



Journal of Economics Education and Entrepreneurship

Vol. 3, No. 2, October 2022, pp. 123-139
<https://ppjp.ulm.ac.id/journals/index.php/jee/article/view/5173>
ISSN: 2746-5438 (Print) | 2745-729X (Online)



Financial Inclusion: Cost and Implications in Developing Countries: A Review of the Existing Literature

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Article Info

Keywords:

Access to finance
financial exclusion
borrowing cost
socioeconomic development

ABSTRACT

This article discusses about research reviews of financial inclusion comprehensively in terms of its nature, basic reasons behind financial exclusion, costs and implication of financial exclusion in developing country like Tanzania. The main objective of this study was to review and analyze various published articles related to financial inclusion in developing countries. The study specifically analyzed the extent to which the existing published academic articles have addressed the challenges associated with financial exclusion. Although substantial progress has been made, there is still much to achieve since FinScope survey Tanzania 2017 reports only 16.7% of adult population in Tanzania access to formal banking services. The same report maintains about 28% of adult Tanzanian are completely excluded from accessing financial services. Based on a content analysis, this study analyzed academic articles from demand side, supply side, regulatory and infrastructure and societal barriers. It is found that most developing countries and Tanzania in particular, are still faced by the mentioned challenges to effective financial inclusion. Lack of a clear and explicit policy on strategies toward inclusive finance and absence of explicit consumer protection regulation in Tanzania and other developing countries is yet another challenge. This study therefore suggests that, firstly, government and other stakeholders to establish guiding policy to enhancing financial inclusion efforts. Secondly, Policy makers and financial services providers need to initiate innovative infrastructure systems to enhance extension of financial services to rural areas at affordable operating costs. Thirdly, there is need for establishing and operationalizing consumer protection regulation among financial services providers. Finally, to encourage variety of financial providers, products and technologies to widen individuals and firms access to finance

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Received 07 June 2022; Accepted 26 September 2022; Published 5 Oct 2022

How to cite: Ngonyani, D. (2022). Financial Inclusion: Cost and Implications in Developing Countries: A Review of the Existing Literature. *Journal of Economics Education and Entrepreneurship*, 3(2), 123-139. <https://doi.org/10.20527/jee.v3i2.5173>

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-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 have little access to both formal and semi-formal financial services. Consequently, majority are obliged to rely on self-financing including informal sources of finance available unreliably and at significant high cost. The existing unequitable and poor access of inclusive finance is worse among least developed countries which records more than 70 percent being excluded from the realm of the services of banking and non-banking financial institutions (Kumar, 2017).

The growth of economy in any country is dependent among others prevalent of vibrant and effective financial services that are inclusive in the society. Existence of monetary policy that encourages inclusive finance contributes to poverty reduction and growth of various sectors in the economy. Tanzania being among developing countries need to further invest and strengthen efforts of ensuring wide range of financial services made available to majority of low-income individuals. Currently, evidence from Choudhury and Bagchi (2016); Isukul et al, (2019) indicates poor people are the most disadvantaged category from accessing and use of financial services. As such, without effective strategies of 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 growth of the economy (Ahmed, 2014).

There have been noticeable evidences of improved access of financial services among people in Tanzania and other developing countries. AFI, (2016); NFIF, (2017) points out that provision of credit, insurance and financial advisory services to individuals and firms have recently been increasing. Existence of new technology has enabled mobile money transfers, savings and varied payment transactions to enhance growth of businesses. However, 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 to have more efforts of involving various stakeholders encourage financial service providers, to widen and deepen outreach of their services to majority of population financially excluded (Lotto, 2018; Demirgüç-Kunt and Klapper, 2013).

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

The deepening and intermediation of financial sector in Tanzania has been growing gradually to reaching individuals interested in accessing financial services. The slow growing demand in up taking financial services to people retards initiative towards broader efforts of ensuring services reaches both center and peripheral dwellers (Demirguc-Kunt and Klapper, 2012). FinScope (2017), has reported low level of growth of financial inclusion in Tanzania. This report reveals only 16.7 percent of individuals engaged with the services of 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 about 28% of adult Tanzanian are completely excluded from accessing financial services. Existence of such escalating figure has raised concern which calls for necessary strategies of encouraging individuals access and use financial services.

