



Does Access to Finance Alleviates Poverty: A Systematic Review

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ARTICLE INFO

Keywords: Financial Accessibility, Poverty Reduction, Financial Inclusion, Economic Growth

Received : 13, August

Revised : 16, September

Accepted: 20, October

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ABSTRACT

This paper aims to find out the nexus between financial accessibility or access to finance and poverty employing a systematic literature review approach. Two databases, Web of Science and EBSCO, were considered and 7 papers were shortlisted and reviewed using PRISMA guidelines for this study. The study finds out that there is a positive relationship between financial outreach or accessibility and reduction in poverty. But there is a thin relation between financial accessibility and reduction of poverty in urban areas. There is an empirical but bounded evidence between financial accessibility and welfare of households.

INTRODUCTION

Finance acts as a key accelerator of economic growth especially in developing countries. The promotion of wider access to money and financial inclusion has become a global policy emphasis over the last decade, and it has emerged as one of the top agenda items at international and country-level discussion forums. Poverty reduction is also a top concern for governments and international development organisations, particularly in emerging countries. Many key development institutions, including the World Bank, the International Monetary Fund (IMF), the African Development Bank (AfDB), the Asian Development Bank (ADB), and the Organization for Economic Co-operation and Development (OECD), have devoted significant funding and research to promoting and understanding financial inclusion, as well as finding ways to increase the number of people who have bank accounts. Financial Sector Development, Economic Growth and Poverty have a long-haul equilibrium connection. Financial exclusion (or lack of access to finance) refers to the conditions that hinder poor and disadvantaged social groups from participating in the mainstream financial system. It is generally defined in terms of having access to a basic bank account. (Beck & de la Torre, 2007; Beck et al. 2007). Unbanked generally refers to those who do not have access to formal financial goods and services such as savings and checking accounts. It is estimated that 1.7 billion people worldwide are unbanked¹. 88 percent of them are in Africa, Asia, Latin America, and the Middle East (Chaia et al., 2013; Demirguc-Kunt, et al., 2015; World Bank, 2014). Improvements in the financial sector may have a favourable influence on poverty reduction, asset accumulation, risk management efficiency, and entrepreneurial growth chances, according to evidence from macroeconomic research (Tejerina et al., 2006). Evidence suggests that access to bank accounts can have a significant impact on people's lives. (Beck & Cull, 2014; Demirguc-Kunt et al., 2008; Fitzpatrick, 2015; Triki & Faye, 2013). Furthermore, contrary to popular belief, better access to money for the poor boosts economic growth and reduces poverty (Beck et al., 2008; Beck et al., 2009; Demirgüç-Kunt et al., 2008; Gwalani and Parkhi, 2014; World Bank, 2014). Poverty is more than just a lack of access to financial services; it also refers to a lack of skill, vulnerability, and other factors. reliance and defencelessness (Bhatt & Tang, 2001).

Financial development enhances the ability of the poor to access formal finance by addressing the causes of the financial market failure like information asymmetry and the high fixed cost of small-scale lending (see, among others, Stiglitz 1998; Jalilian and Kirkpatrick 2002). Financial development enables the poor to access financial services such as credit; services, strengthens their productive assets, and and improves their productivity, thereby enabling the poor to achieve a sustainable livelihood. (World Bank 2001; Jalilian and Kirkpatrick 2002). The entry fee for setting foot into the financial system can be borne by the rich as financial products (like credit) are more channelised into incumbents rather than ones who need risk capital (say entrepreneur) (Greenwood and Jevanovic ,1990; Lamoreaux,1986). The association between financial depth and financial access is far from perfect (World Bank,2008).

THEORETICAL REVIEW

Financial deepening plays a pivotal role in minimising poverty in rural areas. The size of financial services defines the financial deepening in a country. Volume of credit which determines the financial depth has a strong inverse relationship with rural poverty and has a huge effect on rural poverty than outreach. There is a trend of interstate migration from rural areas to urban areas in search of employment opportunities in the service or tertiary sector. Geographic sectoral migration and entrepreneurship are the key accelerators towards minimising poverty. The poorer section of the society can pull themselves out of poverty through easy access of finance like credit. This can be done by infusing more money into micro enterprises and human capital. Micro Finance plays a key role in poverty alleviation mainly in the underdeveloped and developing economy which can be proved with how Grameen Bank was successful in Bangladesh. Microfinance was successful even after its higher interest rates due to unavailability of alternative financial products like insurance and mutual funds. Development of new financial products leading to effective mobilisation of savings will accelerate the poverty alleviation goal for developing countries. As different countries have different financial system and culture their ways and means of tackling poverty differs substantially. Culture and societal norms also play a pivotal role in alleviation of poverty. Poverty is mainly a chronic problem in developing and underdeveloped countries and economies. Different countries have different financial inclusion and deepening programmes depending upon its demographic, social, political and economic backgrounds. So, determining the outreach of these programmes towards alleviation of poverty will be a herculean task if we compute on a global or a continental basis. So, this has to be done either state or country wise.

