclusion in response to discouraging experiences or perceptions of individuals/entities (Sinclair, 2001). Similarly, Chant Link & Associates, (2004) explains financial exclusion as a lack of access by certain consumers to appropriate low-cost, fair, and safe financial products and services from mainstream providers. Financial exclusion has been an issue of concern in the community since it applies to lower-income consumers and/or those in financial hardship. Financially excluded people typically exhibit some characteristics including – a lack of a bank account and the financial services associated with it. Similarly, reliance on alternative forms of credit such as doorstep lenders including pawnbrokers. In addition, lack of other key financial products such as insurance, savings products, and pensions. Therefore, individuals who are unable to access basic financial services are likely to pay more for managing their money. At times, they find it cumbersome to plan for the future while also becoming over-indebted and being financially stranded (Llanto, 2015).

Tanzania has been setting up a stage to deal with the existing gap in accessing financial services since the commencement of financial sector reforms in the early 1990s. The presence of these reforms enabled private players in the financial sector that increased competition in banking and non-banking financial institutions. Villarreal, (2017) posits that the existence of vibrant Micro, Small, and Medium Enterprises (MSMEs) is the engine of economic growth in any developing country with high unemployment rates. When these people are capacitated through accessing financial services, they are likely to contribute to individual's income and the country at large (NFIF, 2017). The role of financial institutions in enhancing effective financial inclusion is obviously very significant. The presence of a well-functioning financial sector will ensure financial products offered are linked to the demand of the customers to be served so that individuals excluded benefits from financial services (Sigalla, and Carney, (2012.

Empirical studies by Brown, et al, (2015); Oshora, et al, (2021) revealed there is a relationship between financial inclusion and economic growth having impacts on individuals and the country respectively. The existing positive influence indicates there is the potential growth of financial development, level of economic growth, and reduction of income inequality in the society. When a country has well-rooted and equally involving financial services for all people, that would likely fasten socio-economic development by encouraging wider business investment opportunities. In addition, when individuals are involved with basic financial transactions, they increase households' abilities to accommodate themselves to a variety of challenges and enhance consumer confidence. More importantly, financial inclusion widens access to financial services and distributes economic opportunities, particularly among poorer households and businesses. (Ahmed and Wei, 2014).

Moreover, Gutierrez-Nieto et al. (2017) found that among the factors influencing financial inclusion were high-quality institutions, efficient legal rules, strong contract enforcement, and political stability contribute more to financial inclusion. The presence of these characteristics guides positively influences individuals to engage in using financial services. On the other hand, studies identified some other parameters which induce challenges in up-taking and use of financial products and services, including high costs of opening and using bank accounts, high distance to reach financial institutions, and in-existence of trust in the banking sector to have negatively influencing access and use of financial services.

The influence of financial inclusion on economic development in developing countries has equally been observed in Demirguc-Kunt and Levine (2007) that gender issues existing in a society strongly and positively influence financial inclusion. It is argued that there is a substantial difference between men and women regarding borrowing and savings services offered. It is known that men do formally borrow and are likely to save more than women due to factors related to income and asset ownership. As such women have consistently been neglected because of their inferior level of income, lower financial literacy, and less business experience, hence relying more on informal financial services. These informal financial services hardly do have a variety of products, offered in a sustainable manner, and usually charge very high costs. Consequently, they have been unfriendly to individuals excluded from financial products and services to ease their economic hardships.

Krumer-Nevo et al. (2017) observed that most rural communities have been excluded from services offered by financial institutions such as credits, savings, and payment services among others. These services could have acted as catalysts to enhancing various businesses leading to economic development. The existence and outreach of financial services to the majority of needy individuals helps widen operations in the financial system by developing saving culture among the rural population. According to Beck (2007) when low-income groups are brought nearly within the perimeter of formal financial institutions such as the banking sector. It guarantees they get protected of their financial wealth and other resources from underutilization and mismanagement. Furthermore, financial inclusion helps individuals to easily access a variety of credit products related to their needs and requirements. This helps mitigate the exploitation by various moneylenders whose credits are more of a burden to low-income individuals.