Sinclair, (2001); Oshora, et al (2021) added that if majority of productive age are financially excluded from using financial services, it may result to considerable negative impact to the growth of the economy. In addition, Were, et al, (2021) pointed out 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 output of the economy. Turvey, (2017) noted when people avoid using formal financial institutions it indicates there is more saving into 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 toward efforts to promoting financial inclusion. It is also argued that most banking institutions exhibit some conditions including presence of minimum account and loan balances, account fees including presence of difficult documentation requirements to 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 results to relying into informal financial service providers including self-financing which bears higher costs and unreliable. This challenge has been prevailing across many developing countries including Tanzania. On the other hand, Atkinson and Messy (2013) adds that quality of services have significant contribution towards customer satisfaction, because it is affected by various factors such as human interaction, physical environment, value, price, performance etc.

The need for developing 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 to most developing countries. Tanzania has recognized the role of inclusive finance in empowering individuals economically and socially, by embracing various regulations and policies encouraging proliferations of financial sector in the country. Existence of National Microfinance Policy (2000) and (2017) respectively, and National Financial Inclusion Framework, (2014) among others have contributed to the growth and outreach of financial sector in Tanzania. There has been an increase demand in using non-bank financial institutions such as microfinance services, insurance, and social security institutions in Tanzania. The growth of microfinance for example is attributed by its existence in semi-urban and some peripheral areas with easy access of credit services contrary to spreading of banking services.

The growth and operation of microfinance institutions being mostly accessible among non-banking institutions can be considered in two perspectives. Firstly, Social mission perspective that focuses on poverty reduction and secondly, economic mission which insist on sustainable and market oriented financial services (Zerai & Rani, 2012; Makina & Malobola, 2004). The two observations of microfinance missions coincide with a common focus for enhancing financial inclusion by providing microcredit and saving services to the needy individuals. Similarly, to ensure that such micro financial services are offered in a sustainable manner. The social mission strategy of microfinance institutions spearheads on poverty reduction to their clients. It is argued that in order to reach most individuals with financial

services, an emphasis should be to extend such facilities to needy clients at reduced cost rates (Robinson, 2001).

The proponents of social mission perspective are in view that since majority who are excluded from financial sector are deprived people. Thus, if the cost of funds directed to them is charged at very high interest rates, efforts toward reaching individuals excluded from financial services cannot be attained (Hartarska & Nadolnyak, 2007). Microfinance Institutions should underscore financial inclusion to ensure disadvantaged individuals access financial services, through small and medium investment projects for raising their standard of living and country's economy as well. Ayyagari *et al.* (2012) and Peer *et al.* (2013) added that there has been a financing gap to majority of low-income earners. Inaccessibility of financial services particularly credit services from commercial banks has deepened poverty levels of many rural and urban communities. Micro-small and medium entrepreneurs (MSMEs) have failed to actively use financial products in improving their business ventures and enhance economic development.

On the other hand, economic mission of microfinance institutions service providers emphasize financial sustainability of microfinance operations. It is argued that in order to efficiently deliver financial services for reaching all individuals in society while remaining sustainable, it is necessary to extend such services at market rate to enable recover transaction costs involved. Furthermore, the Institutionalists charge high interest rates on services such as credit facilities to enable increase revenue generation for expanding microfinance services to majority of needy households (Schriener (2000). In addition, Kinde (2012) posits that without effective financial intermediation to majority of masses, an alarming poverty among communities would not be reduced hence economic empowerment is unlikely to be achieved. Thus, if financial services are not market rated, it would result to cease their operations and widening gap of financial exclusion to most poor households (Nyamsogoro, 2010; Tucker & Miles, 2004). An emphasis on financial inclusion has to be well balanced with costs associated to enable outreach of financial services for poverty reduction and sustainable economic development in the society Marwa and Aziakpono (2015).

Beck, (2006); Beck, & Demirguc-Kunt, (2006) presents the problem of financial exclusion is prone to the poor than the non-poor individuals. While most of low-income individuals are detached from 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. On the other hand, most financial institutions explain high interest rates charged to their clients for several arguments – including high risk of microcredit, high fixed costs associated with small loans, financial institutions' operating expenses and need for profits to enhance sustainability than depending on donors Isukul and Tantua, (2021). In so doing, poverty penalty is 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 strong financial sustainability of banking and non-banking financial institutions for enhanced outreach of services. However, it is noted that most deprived people fail to benefit from available financial services and remains excluded. Thus, in order to invite majority of low-income people into up taking various financial products, it is necessary for financial institutions to design products and services that meets 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 affordable way to individuals excluded from financial service. Therefore, it is imperative that concerted efforts are devised to address the barriers hindering

widespread supply and uptake of formal financial services to most developing countries. This will contribute to reduction of poverty as majority would have capital for initiating business and entrepreneurship projects to improve their incomes and growth of country's economy for sustainable development (Beck, et al, 2007).