So, the research question would be “How access to finance or financial accessibility leads to alleviation or reduction of poverty?” and to determine the publication trends across time and geography taking into consideration various indicators like country or year. “How various researchers are viewing this nexus between finance and poverty?” is another area which this paper will focus into.

METHODOLOGY

For the purpose of this systematic research, a search strategy was developed to identify relevant literature. This search strategy was tailored to two databases: Web of Science and EBSCO. The search terms used to undertake study were: “Financial Access” or “Finance and “Poverty”. For this review study only journal articles published in English from 2011 to 2021 have been taken into consideration.

The screening criteria was based on PRISMA Statement. (Moher et al;2009). The search mainly concentrated on the mapping existing literature on “Financial Accessibility and Poverty” in the field of Economics, Business, Finance and Management. All articles before 2011 was excluded from search.

Only original research articles were included in this study. In order to maintain the quality of the review all duplications were cross checked thoroughly. Abstract of the shortlisted articles were exported to Excel to conduct purification of relevant ones. In-depth analysis of all the articles were done to ensure the quality and relevance of academic literature. A cautious assessment of each research paper was carried out at a later stage.

In the data extraction phase 56 articles were selected out of which 39 was from Web of Science and 27 from EBSCO.

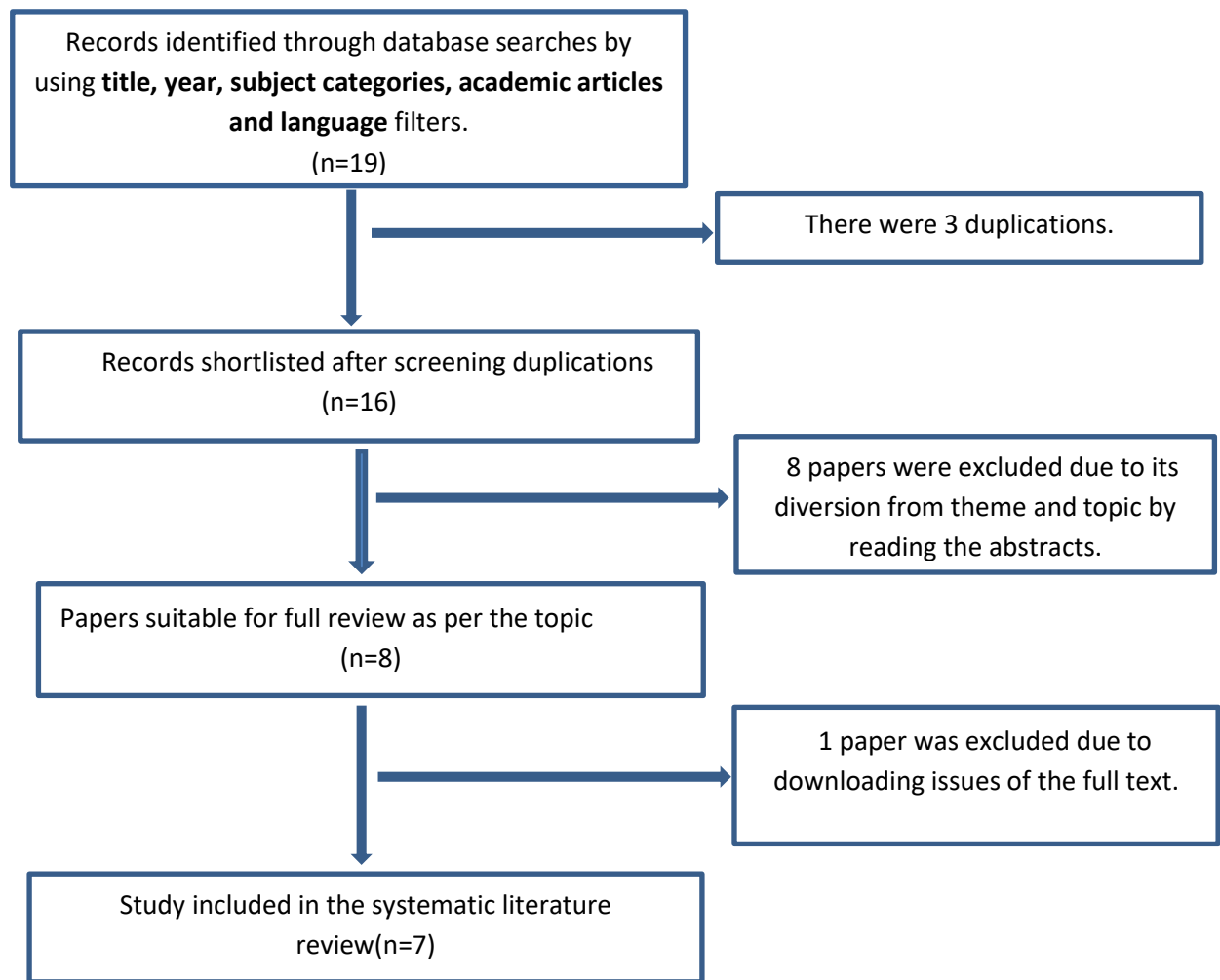


Table No. 1

RESULTS

Out of 56 articles that were identified from the two databases by undertaking "Title " search out of which 39 was from Web of Science and 27 from EBSCO. From Web of Science 15 records were filtered as only studies between 2011 to 2021 were taken into consideration because of time constraints. Further ,4 records were filtered because only Academic Journals were taken into consideration for the review. As the review is related to the domain of social science only articles from the field of Economics, Business, Business Finance and Management were taken into consideration which resulted in the