3. Materials and methods

This study focuses on reviewing and analysing various studies related to financial inclusion in developing countries. It intends to further shed light on the extent to which existing academic articles addressing issues of financial inclusion have contributed. In this qualitative systematic literature review, an emphasis was to employ a specified approach that would aid to minimize bias and omission of relevant studies. In this case, a survey of databases with relevant literature using specified keywords and subheadings was considered. In addition, an author-driven review approach was accordingly applied. This implies that appropriate relevant literature was reviewed from the author's interpretation than from the point of the concepts of view. The method is considered relevant since issues regarding financial inclusion, cost and implication have been challenging while influencing varying practitioners and policymakers in most developing countries.

In this process, the researcher re-examined published academic articles in the area regardless of their years of publications. Four main database search engines such as Lycos.Com; Science direct; Google scholar and Z-library were used to download the reviewed articles. These databases were selected because they are among the largest and most popular online search engine databases used in financial inclusion and exclusion studies respectively. The initial search contributed to 79 articles, but after reading all the articles twice. Finally, the search ended up with 27 relevant articles in this study used in the analysis, where published articles in the area of financial inclusion and exclusion in Tanzania and other developing countries were included in the study. The decision to include an article in the analysis was based on the relevance of the articles to the themes of the study. This intensive desk review of existing literature involved full-length published papers in peer-reviewed academic journals mainly in financial inclusion. Thus, conference papers, book reviews, abstracts, and editor prefaces including conference proceedings were not included in the analysis since were considered to have limited contributions to the available existing knowledge. Moreover, references cited in the published articles were traced to evaluate their relevance in the study.

After getting the final list of articles, analyses were done using content analysis. The content analysis tool was selected because it is a flexible method for analysing text data (Cavanagh, 1997). The method was used for replicable and valid inferences from the collected data to provide knowledge, new insights, representation of facts, and a practical action guide. The approach is considered relevant and a common data analysis method in social science (Berg, 2009). It entails a careful, detailed, systematic assessment and interpretation of specific body material to enable identify patterns, themes, biases, and meanings. As such this technique helps identify available meaning in the text while maintaining a qualitative textual approach (Elo and Kyngäs, 2008). The use of this approach when it is carefully undertaken offers replication of outcomes, and also this method is analytically flexible (Duriau et al., 2007). In addition, this technique can be applied for inductive and deductive research (Elo and Kyngäs, 2008) including the ability to allow varied analyses to be executed by using qualitative or quantitative methods ((Duriau et al., 2007).

4. Discussion of the study findings

4.1 Obstacles to financial inclusion

Literature on financial inclusion and economic growth reveals that enhancing financial inclusion at micro, macro, and institutional level contributes to economic growth. Isukul and Tantua (2021) maintain that the availability of affordable financial services to people has a positive influence on their living standards. Traditional banks and other formal financial institutions facilitate transactions that help the underserved to smoothen consumption and build their financial base. Unfortunately, the majority of Small and Medium Entrepreneurs (SMEs) including other low-income individuals have not been capacitated to access financial services such as mortgages, insurance, and pensions to enhance their livelihood. The existing increasing rate of individuals that are being financially excluded has worried various stakeholders in developing countries. Krumer-Nevo et al. (2017) indicate outreach of financial services is limited to urban dwellers, but even the majority of the urban area are unable to access such services due to various reasons. On the other hand, the situation is worse for individuals living in suburban and rural areas. The development of the financial sector has not been inclusive to enable them to enjoy the services effectively. The widening gap between individuals using financial services and those excluded, has been an issue of concern among policymakers, practitioners, and other stakeholders in developing countries. In developing countries, for instance, the traditional banking business tends to be out of reach for the rural poor as operating functional bank business offices is not a profitable and viable option (Visconti, 2016).

There are various factors influencing the supply and demand of financial services for low-income earners and firms. Low bank branch penetration in rural areas is mentioned among factors retarding financial inclusion efforts. Banking institutions being the main financial intermediaries have not invested much into the provision of financial literacy to enable underserved communities to engage with banking services. In addition, the traditional banking system tends to be unfriendly to individuals who are poor and do not own any resources that could guarantee loans in most developing countries. Consequently, the rural and semi-urban poor people find themselves excluded from the realm of accessing financial services (Allen et al., 2014).