Inclusive finance facilitates socioeconomic development and reduction of poverty among individuals and country at large. It also guides to enhance effectiveness of monetary policy transmission and stabilizes 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 of 2020 - 2025. The need for financial services especially to the poor and underserved cannot be over emphasized, since they are highly unreached by formal financial institutions. As a result, they are unable to capitalize their meager resources towards 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 with a view 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). Existence, availability and measurement of financial inclusion has been an issue of concern to most academicians, policy makers and interested parties. However, agreeable measurement for financial inclusion involves the percentage of adults with 15 years old and above, 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; FII, 2017).

On the other hand, financial exclusion refers to 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 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 - 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 commencement of financial sector reforms in the early 1990s. 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 existence of vibrant Micro, Small and Medium Enterprises (MSMEs) are 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 towards enhancing effective financial inclusion is obviously very significant. Presence of a well-functioning financial sector will ensure

financial products offered are linked to 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 relationship between financial inclusion and economic growth having impacts to individuals and the country respectively. The existing positive influence indicates there is 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 to all people, that would likely fasten socioeconomic development by encouraging wider business investment opportunities. In addition, when individuals are involved with basic financial transactions, they increase households' abilities to accommodate themselves from variety of challenges and enhance consumer confidence. More importantly, financial inclusion widen access to financial services and distribute economic opportunities particularly among poorer households and businesses. (Ahmed, 2014).

Moreover, Gutierrez-Nieto, et al, (2016) found that among the factors influencing financial inclusion were high-quality institutions, efficient legal rules, strong contract enforcement and political stability contributes more to financial inclusion. Presence of these characteristics guide positively to influence individuals engage in using financial services. On the other hand, studies identified some other parameters which induce challenges into up taking and use of financial products and services, including high costs of opening and using bank accounts, high distance to reach financial institution 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 society strongly and positively influence financial inclusion. It is argued that there is 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 they have variety of products, offered in sustainable manner and usually charges 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, (2016) 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 catalyst to enhancing various businesses leading into economic development. Existence and outreach of financial services to majority of needy individuals helps widen operations in financial system through developing saving culture among rural population. According to Beck, (2006) when low-income groups are brought nearly within the perimeter of formal financial institutions such as banking sector. It guarantees them get protected of their financial wealth and other resources from underutilization and mismanagement. Furthermore, financial inclusion helps individuals to easy access of variety of credit products related to their needs and requirements. This helps mitigate the exploitation by various money lenders whose credits are more of burden to low-income individuals.

2. METHOD

This study focuses on reviewing and analyzing various studies related to financial inclusion in developing countries. It intends to further shed lights on the extent to which existing academic articles addressing issues of financial inclusion have contributed. In the current study, an

author-driven review approach was employed. This implies that 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 policy makers in most developing countries. As such the approach guided researcher to derive expected meaning of the concepts via researcher's original theme (idea).

In this process, the researcher reexamined on 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 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, editor prefaces including conference proceedings were not included in analysis since were considered having limited contributions to the available existing knowledge. Moreover, references cited in the published articles were traced to evaluate their relevance in the study. The initial search contributed to 79 articles, but after reading all the articles twice. Finally, the searching ended up with 27 relevant articles in this study were 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.

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 analyzing 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 guide to action. 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 pattern, themes, biases and meanings. As such this technique helps identify available meaning in the text while maintaining a qualitative textual approach (Elo & Kynga, 2007). The use of this approach when it is carefully undertaken, it offers replication of outcomes (Durian, Reger & Pfarrer, 2007), also this method is analytically flexible (Duriau, Reger & Pfarrer, 2007). In addition, this technique can be applied for inductive and deductive research (Elo & Kynga, 2007) including ability to allow varied analysis to be executed by using qualitative or quantitative methods (Duriau, Reger & Pfarrer, 2007)

