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Abstract

This paper presents a discussion about financial inclusion washing. It was argued that financial inclusion washing is the deliberate or unintentional use of exaggerated claims or misleading claims to describe an entity's commitment to increase the level of financial inclusion. The paper showed that many entities are at risk of practicing financial inclusion washing such as international development organizations, aid organizations, government agencies, central banks, financial institutions, financial inclusion support groups and associations, among others. The paper also highlighted the manifestations, motivations and consequences of financial inclusion washing. The paper further identified ways through which entities can avoid financial inclusion washing. Financial inclusion washing has not been considered to be a crime although it should be.

Keywords: Financial inclusion washing, financial inclusion, formal accounts, banked adults, access to finance.

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1. Introduction

In this paper, I discuss financial inclusion washing. Financial inclusion is the provision of basic formal financial services to all members of society. Financial inclusion involves bringing unbanked adults into the formal financial sector so that they can have access to formal financial services which they can use to improve their welfare (Ozili, 2021a; Chen and Yuan, 2021). Financial inclusion ensures that everyone has access to financial services. Once access to formal financial services is granted and guaranteed, banked adults will be able to use available formal financial services, such as loans, deposits and savings products, to improve their welfare.

Although many scholars agree that financial inclusion plays an important role in improving welfare in society (Allen et al, 2016; Ozili, 2020; Arun and Kamath, 2015; Markose et al, 2022), some scholars have raised concerns about the way agents of financial inclusion carryout their financial inclusion activities (see, for example, Mader, 2018; Ozili, 2021b; Lopez and Winkler, 2018; Ozili, 2022). Scholars point out that agents of financial inclusion charge high transaction costs that discourage poor people from joining and remaining in the formal financial sector. Other scholars argue that agents of financial inclusion are seeking to make profit off poor people, which is exploitative in nature. Some scholars have also raised concerns that agents of financial inclusion are achieving financial inclusion through the financialisation of poverty (Mader, 2018). A more important concern, which is the focus of this paper, is that the agents of financial inclusion may misrepresent their support for financial inclusion or mislead people into believing that they are promoting financial inclusion when they are not doing so.

The above concerns show that, although financial inclusion is a fairly reasonable idea from a development and welfare perspective, it can have negative consequences when it is administered wrongly. This paper looks into the concept of financial inclusion washing. Financial inclusion washing is a new concept in the financial inclusion debate. Understanding financial inclusion washing is important because it can help us to hold agents of financial inclusion accountable to deliver the financial inclusion promise they have made, and to ensure that people are not misled into believing bogus claims about an entity's effort to increase the level of financial inclusion.

This study contributes to the literature in the following ways. First, the study contributes to the financial inclusion literature by offering ways to mitigate financial inclusion washing. Second, this study contributes to existing studies that examine the efforts made by agents of financial inclusion in promoting financial inclusion. It contributes to this literature by scrutinizing the commitment of agents of financial inclusion toward promoting financial inclusion to determine if the commitments are real or bogus. Finally, this study contributes to the literature that criticize some aspects of the financial inclusion agenda.

The rest of the paper is organized as follows. Section 2 presents the literature review. Section 3 presents a discussion of financial inclusion washing. Section 4 describes how financial inclusion washing hurts entities and users of financial services. Section 5 suggests ways to change the narrative about financial inclusion washing. Section 6 presents the conclusion.

2. Literature review

A growing body of literature has identified some determinants, benefits, issues and challenges of advancing financial inclusion. However, mainstream scholarship has not focused on the issue of financial inclusion washing.