Furthermore, the existence of stringent laws, regulations, and policies introduced by the government is considered to adversely influence efforts instead of encouraging financial inclusion. In Tanzania for example, there have been appreciable efforts to enhance financial inclusion through mobile financial transactions. The existence of such services has encouraged the majority of rural and urban people to engage with various financial services. However, recently the government of Tanzania in its 2021/2022 budget has introduced taxes on mobile money transactions aiming at widening and increasing revenues. These efforts are intended to enable the government to increase financial resources for various services to its citizens. However, such a government decision has been perceived negatively by various stakeholders in a view that it is likely to decelerate efforts of increasing the breadth and depth of financial inclusion for the majority of low-income and disadvantaged individuals. Consequently, many operators of mobile money transactions have unexpectedly experienced a reduction of users in this type of service delivery. Currently, evidence still shows most low-income people both in rural and urban are continually in a view of disengaging from using mobile financial transactions. Therefore, this may result in deteriorating efforts already in place to the widening provision of financial services among individuals in the country (Maurer, 2012).

4.2 Barriers of financial inclusion to women

Existing research globally reveals that women have lowly been accessing formal financial services compared to men. The situation is the same in Africa in which available data shows that 4 out of 5 women are lacking access to financial services. The challenge to the use of financial services among individuals is more critical in rural than urban areas due to effective distance, making high cost in facilitating transportation infrastructure and low mobility of population Triki and Faye, (2013). The need to deal with the differences in the use of financial services between men and women is necessary to enhance inclusive development. On the other hand, full financial inclusion is unlikely to take its full effect without incorporating the existing diverse needs of consumers. Also, the presence of a gender gap in financial inclusion indicates that mainstreaming gender is hardly enough to build inequalities in women's financial inclusion (UNCDF, 2017).

The roadblocks to the effective execution of financial inclusion among low-income individuals particularly women and other disadvantaged groups can be classified into four aspects. These include the demand side, supply side, regulatory and infrastructure, and societal barriers.

The demand-side factors as a drawback to financial inclusion encompass limited financial capability of individuals, financial illiteracy (limited knowledge of existing financial products), lack of assets for collateral, remoteness to available financial institutions, inability to ownership of mobile phones, and lack of trust. It is argued that lack of trust is a substantial challenge to countries that do not exercise strong regulation (supervision) of banking and non-banking financial institutions. As a result, consumer protection and disclosure requirements are disregarded which deteriorates the public's confidence in using various financial products (Kempson, et al, 2004). Moreover, Triki and Faye, (2013) revealed that the majority of women are engaged in the informal sector for over 90 percent making them unqualified for formal credit services from formal financial institutions. In addition, most of them do not have ownership titles to enable them to access, use and benefit from various financial products and services.

On the other hand, the supply side drivers as a constriction to inclusive financial services among women and other disadvantaged groups include banks' risk aversion, high operational costs related to maintenance of small deposits or loans, high costs to extending financial services in small towns or rural areas, absence of convenient access points and presence of bank charges. The presence of such factors is considered to pose an unbearable bottleneck to enhancing financial inclusion. Banking institutions for example have been nailing higher charges as operation costs to their clients, rendering them to be reluctant to engage in using such services (Yoshino and Morgan, 2016). Therefore, these factors contribute significantly towards impinging widespread access to financial services to the needy population.

Similarly, Allen, et al, (2014) identified existing regulations and infrastructure to be among the obstacles undermining effective financial inclusion. The drawbacks are inadequacy of secure and dependable defrayals and settlement systems, unavailability of satisfactory bank branches, and lack of online financial services due to poor internet infrastructures. In addition, some of the regulatory factors impinging financial access involve posing stringent requirements to opening branches in rural areas. Moreover, the presence of capital adequacy and supervisory rules limits the introduction of a broad range of products such as small deposits, loans, and other financial products. On the other hand, other banking and nonbanking institutions have been reluctant of introducing regulations allowing for alternative collateral for overcoming women's constraints of limited asset accumulation (Ikpefan, et al, 2016).

