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FINANCIAL INCLUSION, POVERTY AND SHARED PROSPERITY IN SUB-SAHARAN AFRICAN COUNTRIES

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ABSTRACT

This article attempts to determine the role of financial inclusion in promoting shared prosperity in some selected Sub-Saharan African (SSA) countries. This paper will also clarify the role of Islamic microfinance institutions to reduce inequality by promoting financial inclusion. Even though various strategies have been adopted by different governments in SSA to alleviate poverty and income inequality, these problems are persisting and even increasing. This paper is a conceptual research; thus, the methodology will not be discussed. This research suggests that financial inclusion through Islamic microfinance is an effective solution to improve shared prosperity and alleviate poverty in these countries. Therefore, governments should adopt strategies to enhance and ease access to finance among poor and vulnerable population.

Keywords: financial inclusion, shared prosperity, Islamic microfinance, inequality, poverty alleviation.

I. INTRODUCTION

Alleviating poverty and inequality are classic problems in the entire world, especially sub-Saharan African countries. These problems are increasingly recognized as serious, worldwide in the economic development concern. Countries with a high inequality index are undeveloped and have weak and fragile economic in comparing to other countries where the index of inequality is low. Therefore, achieving shared prosperity is a primary concern of several governments in the world to boost the socio-economic situation of individuals and reach inclusive growth.

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The Sub-Saharan African region is considered among the poorest region in the world, where half of the total number of poor live in (UNDP, 2018). The inequality among people is also high in this region due to differences in ethnicity, educational level, and other factors (Brunori, Palmisano, & Peragine, 2016). Africa has the highest rate of illiteracy in the world, thus many people cannot read nor write (Evans, 2018). The poverty is decreasing in many countries; nevertheless, in the SSA countries is still augmenting (Müller-Jung, 2018). Lakner and al., (2014) showed in the report of the World Bank that the poverty rate in SSA will not be under 15 percent by 2030 even if there is a high level of growth and shared prosperity based on the recent estimation and trends of the region. However, the impact of shared prosperity on poverty alleviation is different among countries based on the poverty rate at the beginning of the estimation of the World Bank. Additionally, the optimum level of shared prosperity leads to inequality reduction among all countries in the stimulation.

Several studies have revealed that microfinance is a solution to boost the economic situation of people by alleviating poverty and inequality (Alaro & Alalubosa, 2018; Khaki & Sangmi, 2017; Murshid, 2018; Shaikh, 2017). Due to the numerous critics related to conventional microfinance, Islamic microfinance is a more social and convenient solution to enhance the social wellbeing of poor by providing financing without interest (Ahmad, Adeyemi, & Khan, 2017; Bhuiyan, Siwar, Ismail, & Omar, 2017; Hassan & Saleem, 2017).

Even though several studies have discussed the role of Islamic microfinance in alleviating poverty and inequality, little is known about its impact in the SSA countries. Hence, the main purpose of this study is to develop an understanding of the role of Islamic microfinance in reducing poverty and inequality to achieve shared prosperity. Since this paper is conceptual research, there will be no discussion in the methodology. The rest of the paper will be divided as follow: section 2 discusses the role of financial inclusion on shared prosperity. Section 3 reviews the literature about Islamic microfinance and poverty as well as shared prosperity. Section 3 brings recommendations and conclusion.

II. FINANCIAL INCLUSION AND SHARED PROSPERITY

Shared prosperity is among the central objectives of the World Bank which is the twin of eradicating poverty by 2030. Shared prosperity basically is the income growth of people who are at the bottom of poverty or under the poverty line, which is $1.25 (Dabalen et al., 2015). Therefore, the World Bank is using a new index to measure the shared prosperity by the income growth of the bottom people in a country. Promoting and achieving stable shared prosperity leads to poverty alleviation (Lakner et al., 2014).

According to Global Findex of the World Bank (2017), the SSA has a population of 1 billion and only 21 percent of them are financially included. In another word, around 95 million people do not have access to finance in the SSA. This exclusion is accompanied by a high rate of inequality. The SDGs goal number 10 has addressed the problem of inequality and the ways of reducing it by increasing financial access to poor and excluded people (Fukuda-Parr, 2019).

Financial inclusion is a key factor to boost the economic development of countries. A study conducted in Nigeria showed that financial inclusion is an effective tool to boost the economy of the country by increasing shared prosperity and decreasing poverty (Adeola & Evans, 2016). Financial inclusion is very low in the SSA due to some factors, mainly illiteracy, the high cost of financial services (Chikalipah, 2017). Additionally, some African countries have lack of access to the internet which makes moving to banks very costly for poor people; hence, they become financially excluded (Evans, 2018). Chibango (2016) explained the role of mobile banking in attracting unbaked population. The author found that financial inclusion leads to poverty alleviation and vulnerability reduction among the unbanked populations, and the main instrument to include weak and vulnerable population is the mobile banking.

On the other hand, financial development does not have a great impact on poverty reduction in some SSA countries. Thus, some studies showed that poverty in SSA can be eradicated only by enhancing the economic situation of the country; especially, the improvement of macroeconomic factors (Fowowe & Abidoye, 2012). Offering jobs can enhance the ability of poor to work and generate income which leads to the reduction of their poverty status (Bank World, 2013).