Regarding the benefits of financial inclusion, Adams (2018) showed that financial inclusion is important and it offers reciprocal benefits because (i) individuals are looking for more convenient and secure ways to accumulate, hold, and transfer value, (ii) entrepreneurs and SME owners have innovative ideas and considerable energy but need services, markets, and capital to thrive, (iii) banks are looking to grow and serve future markets, which are larger and more inclusive, (iv) governments benefit when all citizens are connected, the velocity of money and economic activity is increased, and transmission mechanisms efficiently execute monetary policy. Ozili (2021) showed that the determinants of financial inclusion are the level of financial innovation, poverty levels, the stability of the financial sector, the state of the economy, financial literacy, and regulatory frameworks. Demirgüç-Kunt and Singer (2017) showed that financial inclusion also benefits society because it allows payments to shift from cash into accounts which allows for more efficient and more transparent payments from governments or businesses to individuals – and from individuals to government or businesses. They also argued that financial inclusion can help reduce poverty and inequality by helping people invest in the future, smooth their consumption, and manage financial risks. Khera et al (2021) argued that digital financial services that are enabled by Fintech is an important determinant of financial inclusion in emerging markets and developing countries because Fintech supply is “filling the gap” left by

traditional financial institutions, and Fintech demand (usage) is higher where individuals have higher financial awareness and trust in the formal financial system. They further argued that there is scope for Fintech to increase financial inclusion through supply-focused policies such as promoting an enabling environment for innovation and competition in the financial sector, in countries where there are gaps in access to traditional financial institutions. They also pointed out that promoting supply of digital financial services is in itself not sufficient to advance financial inclusion, as the gains will be limited unless accompanied by demand-inducing policies. Mester (2020) showed that many countries have set financial inclusion as a formal target, and they do so because a well-functioning financial system and higher levels of financial inclusion can lead to positive long-run macroeconomic output and productivity growth; meanwhile, at the micro level, access to savings and credit via financial intermediaries connects households and businesses to economic opportunities that would not be available otherwise. Mester (2020) also showed that access to finance can expand economic opportunities for those at the bottom of the income distribution chain because access to credit allows access to education which can have profound effects on an individual's economic well-being, and it also allows households to build wealth through homeownership, which remains the most significant asset on many U.S. families' balance sheets. Menon (2019) argued that financial inclusion is a socio-economic concept, and it helps people have security for future life through access to education and health care which leads to a better standard of living. Menon (2019) argued that in India the barriers to financial inclusion are predominantly caused by voluntary exclusion, and though policies can help to reach excluded people but the ultimate goal of financial inclusion could be achieved through

improving awareness and financial literacy in India. Barajas et al (2020) argued that financial inclusion can ease financial constraints for potentially productive firms, and it improves the ability to manage risk and smooth consumption for households. They argued that much good can come from advances in financial inclusion, and there are some areas in which policy can act effectively to bring this about. Ozili (2018) showed the many benefits of financial inclusion which includes: (i) the possibility to save for the future which fosters stability in personal finance; (ii) financial inclusion can lead to large volume of bank deposits which contributes to securing a more stable deposit base for banks during distressed times; and financial inclusion increases the ability to handle income shocks over unforeseen emergencies such as illness or loss of employment. Similarly, Ahmad et al. (2020) argued that financial inclusion enables individuals and households to save small sums of money which contributes to more effective consumption-smoothing and it helps savers to build up a safety net to help pay for unexpected exigencies. Vo and Nguyen (2021) found that financial inclusion provides a positive and significant contribution to bank performance in the Asian region.

Regarding the issues and challenges of financial inclusion, Damodaran (2013) showed that there are many challenges to financial inclusion such as the lack of financial literacy, rising poverty, lack of awareness, lack of digital infrastructure. Damodaran (2013) argued that these challenges lead to low standard of living, higher cost of living, and increased exposure to exploitative lenders in the informal sector. Aziz and Naima (2021) showed that the progress made toward financial inclusion has been slow due to lack of basic internet connectivity, lack of financial literacy and lack of social awareness. They also showed that rural people have low levels of digital financial inclusion due to digital exclusion and social exclusion.