Furthermore, Demirgüç-Kunt and Klapper, (2012b) explained that societal factors as constraints to financial inclusion involve discrimination against women regarding access to financial services. It has been pointed out that most women in developing countries face legal restrictions on their ability to head households, work, and receive inheritance including the prohibition to own an account. In addition, Were, et al, (2021) maintains that men have been dominating in decision making at various levels from family, village, and community which triggers low consideration of women's participation in accessing financial services such as credit products. Besides, rural women have partially been informed about various banking and non-banking financial services available to them. Consequently, rural women business owners fail to benefit from existing financial services hence increasing rates of financial exclusion. On the other hand, some individuals decide not to use formal financial products and services since it is against their customs and traditions. Therefore, financial education is needed to help them realize the benefits of using financial services from regulated institutions for building their financial base and economic development.

4.3 Costs and implications of financial exclusion

Effective utilization of financial services plays a significant role in people's lives. The majority depends on bank services such as bank accounts to facilitate payment of various bills, receive salaries, and run their businesses. In addition, financial institutions' services such as mortgages, insurance, and pensions have been helpful to users to purchase homes, and retirement services and protection from various risks (NFIF, 2017). However, there are individuals lacking access to financial products and services from banking and non-banking financial institutions. Those who are financially excluded have been facing difficulties to plan for the future, including incurring significant costs to manage their money in the long run. Financially excluded people for example cannot access affordable financial products and services that are accessible at their disposal. They face hurdles to obtain credit and other financial services since they lack operating accounts. Financial exclusion, therefore, adds costs on various services to individuals for being vulnerable to illegal and/or high lending costs together with encouraging socioeconomic exclusion (Choudhury and Bagchi, 2016).

Kumar (2017) considered two aspects of financial exclusion which are intricately interwoven. Firstly, financial exclusion introduces costs to individuals or companies in terms of missing available opportunities to excel without access to finance or credit. Secondly, from a community or national perspective, financial exclusion pulls in a combined loss of output or welfare in which the society or country is likely not to realize its full growth potential. On the other hand, further observable consequences of financial exclusion include cost and security-related issues in managing cash flow and defrayments and compromised living standards due to lack of access to short, medium, or long-term loans. Also, other effects include higher costs associated with using informal credit sources, hence escalated exposure to unethical, predatory, and uncontrolled providers.

In addition, financially excluded people are further vulnerable to uninsured risks, including long-term or prolonged dependence on informal sources of finances compared to regulated financial institutions offering an affordable and wide range of services (Anderloni et al, 2008). In developing countries, individuals most likely to be unleashed from not using financial services include the unemployed, those incapable to perform through sickness/disability, and single pensioners. Generally, people who are prone to be unable to access financial services are the poor and low-income category in the community.

Financial exclusion and its dimensions

There are several dimensions of the impact of being financially excluded. The analysis in this study has identified three aspects of dimensions as discussed below.

The financial consequences dimension reflects financial access difficulties for individuals without operating bank accounts when processing cheques written in their name by a third party. It, therefore, requires them to pay extra costs to enable the process and effect payment to the beneficiary while incurring more time to complete transactions. Alternatively, the same people are prone to facing challenges in the payment of various bills particularly when cash settlements are out of reach. Conroy, (2005) posits that individuals without a stable relationship with financial institutions incur higher costs in performing occasional payments of taxes, utility bills, and bank transfers to third persons. Also, other costs include raising financial complications to day-to-day cash flow management and non-financial services provided by regulated financial institutions.

Secondly, the Social consequences dimension of financial exclusion includes the absence or reduced links that accelerate individuals feeling of togetherness in society. Being financially excluded creates a sense of being disjoined with other individuals or members of the group who realizes some privileges in using banking and non-banking services. Bayot (2018) reveals that lacking access to effective use of financial products may lead to self-isolation and deprivation from social connection and relationships with friends and family. Conversely, surviving without engaging with formal savings can be problematic in two observations. People who save via informal means hardly benefit from the rate of interest and tax advantages compared to ones saving from informal financial institutions. More importantly, informal savings are much less secure than formal saving facilities. The impact of lacking formal saving avenues means escalating to non-formal lenders, which results to adversely two consequences. Firstly, exposure to higher interest rates charged by informal lenders, and secondly, borrowed customers are likely to be unable to manage regular repayment to their creditors (Krumer-Nevo et al., 2017).

