ABCS OF MSD: I IS FOR… INCLUSION

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I've worked in the development sector – or more accurately, the inclusive finance sector – for more than 30 years, beginning at a time when it was called '*microcredit'* which was based on the belief that if you gave a poor person a loan, they would start a small business and sell their way out of poverty. At some point, *microcredit* shifted to '*microfinance'* when we realised that savings and other financial services were also important to help people manage cash flows, build assets, manage risks and make productive investments. Then *microfinance* became '*financial inclusion'*, recognising the broader range of providers and other stakeholders involved, including those that might not necessarily focus exclusively on serving poor people, such as the traditional banking system and fintechs. Most recently, we have shifted our attention from broadening formal access to improving the power of financial services to drive a more inclusive economy[1] and calling it '*inclusive finance*'.

Which got me thinking about the term 'inclusion'. Cambridge defines it as: "*the act of allowing many different types of people to do something and treating them fairly and equally*." But actually, that is not how we are using the term – rather, from the various definitions I could find and summarised above, financial inclusion focuses on the supply side – the range of providers and other stakeholders – not the demand side – many different types of people. So, it seems to me I may have misunderstood the intent of financial inclusion and that in fact, inclusive finance may not really be all that inclusive!

Which got me thinking about women. One of the three core principles of Making Market Systems Work for the Poor (M4P) is inclusive impact*: improving the lives and livelihoods of poor women and men and other marginalised groups*.[2] Undoubtedly, the largest of these 'marginalised groups' is women (and presumably women represent half or more of other marginalised groups).

When I first began working in 'microcredit', I'd come from the banking sector (private banking no less) but what I was really interested in was *women's empowerment* (as opposed to men's enrichment) so microcredit was a great find for me. Given that we know the majority of the poor are women, and if giving out micro loans can alleviate poverty, then women must clearly be benefiting. So, for about 25 years I just assumed the work I was doing was in line with my desire to support efforts that would 'empower' women. It turns out however, other than the transformational impact of savings groups, for the most part, women remain consistently less 'financially included' than men and, even when they are included, increased access to and use of financial services doesn't always translate to 'women's economic empowerment' (WEE): "… *broader social constraints related to intra-household bargaining power and the social status of women may continue to limit the broader impact of financial inclusion on women's economic empowerment*."[3]

Yet, ensuring the inclusion of women is important because we know women are critical to achieving economic growth and alleviating poverty. As clearly stated by the IMF in 'Pursuing Women's Economic Empowerment' for the 2018 G7 meeting: **"The economic and social imperative for women's economic empowerment is clear.** Greater gender equality boosts economic growth and leads to **better development outcomes**. It contributes to reducing income inequality and boosting economic diversification and, in turn, supports economic resilience."

So back to inclusive finance – the ability to participate in economic markets is often conditioned by the degree of access to the financial system; exclusion from financial services can result in exclusion from

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[1] Amrik Heyer. From financial inclusion to inclusive finance. October 2020, Cenfri. https://cenfri.org/articles/from-financial-inclusion-to-inclusive-finance/

[2] The other two are sustainability and scale. Sustainability: facilitating lasting change in market systems; poor women and men continue to benefit beyond the lifetime of the project intervention; Scale: facilitating wide-spread, transformational change in market systems; large numbers of poor women and men benefit.

[3] Women's Economic Empowerment Through Financial Inclusion | Innovations for Poverty Action (poverty-action.org)

opportunities for productive participation. To date, financial inclusion efforts have sought to deliver direct benefits to financially excluded populations, including women. However, as we shift to inclusive finance, we are looking to financial services to enable the transformation of economies, generate growth and jobs, and to accumulate assets. The mobilisation and allocation of capital is therefore central to the economic development process, and women need to be a part of that.[4]

> "*Women, in particular, often bear the brunt of poverty and limited access to economic opportunity, including unfavourable financial access... Inequality is not just a moral issue — it is a macroeconomic issue... Growth has to be more inclusive, and for this, finance has to be more inclusive...to close the gender and inequality gap*." (Christine Lagarde)

So, if we want financial inclusion to be truly inclusive, where do we start? Well, consistent with the M4P approach, it is essential that we understand the root causes of exclusion. We need to understand how, where, and why women are marginalised in order to understand why they are underserved, and to meaningfully address those constraints to support lasting and productive financial inclusion. Financial services do not reach and empower women equally to men because market actors, including financial service providers, policymakers and others, do not take into account that women have different experiences and capabilities to men and that there are both structural and social constraints specific to women that need to be considered in designing products and delivery models. Financial systems, like most economic systems, are built around the needs and preferences of the majority of users, which has historically been men; this in turn means that products, solutions, and policies which may appear 'gender neutral' are actually 'gender blind' as they do not account for differences between women and men.

To increase women's financial inclusion and empowerment, a systematic effort is required to understand and address social norms (informal rules) that limit women's ability to earn an income, choice of sectors to work in, ownership of assets and overall ability to benefit from the financial sector and economic opportunities in the same way men do. "*There is increasing recognition that changes in the social norms which underpin transactions can both indicate and constitute systemic change, and indeed that these changes can be critical for further systemic change – particularly if women are to benefit from changes in the market."*[5]

So, the first step is to conduct a thorough diagnosis of women's experience, preferences, needs, and capabilities, looking at not just how norms impact women's behaviour and capabilities but also how norms influence all market actors. "*Gender norms are both embedded in institutions and nested in people's minds. They play a role in shaping women's and men's (often unequal) access to resources and freedoms, thus affecting women's and men's voice, agency, and power."*[6]

Then based on this analysis, set a vision of a market system that is truly inclusive (and measurable) and design interventions that proactively include women, including selecting partners that see the value in investing in understanding women and serving them. And along the way, consistently measure how inclusive the financial market system really is. That means measuring not only women's access to and usage of financial services but also WEE. It's not good enough to simply aim to close the gap between women and men's access to financial services. We need to monitor, measure, and adapt our interventions to make sure women are really benefiting.

If we want to ground what we are doing in something beyond building a slightly different financial system to one that is actually addressing development objectives, then we must truly be inclusive. Taking a systems lens to inclusive finance is, then, only partially about finance… applying a systems lens rigorously must inevitably take us into the binding constraints that disadvantage women socially as well as economically – and these lie not so much in any financial service 'system' but rather in those more challenging and sensitive formal and informal 'systems'. The question is, does the inclusive finance sector have the appetite to take 'inclusion' seriously when it means tackling gender norms as a priority over getting lost in the weeds of simply tweaking the design of products?

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[4] Paraphrased from Julie Zollman, unpublished paper for the FSD Network

[5] https://www.enterprise-development.org/wp-content/uploads/DCED-WEEWG-How-to-integrate-gender-into-PSD-programmes.pdf

[6] (Cislaghi and Heise 2019) https://onlinelibrary.wiley.com/doi/epdf/10.1111/1467-9566.13008