Johan (2022) showed that several issues make financial inclusion challenging in Indonesia such as the COVID pandemic which adversely affected people's income and made achieving financial inclusion even harder. Also, the increased presence of unlicensed local money lenders is a problem affecting the level of financial inclusion in Indonesia (Johan, 2022). Chotelal et al (2022) showed that although financial inclusion presents many opportunities in Suriname, it presents significant challenges that can be overcome through regulatory reform. The challenges are (i) the high use of cash transactions in rural areas and the low usage of digital payments in the city, (ii) the absence of a legal framework that establish the rules for Fintech companies operating in the financial sector, (iii) the poor investment in telecommunications and energy infrastructure, and (iv) the high financial illiteracy. Prabhakar (2021) showed that the challenges facing financial inclusion in the United Kingdom include (i) the cost-of-living pressures that increase pressure on household budgets, and the need to introduce regulation that encourage organisations to treat vulnerable consumers fairly and support vulnerable consumers to enhance their knowledge, skills and confidence to make financial decisions. Wang and Shihadeh (2015) showed that the obstacles to financial inclusion are the lack of political and economic stability which lead to the reluctance of individuals and institutions to borrow or utilize formal funding sources. It also leads individuals to opt for government jobs instead of setting up their own business to become financially independent. Sun and Siagian (2015) found that micro enterprises in Indonesia, instead of using credit facility, still utilise their own capital to facilitate their businesses. There is also the problem of self-exclusion and marketing exclusion which are the most significant barriers that micro enterprises face in accessing financial services in Indonesia. Meanwhile, Raju

et al (2021) showed that the biggest challenge for financial inclusion in India is the misuse of money, corruption, lack of accountability, the poor political system and a large population living below the poverty line. Pathrose et al (2015) showed that the factors affecting the use of financial services by customers in India are: lack of enough money to save; lack of financial literacy; non-availability of local sources of credit and savings; lack of attractiveness of financial assets compared to other assets like land and gold; the far distance to banks; the cumbersome loan documentation process in banks; and the lack of trust in new banking channels such as banking correspondents and information technology-based applications.

3. Understanding financial inclusion washing

3.1. Definition

Financial inclusion washing occurs when an entity conveys information that exaggerates the entity's commitment to increase the level of financial inclusion. The entity may misrepresent its support for financial inclusion or convey misleading information about its efforts to increase the level of financial inclusion. Financial inclusion washing can also occur when an entity engages in activities that are designed to make people believe that the entity is doing more to promote financial inclusion than it really is. Financial inclusion washing can also be defined as any unsubstantiated or exaggerated claim to deceive people into believing that an entity's goal, product, service, strategy, program, activity or policy is aimed at increasing the level of financial inclusion when in fact it does very little, or does nothing, to improve or increase the level of financial inclusion.

3.2. Entities at risk of practicing financial inclusion washing

i. International development organizations

International development organizations, in this context, are organizations that seek to promote financial inclusion in many countries especially in countries that have a large unbanked population. Examples of international development organizations include the World Bank, Alliance for Financial Inclusion, Consultative Group to Assist the Poor, Women's World Banking, etc. International development organizations can make exaggerated claims about their efforts to increase financial inclusion when announcing the program they have designed to assist countries in increasing the level of financial inclusion in such countries.

ii. Aid organizations

Aid organizations, in this context, are organizations that offer aid to countries in the form of social welfare assistance targeted at the most vulnerable members of the population in the recipient countries. Aid organizations may set up one or more financial institution to meet the financial needs of vulnerable people in the recipient country. Aid organizations can make exaggerated claims about their effort to increase the level of financial inclusion when communicating their actions to support the vulnerable population in the recipient country.

iii. Government agencies and the central bank

In many developing countries, the central bank is the sole government agency responsible for increasing the level of financial inclusion. In other developing countries, other government agencies may be responsible for financial inclusion.

The exaggerated pronouncements made by the central bank or other government agencies about their financial inclusion effort, the failure to provide specific information about the government's plan for financial inclusion, and the lack of expectation on the part of unbanked and banked adults create ample opportunities for financial inclusion washing.

iv. Financial institutions

Financial institutions are the providers of financial services. They have the ability to offer financial services that are tailored to meet the needs of underserved communities and they can withdraw such financial services when they want. They can exaggerate their ability to increase the level of financial inclusion when communicating how their financial services can increase ongoing financial inclusion efforts.

v. Financial inclusion support groups and associations

Other support groups or associations play an important role in promoting financial inclusion. Some of them only make vocal statements in support of financial inclusion without making a real effort to reach unbanked adults.