Finally, the Socio-economic consequences dimension of financial exclusion. This has wider implications due to failure to access financial services. The consequences amount to being unable to fully utilize opportunities existing along with economic activities and social welfare for enhancing the distribution of incomes and wealth. Individuals who are credit excluded from banks or other mainstream financial providers for example face negative consequences when interacting with sub-prime lenders. These have higher charges and are likely to have unstable terms and conditions for their products and services (Barboni et al., 2017). Moreover, people who are not linked to financial institutions' services face difficulties to build saving capacity from their cash flows. When saving habit is not groomed via operating a bank account, the individual's ability to cope with small financial shocks does not exist. Consequently, a prolonged state of poverty and financial hardship is extended to not only an individual but the community at large, hence decelerating initiatives for socio-economic development. Also increased financial illiteracy and poor financial habits may be the cause of financial exclusion. This leads to poor financial planning coupled with underutilization of existing economic opportunities for healthier retirement in their old age (Choudhury and Bagchi, 2016).

4.4 Constraints to reduction of financial exclusion

The constraints in reducing the impacts of financial exclusion among people in developing countries are attributed to several factors. Akinlo & Egbetunde, (2010) reveal instability in income is considered one of the factors accelerating financial exclusion. Existing evidence from developing countries indicates that due to instability in income, most people are unable to afford open bank accounts or rather maintain the use of other financial instruments. In addition, unstable sources of income culminate in being unable to properly plan for their fewer cash flows or benefit from available financial and non-financial products and services (AFI, 2016).

Similarly, saving habit existing within the family positively influences financial exclusion. Existing literature indicates that usually, people inherit prevailing saving habits of various precious assets (especially cash) from their senior elders/members in the family or society. When such a saving culture is deeply rooted among members it becomes a reason that triggers financial exclusion. As such the family and community find no motives to adapt new saving methods through opening bank accounts to enable benefit from other financial services and products. Therefore, lack of financial inclusion in the family makes individuals continually retain such custom of not using banking and nonbanking institutions to facilitate their transactions and other services (Zulfiqar, 2016).

Lack of financial literacy: it is argued that the financial education of an individual influences the usage of financial services. Dupas, et al, (2018) add that with a higher level of education/ financial literacy financial exclusion drops. People with low education are unlikely to get the confidence of interacting in the financial system, hence financially excluded. Therefore, the provision of financial education regarding the importance of financial and non-financial products and services raises awareness to participate in the financial markets. This in turn encourages them to participate and benefit from different financial instruments, thus increasing the financial inclusion level in the community.

Ikhide and Alawode, (2002); Ndanshau & Njau (2021) maintain that the location of an individual or financial institution influences the usage of financial services being offered. Consumers of financial products are in different localities – urban, semi-urban and rural areas. It is obvious that rural dwellers have less financial inclusion compared to urban and semi-urban dwellers. It is also known that opening more branches by financial institutions in rural areas is not profitable from a supply-side perspective. Consequently, this maximizes the rate of financial exclusion upon people living in peripherals compared to urban and semi-urban who are rated high in financial inclusion. Therefore, the existing low level of using financial services influences efforts in place to broaden financial inclusion. It also retards measures to minimize prevailing challenges of financial exclusion for sustained socio-economic development.

4.4.1 Best Practices to Curb Impacts of Financial Exclusion

The presence of individuals and communities that are financially excluded has attracted many practitioners, policymakers, and researchers. These stakeholders have been working jointly to come up with collective strategies to minimize the existing gap between beneficiaries and victims excluded from using financial products and services. An increase in policy interest in recent years has been matched by an upsurge in financial inclusion initiatives, particularly among voluntary sector organizations, in support of the financial services industry Isukul and Dagogo (2018). Although there exist some efforts among developing countries that intend to control the challenges of financial exclusion to unbanked individuals. It is imperative for various stakeholders to consider the implementation of various preventive practices accelerating financial exclusion to the people concerned.

Therefore, the introduction of policies and regulations oriented toward encouraging wider yet inclusive finance by all regulated financial institutions and service providers seems necessary. The institutions such as microfinance and insurance companies, social security institutions, state-owned and private banks, post offices offering financial services, cooperative societies, and community organizations. Effective operationalization of such institutions could aid to reduce the impact and severity of financial exclusion, especially in rural and semi-urban communities. In addition, other strategies required for enhancing broader outreach of financial inclusion are briefly explained below.