3. RESULTS AND DISCUSSION

3.1. 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) maintains that availability of affordable financial services to people have positive influence to their living standard. Traditional banks and other formal financial institutions facilitate transactions that helps underserved to smoothen consumptions and build their financial base. Unfortunately, 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 for the purpose of enhancing their livelihood. Existing increasing rate of individuals that are being financially excluded has worried various stakeholders in developing countries. Krumer-Nevo, et al, (2016) indicates outreach of financial

services is limited to urban dwellers, but even within the urban area majority are unable to access such services due to various reasons. On the other hand, situation is worse to individuals living in suburban and rural areas. Development of financial sector has not been inclusive to enable them enjoy the services effectively. The widening gap between individuals using financial services and those excluded, has been an issue of concern among policy makers, practitioners and other stakeholders in developing countries. In developing countries for instance, the traditional banking business tend 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 supply and demand of financial services to 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 provision of financial literacy to enable underserved communities engage with banking services. In addition, traditional banking system tend 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 finds themselves excluded from the realm of accessing financial services (Allen, et al, 2014).

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

3.2. Barriers of Financial Inclusion to Women

Existing research globally reveals that women have lowly been accessing formal financial services compared to men. 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 dealing 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 existing diverse needs of consumers. Also presence of gender gap in financial inclusion indicates that mainstreaming gender is hardly enough to build inequalities among women's financial inclusion (UNCDF, 2017).

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

The demand side factors as drawback to financial inclusion encompasses limited financial capability of individuals, financial illiteracy (limited knowledge of existing financial products), lack of assets for collateral, remoteness to available financial institution, inability to ownership of mobile phones and lack of trust. It is argued that lack of trust is substantial challenge to countries which 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 public's confidence to using various financial products (Kempson, et al, 2004). Moreover, Triki and Faye, (2013) revealed majority of women are engaged with informal sector for over 90 percent making them unqualified to formal credit services from formal financial institutions. In addition, most of them do not have ownership titles to enable them access, use and benefit from various financial products and services.

On the other hand, the supply side drivers as 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. Presence of such factors are considered to pose 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 wide spread access of financial services to the needy population.

Similarly, Allen, et al, (2014) identified existing regulatory and infrastructure to be among 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 regulatory factors impinging financial access involves posing stringent requirements to opening branches in rural areas. Moreover, presence of capital adequacy and supervisory rules that limits introducing 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, (2013) explained societal factors as constraints to financial inclusion involves discrimination against women regarding access to financial services. It has been pointed out that most women in developing countries face legal restrictions in their ability to head households, work and receive inheritance including 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 to low consideration of women 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 for them. Consequently, rural women business owners fail to benefit from existing financial services hence increasing rates of financial exclusion. On the other hand, there are some individuals who decides 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.

3.3. Costs and Implication of Financial Exclusion

It is obvious that effective utilization of financial services play significant role in people's lives. Majority depends on bank services such as bank accounts to facilitate payment of various bills, receiving salaries, running their businesses. In addition, financial institutions services such as

mortgages, insurance and pensions have been helpful to users to purchase homes, retirement saving and protect from various risks (NFIF, 2017). However, there are individuals lacking access to financial products and services from banking and nonbanking 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 account. Financial exclusion therefore add costs on various services to individuals for being vulnerable into illegal and/or high lending cost 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 cost on individual or company in terms of missing available opportunities to excel without access to finance or credit. Secondly, at community or national perspective, financial exclusion pulls in combined loss of output or welfare in which the society or country likely not to realize its full growth potential. On the other hand, further observable consequences of financial exclusion includes cost and security related issues in managing cash flow and defrayments, compromised living standard 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 affordable and wide range services (Anderloni, et al, 2008). In developing countries, individuals most likely to be unleashing from not using financial services include 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.

3.4. Financial exclusion and its dimensions

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

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

Secondly, Social consequences dimension of financial exclusion include absence or reduced links that accelerate individuals feeling of togetherness in the society. Being financially excluded creates a sense of being disjoined with other individuals or members in group who realizes some privileges in using banking and nonbanking services. Bayot, (undated) reveals that lacking access to effective use of financial products may lead to self-isolation and depravation from social connection and relationship with friends and family. On the other hand, surviving without engaging with formal savings can be problematic in two observations. That people who save via informal means hardly benefits from rate of interest and tax advantages

compared to ones saving in formal 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, 2016).

Finally, Socio-economic consequences dimension of financial exclusion. This has wider implication 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 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 likely to have unstable terms and conditions of their products and services (Barboni1, at el, 2017). Moreover, it is evident that 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, individual's ability to coping with small financial shocks does not exist. Consequently, a prolonged state of poverty and financial hardship is extended to not only an individual but community at large, hence decelerating initiatives to 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).