3.3. Manifestations of financial inclusion washing

For example, an entity involved in financial inclusion washing behavior might make claims that its goal, product, service, strategy, program, activity or policy promotes financial inclusion because the entity believes it can offer cheap and affordable access to basic financial services to poor people. Although some of the claims might be partly true, the entity engaged in financial inclusion washing can exaggerate its

claims or the benefits to users in an attempt to mislead people to accept the entity's goal, product, service, strategy, program, activity or policy. The entity may be an individual, a financial institution, developmental organization, not-for profit organization, government agency or international organization.

Financial inclusion washing manifests in many ways. For instance, it may include efforts to make general claims about some improvements in an entity's financial inclusion efforts without any actual metrics to support the assertion. An entity can advertise itself as being a promoter of financial inclusion but is unable to provide specific information about how it achieves financial inclusion. Financial inclusion washing exists when an entity supports financial inclusion efforts only for publicity purposes but the entity is not making any notable effort toward supporting financial inclusion goals. Financial inclusion washing also exist when an entity spends more time and money in advertising itself as a promoter of financial inclusion but does not make a real effort or commitment to promote financial inclusion. Entities involved in financial inclusion washing often label themselves as champions of development. They use financial inclusion buzzwords such as 'finance everywhere you go', 'finance for all', 'easy loan for everyone', 'finance for the poor', etc. These entities advertise these buzzwords through press releases and commercials to give the impression that they are committed to increasing the level of financial inclusion, but in reality, they may not be making a notable or meaningful commitment to increase the level of financial inclusion. In sum, entities that make unsubstantiated or exaggerated claims that their goal, product, service, strategy, program, activity or policy is aimed at increasing the level of financial are involved in financial inclusion washing. Entities can engage in financial inclusion washing even when they have good intentions.

3.4. Motivation and consequences of financial inclusion washing

The motivation for financial inclusion washing is to capitalize on the growing demand for basic financial services that meet the needs of unbanked adults, poor and low-income people. Entities want to capitalize on the financial inclusion movement by advertising themselves as agents of financial inclusion even when such claims get stretched beyond the point of believability. Another reason why financial inclusion washing exist is because some entities involved in financial inclusion washing do not know that they are doing it. Another reason why entities engage in financial inclusion washing is because it can attract donations to entities when they act as if they care for the poor when in fact they do not care for the poor. Another reason why entities engage in financial inclusion washing is because it can improve their reputation as 'champions of development'.

Financial inclusion washing has two consequences: first, it misleads people, and second, it does not bring about any meaningful improvement in the level of financial inclusion. Financial inclusion washing might sound harmless, but the reality is far worse. It misleads people and it distracts from actual financial inclusion initiatives. Many entities practice financial inclusion washing unintentionally. Yet, unintentional financial inclusion washing still spreads false information about an entity's effort to increase the level of financial inclusion.

3.5. How to spot financial inclusion washing

i. Entities that use vague promotional buzzwords or terms that have no clear meaning (e.g. “finance everywhere you go”, “easy money for all”, etc.)
ii. Declarations from an entity that it is the highest promoter of financial inclusion than the rest, even if the rest are not making any effort at all;
iii. Using complex terms or information that only a specialist can understand;
iv. Providing no proof of a claim about financial inclusion efforts;
v. Hiding information about how the entity intend to achieve financial inclusion;
vi. Presenting totally fabricated claims or data about financial inclusion as fact.

3.6. How to avoid financial inclusion washing

The collective global effort toward greater financial inclusion has created the need for financial institutions and authorities to be more transparent about what they are doing to increase the level of financial inclusion.

i. Entities should provide high quality disclosure at all times about their effort to increase the level of financial inclusion;
ii. Avoid using vague financial inclusion buzzwords. Entities should not use vague and exaggerated words or terms that have no clear meaning when communicating their financial inclusion efforts;
iii. Avoid the use of non-credible financial inclusion designations or certification labels.

iv. Avoid outright lies. An entity should not use fabricated claims or data when conveying information about the entity's effort to support financial inclusion goals.

v. Entities should back up their claim about promoting financial inclusion with data. Use current available data and use data that can be easily verified.

vi. Entities should be honest about their effort to increase the level of financial inclusion.