4.4.1.1 Existence of innovative financial products and services

Efforts on designing innovative products and services including various micro products, such as microcredit and micro insurance, agent banking, and micro branches could aid to reduce financial exclusion. Llanto, (2015) maintains that insurance companies and mutual benefit associations help to provide micro-insurance and similar products to assist low-income sectors to deal with vulnerability risks and catastrophic events. Also, the use of agency or correspondents can help overcome problems of distance and shortages of branches. These services help promote business correspondents and provide connectivity for financial services in remote and underbanked locations (Demirgüç-Kunt and Klapper, 2012a).

4.4.1.2 Availability of innovative delivery technologies

The introduction of such technologies including electronic money transactions, internet banking, and mobile banking has significant contribution to bridging the distance while saving time in the provision of financial services to rural people. The existence of telephone banking has great potential due to the rapid diffusion of mobile phone ownership to the majority of people in developing countries (Clamara et al., 2014). In Tanzania for example, the presence of mobile phones has positively facilitated access to banking services through payment of bills and credits to and from banking and nonbank financial institutions. On the other hand, FinScope, (2017); Lotto, (2018); Llanto, (2015) underscored that e-money accounts and e-money transactions have grown significantly in the past few years in most developing countries, in which active e-money agents facilitate cash-in/out transactions in urban, semi-urban and rural areas. This has been a necessary vehicle to widen financial inclusion to the majority of the underserved and disadvantaged groups.

4.4.1.3 Enhance credit access through an innovative system

The majority of financially excluded people are neglected from accessing credit services from formal financial institutions. The unbanked poor people lack basic accounting information, bankable collateral, and access to credit information. The existence of a credit innovative system would provide and encourage more information such as credit guarantee systems, rules to expand eligible collateral, and credit databases to ease informational asymmetries and increase banking and nonbanking institutions' willingness to lend. Similarly, the provision of financial education to micro-small and medium entrepreneurs (MSMEs) would encourage them to keep better records and enhance regular repayments after credit provision. Therefore, the presence of an innovative credit system would easily facilitate access to credit and other services for needy individuals while unlocking barriers to financial exclusion (Villarreal, 2017; Kar and Swain, 2013).

5. Conclusion and recommendations

This study focused on reviewing and analyzing various academic articles related to financial inclusion in Tanzania and other developing countries. The current study has contributed to the existing literature distinctly. The contribution revealed has enabled answering research questions such as "what various researchers have done regarding financial inclusion in Tanzania and other developing countries? Also, to what extent had the published academic articles helped in addressing the challenges associated with financial exclusion?" Practically, the analysis in this study concludes that to a minor extent published works have enlightened the existing challenges in the deficiencies of financial exclusion and its impacts on social-economic development in Tanzania. The lack of a clear and explicit policy guiding strategies to widen the scope of financial inclusion needs to be considered collectively among stakeholders. Also, the existing gap between the supply and demand of financial services requires great attention, especially in rural and semi-urban areas due to low population density including challenging infrastructure development. Furthermore, the absence of explicit consumer protection regulation in Tanzania and other developing countries poses a significant challenge to consumers, from aggressive practices of financial service providers.

Following these observations, this paper put forth the following recommendations.

The government should provide a clear guiding policy to enhance financial inclusion efforts. Emphasis needs to be directed to all financial institutions extending financial and non-financial services on various products to underserved individuals and firms. Secondly, the policymakers and financial services providers have to initiate an innovative infrastructure system that would promote the extension of financial services to peripheral areas at affordable operating costs. This will facilitate more outreach of financial products to the majority of unreachable individuals and encourage income-generating activities. Thirdly, there is a need for establishing and operationalizing the consumer protection regulation among financial services providers. In so doing will urge them to ensure customers do not become a victim of their competitiveness in marketing and use of financial products and services. Finally, there is a need of establishing a variety of financial providers, products, and technologies that would be inclusive in accommodating various categories of individuals/firms excluded from the mainstream financial services regardless of geographical location.

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