3.5. Constraints to Reduction of Financial Exclusion

The constraints in reducing impacts of financial exclusion among people in developing countries are attributed by several factors. Akinlo & Egbetunde, (2010) reveals 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 account or rather maintain the use of other financial instruments. In addition, unstable sources of income culminates into being unable to properly plan for their fewer cash flows or benefiting from available financial and nonfinancial 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 habit of various precious assets (especially cash) from their senior elders/members in the family or society. When such saving culture is deep rooted among members it becomes a reason that triggers financial exclusion. As such the family and community finds 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 financial education of an individual influence usage of financial services. Pascaline Dupas, at el, (2018) adds that with higher level of education/ financial literacy financial exclusion drops. People with low education are unlikely to get confidence of interacting in the financial system, hence financially excluded. Therefore, provision of financial education regarding 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 increase financial inclusion level in the community.

Ikhide, & Alawode, (2002); Ndanshau & Njau, (2021) maintains that location of an individual or financial institution influences usage of financial services being offered. Consumers of financial products are in different locality – 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 fact that opening more branches by financial institutions in rural areas is not profitable from supply –side perspective. Consequently, this maximizes rate of financial exclusion upon people living in peripherals compared to urban and semi urban who are rated high in financial inclusion. Therefore, 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.

3.6. Best Practices to Curb Impacts of Financial Exclusion

Presence of individuals and communities that are financially excluded has attracted many practitioners, policy makers and researchers. These stakeholders have been working jointly to come up with collective strategies to minimize existing gap between beneficiaries and victims excluded from using financial products and services. 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, & Dagogo, (2018). Although there exist some efforts among developing countries which intends to control the challenges of financial exclusion to unbanked individuals. It is imperative for various stakeholders consider implementation of various preventive practices accelerating financial exclusion to the people concerned.

Therefore, introduction of policies and regulations oriented toward encouraging wider yet inclusive finance by all regulated financial institutions 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.

3.7. Existence of Innovative financial products and services

Efforts on designing innovative products and services including various microproducts, such microcredit and micro insurance, agent banking, and micro branches could aid to reduce financial exclusion. Llanto, (2015) maintain that insurance companies and mutual benefit associations helps to provide micro insurance and similar products to assist low-income sectors 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 promoting business correspondents and provide connectivity for financial services in remote and under banked locations (Demirgüç-Kunt, et al, 2012).

3.8. Availability of Innovative Delivery Technologies

Introduction of such technologies including electronic money transactions, internet banking and mobile banking has significant contribution in bridging the distance while saving time in provision of financial services to rural people. Existence of telephone banking has great potential due to rapid diffusion of mobile phone ownership to majority of people in developing countries (Clamara, 2014). In Tanzania for example, presence of mobile phones have 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 to 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 majority of the underserved and disadvantaged groups.

3.9. Enhance Credit Access through Innovative System

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. Existence of credit innovative system would provide and encourage more information such as credit guarantee systems, rules to expand eligible collateral and credit data base in order to ease informational asymmetries and increase banking and nonbanking institutions willingness to lending. Similarly, provision of financial education to micro-small and medium entrepreneurs (MSMEs) would encourage them keep better records and enhance regular repayments after credit provision. Therefore, presence of innovative credit system would easily facilitate access to credit and other services to the needy individuals while unlocking barriers from financial exclusion (Villarreal, (2017); (Kumar Kara & Bali Swain, 2013).

4. CONCLUSION

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 question such as “what various researcher 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 on the existing challenges in the deficiencies of financial exclusion and its impacts in social-economic development in Tanzania.

Lack of a clear and explicit policy guiding on strategies to widening scope of financial inclusion need to be considered collectively among stakeholders. Also, existing gap between 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, absence of explicit consumer protection regulation in Tanzania and other developing countries pose 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 clear guiding policy to enhancing financial inclusion efforts. Emphasis need to be directed to all financial institutions extending financial and non-financial services on various products to underserved individuals and firms. Secondly, the policy makers and financial services providers have to initiate innovative infrastructure system that would promote extension of financial services to peripheral areas at affordable operating costs.

This will facilitate more outreach of financial products to majority of unreachable individuals and encourage income generating activities. Thirdly, there is need for establishing and operationalizing the consumer protection regulation among financial services providers. In so doing will urge them ensure customers do not become victim of their competitiveness to marketing and use of financial products and services. Finally, there is need of establishing

variety of financial providers, products and technologies that would be inclusive in accommodating various categories of individuals/firms excluded from the main stream financial services regardless of geographical location.

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