elimination of 9 articles. From EBSCO database 13 records were filtered due to the criteria of selecting Academic Journals for the study. Further 6 records were filtered due to customised date constraint which was from 2011 to 2021. English was the language criteria for the articles but it did not lead to any elimination because of unavailability of the papers in other languages.

RESULT AND DISCUSSION

Out of the 19 papers screened for review purpose 3 papers were common in both the databases which led to the reduction of paper into 16. One paper could not be fully accessed for the study purpose due to downloading issues but it helped in synthesising because of access to its abstract. So ultimately 15 papers were extracted to write the final Systematic Literature Review as per the PRISMA guidelines. The abstract of these articles was read numerously to identify its linkage with the core theme of the paper after which 8 papers were found to be diverting from the research questions and objectives. Out of these 8 papers 3 papers were related to Islamic Banking which was eliminated because of its narrow scale and effect in the global financial system. Commercial Banks outplay these banks in terms of deposits, credit as well as market capitalisation. 1 paper was eliminated as its objective was to derive the link between government fiscal policy and poverty but the aim of this paper is to find the nexus between access of finance and poverty. Objective to find the linkage between macroeconomic indicators (say GDP), economic development and economic growth led to exclusion of 1 more paper. 2 papers were excluded because of its aim to determine the correlation between education and poverty. The role of International Finance Corporation towards investment in education sector and its nexus with World Bank lending arms with only minute relation with poverty led to exclusion of 1 paper.

Increased financial deepening in the developing markets does not guarantee in accelerated usage of financial services. Deepening finance through availability of financial services enhances economic growth leading towards equality in income. Between 1983-1985 financial deepening has played a significant role than financial outreach in reducing rural poverty. Service Sector is the main employment provider because of its easy access of bank credit leading to major upliftment in the income of the lower strata of the population. Urban poverty rate is not majorly impacted by financial deepening unlike rural areas. If financial services are efficiently provided to the people (not only the poor) by the financial system it will benefit the poor and as a result they will be the part of formal labour market leading to significant alleviation of poverty. But the main constraint towards financial accessibility is the geographical proximity to branches of the banks, documentation, property papers and mainly the dearth of assets which acts as a collateral to get credit. Micro finance or group based micro credit which is a non-collateral loan at higher interest rates emerged as a key financial product for the poor to alleviate poverty due to non-accessibility of alternative products like insurance, formal loans, etc. Development and upgradation of financial institutions, intermediaries, assets and services will lead to financial inclusion of the unserved enhancing their

capabilities to save and invest more ultimately reducing poverty. Deficiency of finance (eg. Credit) conduces individuals, households and small rural entities rely on personal treasury or other unorganised credit resources plunging them into poverty. Financial accessibility leads to financial literacy through outreach programmes which in turn leads to inculcating entrepreneurship culture which can accelerate inclusive rural and urban transformation inducing alleviation of poverty. Some researchers were of the view that consequence of financial accessibility is towering at towering level of wealth and lower at the bottom of the wealth which proves that inefficient financial system, assets and products leads to inequality and poverty. There is little information on households who are culturally bounded to voluntarily ignore various financial services and its relation to effect on access to finance. Financial accessibility leads to quality standard of living, quality life, enhanced confidence, risk taking abilities and diversification of living plans which ultimately increases the income. Allocation of funds (say credit) if done keeping in mind political benefits and aspirations backfires and does not produce desired output of economic growth leading to poverty reduction.

CONCLUSIONS

It can be clearly said that better and efficient financial systems, regulators, intermediaries financial products and services will enhance economic growth ultimately reducing poverty. Greater emphasis should be placed on financial deepening, specifically the delivery of financial services like credit, as it serves as a catalyst for poverty alleviation. Financial Accessibility has a budding optimistic welfare for the poor. Poverty as a problem is prevalent in poorer and emerging countries, Different countries or economies have different political and economic setup which leads to financial products and services becoming successful in one country and failure in another. Therefore, country wise study on effect of these products and services towards people should be conducted. In the area of finance and poverty mainly cross-sectional survey is done for research purposes so there is a problem of households transcending from being financially excluded to included which leads to dearth in latest data on most variables as the field will be new.

FURTHER STUDY

Different alternate sources of finance are being developed so to what extent these products and services aid in poverty reduction can be future research topics in this area as with passage of time more data will be available.

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