vii. Entities should make sure that the images on advertisement materials are not misleading.

viii. Entities should identify global (or country-specific) financial inclusion goals. Entities should ensure that their goal, product, service, strategy, program, activity or policy contributes directly to achieving the global (or country-specific) financial inclusion goals.

ix. Banked adults should speak up against entities such as financial institutions, development organizations or government agencies that deviate from their financial inclusion promise or fail to deliver on the benefits of financial inclusion to banked adults.

x. Unbanked adults have a right to be included in the formal financial system. Unbanked adults should demand that right, and hold entities accountable especially Fintech providers, banks, microfinance institutions and payment service providers who claim that they can expand financial services to underserved rural communities but have failed to do so.

4. How financial inclusion washing hurts entities and users of financial services

Entities that exaggerate their ability to increase the level of financial inclusion with misleading information can face criticisms that undermine their reputation. Financial inclusion washing does not only damage the reputation of an entity, it also affects banked and unbanked adults. Making exaggerated claims about one's financial inclusion efforts can affect unbanked and banked adults because it can make unbanked and banked adults to have high expectations about greater access to finance and those expectations may never be met. Failure to meet the expectations can lead to the under provision of financial services which does not improve the welfare of both banked and unbanked adults, and it can lead to dissatisfaction and mistrust of agents of financial inclusion. Misleading claims about an entity's commitment to increase the level of financial inclusion also affects how banked and unbanked adults engage with the financial inclusion movement. It can lead to criticism of the financial inclusion agenda which can make it difficult to achieve financial inclusion goals.

5. Changing the narrative

Unbanked and banked adults can stop the practice of financial inclusion washing once they know it is happening and they are not happy about it. Unbanked adults and banked adults have the power to hold entities accountable until such entities deliver on their financial inclusion promise. Unbanked adults and banked adults

should hold entities accountable by calling out entities that are engaging in financial inclusion washing. Apart from pressuring entities to be accountable, unbanked and banked adults can change the narrative by demanding for financial inclusion outcomes that are people-centered and pro-poor such as offering low transaction cost and offering zero-balance formal accounts for low income customers.

Regulators do not have the power to stop financial inclusion washing completely. This is because the financial inclusion efforts of the private sector are mostly discretionary and are the outcome of strategic corporate decision-making. For this reason, regulators cannot dictate the type of service a financial service provider should create and offer to the market or to underserved communities. Also, regulators cannot specify financial inclusion targets for financial service providers especially those in the private sector. This shows that the power to stop financial inclusion washing lies with banked and unbanked adults. But they must first be educated about financial inclusion washing, and they need to be taught how to identify financial inclusion washing when they see it. This will be a significant step to stop the practice of financial inclusion washing wherever it can be found.

6. Conclusion

This paper presented a discussion about financial inclusion washing. It was argued that financial inclusion washing is the deliberate or unintentional use of exaggerated claims to describe an entity’s commitment to increase the level of financial inclusion. The paper showed that many entities are at risk of practicing financial inclusion washing such as international development organizations, aid

organizations, government agencies, central banks, financial institutions, financial inclusion support groups and associations, among others. The paper also highlighted the manifestations, motivations and consequences of financial inclusion washing. The paper also identified ways through which entities can avoid financial inclusion washing.

The general implication of the study is that promoting financial inclusion has a dark side which is financial inclusion washing. As more individuals, corporations and government agencies are concerned about improving the welfare of underserved communities, agents of financial inclusion have a tendency to engage in financial inclusion washing because it is convenient. Just because an entity claims to promote financial inclusion does not mean they have a legitimate interest in increasing the level of financial inclusion. Because promoting financial inclusion has become a trend, some entities may follow along with it for publicity's sake. Some entities may be giving off the illusion of being a "supporter of financial inclusion" while they are not actively doing anything significant to increase the level of financial inclusion.

Future studies can examine whether self-regulation can help to prevent financial inclusion washing. Future studies should also identify strategies to educate banked and unbanked adults about financial inclusion washing and how to detect it. Future studies can also examine more deeply the ethical dimension of financial inclusion washing.

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