Poor living under the poverty line in Africa are nearly around 35 percent in 2020 based on the recent estimation of the World Bank (Bank World, 2013). In other words, more than 400 million are living under $1.25 a day. This is an alarming situation which threatens the lives of many individuals. Thus, an effective strategy should be adopted to decrease this catastrophic situation. Financial inclusion not only empowers women but also enhance the schooling rate of their children (Chiapa, Prina, & Parker, 2016).

In order to alleviate poverty and promote shared prosperity in Africa, governments should have proper strategies to increase the opportunities of jobs to a large segment of poor and ease access to finance for micro enterprises (Bicaba, Brixiová, & Ncube, 2016). The strength of the internet and the use of mobile phone augment the level of financial inclusion in Africa (Evans, 2018).

III. WHY ISLAMIC MICROFINANCE IS IMPORTANT IN REDUCING POVERTY AND INCREASING FINANCIAL INCLUSION?

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Islamic microfinance is the provision of Islamic products to the poor and excluded population who do not have access to a financial institution otherwise (Obaidullah & Mohamed-Saleem, 2008). Among the products of Islamic microfinance: the Murabahah, Mudharabah, Musharakah, Micro-takaful, Qard Hassan, and others. Islamic microfinance is a tool to alleviate poverty by increasing financial inclusion (Hassan, 2015; Iqbal & Shafiq, 2015). Having access to finance, vulnerable people can make income-generating activities and increase their revenue which will lead to reducing the inequality between rich and poor. Islam has encouraged rich people to give Sadaqa (charity) and Qard Hassan to needy just to maintain the equal distribution of wealth. Interestingly, the zakat is compulsory to be given to poor from those who reach the “Nissab” in their wealth. As a result, the principles of Islam are in line with achieving shared prosperity.

In Ghana, microfinance has been proved to be a source of funding of microenterprises, especially those leading my women (Dzisi & Obeng, 2013). The study showed that the socio-economic of women has dramatically improved after joining MFIs. Hence, microfinance eases the access to finance for microenterprises which enables them to develop and grow up to reduce the vulnerability of microentrepreneurs who were financially excluded. In Ethiopia, microfinance helps low-income people to get access to finance and invest loans in different income generating activities, and empower women to achieve shared prosperity and reduce inequality (Tafese, 2014). Thus, microfinance has decreased poverty and inequality among individuals.

Mutai and Osborn (2014) have examined the role of microfinance in economic empowerment of MFIs women clients belonging to Narok town of Kenya. In this research, a questionnaire administered to 107 women clients and 10 MFIs staff in Narok town was used to collect data. The findings have revealed that access to microfinance has a positive impact on economic empowerment of women as it has improved their income, asset ownership, and create employment, and leads to an improved standard of living of women. In other different countries of SSA, microfinance has shown tremendous impacts on the women lives by empowering them and being financially independent (Alaro & Alalubosa, 2018)(Kasali, Ahmad, & Ean, 2015). A study of MFIs has shown a high impact on poverty alleviation in 57 developing countries at the macro level (Miled & Rejeb, 2015). In fact, MFIs have an impact not only on the micro-level but also on the macro-level as well, by improving the economic situation of the countries.

Islamic microfinance, in contrast to the conventional one, does not change interest and does not require collateral which makes vulnerable and week population decide to use it. Therefore, Islamic microfinance increases financial inclusion which leads to the development of micro-business and then to poverty alleviation (Nafar & Amini, 2018). However, conventional microfinance increase the level of indebtedness of poor and reduce their performance with its

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high-interest rate, and does not enhance financial inclusion (Barman, Mathur, & Kalra, 2009; Ene & Inemesit, 2015; Evans, 2018).

Microfinance facilitates financial inclusion of many excluded people who cannot afford the banking system costs (Ene & Inemesit, 2015; Singh & Yadav, 2012). Islamic microfinance has promoted financial inclusion in many countries, due to its products mainly Qard Hassan and Murabaha (Iqbal & Shafiq, 2015; Nabi, Islam, Bakar, & Nabi, 2017). Indeed, Qard Hassan is a benevolent loan which is highly encouraged by Islam to help needy to overcome their financial difficulties.

IV. RECOMMENDATIONS AND CONCLUSION

This paper has discussed the major impacts of financial inclusion on poverty alleviation and shared prosperity in the SSA countries. Lack of access to finance by individuals and microenterprises create an obstacle against the fight of poverty and the shared prosperity. Thus, the governments of SSA should increase the outreach of Islamic microfinance to reach many poor especially in rural areas where the poverty is in high rates. Improving marketing by opening financial centers in different places to make the excluded people aware about financial providers and the financial services available will have a positive impact the level of financial inclusion in many African countries.

Another main issue that impede the improvement of financial inclusion is the financial illiteracy which should be reduced to make people benefit from the existing financial products in African countries by opening intensive courses and school to for ignorant elderly people. Another challenge is the regulation and rules which makes burdens in front of those weak and poor people to meet the required conditions of obtaining loans. The regulation quality should be improved and taking and should take in consideration the economic and social situation of the vulnerable individuals. Access to internet, mobile money and remittances are the main drivers of financial inclusion in the SSA countries; hence, their improvement should be the main interest of policymakers.

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