Reviews of Literature
ISSN 2347-2723

Impact Factor : 1.4716(UIF)
Volume - 2 | Issue - 1 | Aug - 2015

# AUSTRALIAN GOVERNMENT'S FINANCIAL SERVICES TO THE POOR

Vidhi Maggo
Student , BA ECONOMICS(Hons), MA ECONOMICS

## ABSTRACT

This paper is an attempt to throw some light on the financial exclusion in Australia and the strategy adopted by the government of Australia in accomplishing its aim of providing benefits of financial services to the poor. Though the world has developed many folds, financial services have failed to reach to the poor households. As per the World Bank estimates, in 2005 around 250crore people were thriving underneath the international poverty line which is equal to US $2 per day (Shahua & Ravallion, 2008). The reason for the lack of financial services is not only the prevalence of poverty but also other barriers such as higher transaction costs, travel distance, interest rate restrictions, urban-biased credit allocation and corrupt practices (Arun, et al., 2009).

This paper examines the challenges (barriers) faced by the government authorities in implementing its goal of providing financial services. It outlines the guiding principles and the importance of financial inclusion, the strategy adopted by the government to implement the goal and the possible recommendations to strengthen the role of Australia in extending various forms of financial services.

KEYWORDS :*financial inclusion, financial services, financial exclusion.*

## ISSUE DISCUSSION

According to Arashiro(2010) , financial inclusion means providing access to financial support mechanisms to all the members of society so that people can 'get ahead' rather than simply 'get by'".However, United Nations Capital Development Fund (2006)defines financial inclusion as a process of extending varied financial services such as savings services, payment services, credit as well as insurance facilities to all at an affordable cost. Financial inclusion is a vital component in the process of poverty elimination and attainment of Millennium Development Goals. It provides cushion to the poor against any misfortune and offers social security and empowerment to women, in particular (Australian government, 2010). But in a globally connected world driven by international flow of capital many poor households are still excluded from the financial services. These poor households do not possess a bank account in any financial institution. According to Australian government (2010) it is projected that approximately 270 crore people living in developing countries, most of them being 18+ do not have proper access to the financial facilities. Besides this, according to Connolly (2014), for the past seven years of available data it can be concluded that there has been arise in the number of adults who fall under the category of either fully excluded or severely excluded from provision offinancial services (see table 1).

Table 1: Financial exclusion (Data from 2007 to 2013)

| Degree of exclusion | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|
| **Included** | 45.7% | 46.6% | 44.6% | 43.4% | 40.8% | 39.7% | 40.2% |
| **Marginally excluded** | 38.4% | 38.7% | 40.0% | 41.0% | 42.0% | 42.6% | 42.9% |
| **Severely excluded** | 14.5% | 13.8% | 14.6% | 14.8% | 16.1% | 16.6% | 15.9% |
| **Fully excluded** | 1.5% | 0.9% | 0.7% | 0.8% | 1.1% | 1.1% | 1.0% |

Source: (Connolly, 2014)

Many poor people are still grappled under the clutches of poverty due to their incapability to access credit facilities. In the absence of financial inclusion there is a danger of financial exclusion which leads to social exclusion creating further tensions in the society.

### The main causes for the lack of financial services are:

### 1.Strong attachment to deal in cash

According to Mitton (2008) , poor households have a strong attachment to deal in cash because they believe only higher strata of society go to the bank. This in turn reduces their demand for financial services and leads to financial exclusion.

### 2.Complicated financial services

Mitton (2008) stated that financially excluded section finds financial services complex and confusing. They see no reason to go to the banks for small transactions which in their opinion is cumbersome and not meant for 'people like them'. Also people feel uncomfortable while using financial services and believe that by going to a bank they are entering into a debt-trap.

### 3.Bank's reluctance towards advancing consumption loan

Australian government (2014) exemplified the fact that commercial banks do not look favourably at the consumption loan which is mainly required by the poorer sections because such loans are deemed to be non-productive. However Mitton (2008) believed that bankers often use sophisticated terminology which the masses find difficult to comprehend.

### 4.Lack of conducive environment and legal framework

According to Australian government (2010) a conducive environment and a proper monitoring framework are essential for sustained advancement of financial facilities for the poor. But, expansion of financial facilities are usually hampered by the structure, policy and legal framework of the countries.

### 5.Limited capacity within financial services sector

In addition to this, restricted capacity at the financial service provider is a hindrance to the development of the industrial sector in many developing countries. This fact can be substantiated by the study of Morduch(2006)conducted on 124 microfinance establishments in 49 countries which found that merely fifty percent of the financial institutions earned profit and garnered adequate revenue which was sufficient to cover theoutlays.

### 6.Financial illiteracy

Since lack of financial education can lead to a situation of debt-trap, therefore, financial illiteracy among the people is another issue that deters them to make rational and informed choices regarding financial services.

## ISSUE OUTCOME

While substantial improvement has been initiated in escalating access to financial facilities by the poor, still much remains to be implemented. Therefore, the Australian Government has initiated an uphill task to escalate the provision of financial services to the poor in many developing countries. The three main outcomes to the above mentioned barriers are explained as follows:

### 1.Creating a conducive environment to enable financial institutions to grow

Any government has a proactive role to play and encourage competition among the financial service providers by eliminating barriers that deter their entry in the market. Therefore, Australian government is committed to address these constrains by initiating the following measures (Australian government, 2010):

Firstly, supporting the growth of legal and regulatory framework and make them favorable to the evolution of providing financial services to the poor.

Secondly, improving consumer protection by preventing any discriminatory practice towards the clients.

Thirdly, providing aid to improve the technical proficiency of regulatory bodies who bear the responsibilityto monitor the functioning of the financial services.

### 2.Building capacity within financial institutions

Whenever a new financial institution enters a market it is necessary that it must be sustained to improve itsability to deliversuperior quality financial facilities to the poor. Again Australian government is determined to build the capacity and help the poor by (Australian government, 2010):

Firstly, supporting the growth and provision of varied demand-driven products and well-targeted services at an affordable cost.

Secondly, helping the commercial banks to target poor households and ensuring financial outreach to every corner of the market through innovative models of financial service provision.

### 3.Imparting financial literacy among the people

Financial literacy provides people with the confidence and technical know-how to efficiently organize their liquid cash and effectively utilize a range of banking products. Eventually, knowledgeable people become further accountable banking clients and this engenders enhanced demand for banking facilities. According to Australian government (2010) , to attain this outcome government is firm to:

Firstly, support the governments in executing policies for financial education for the poor.

Secondly, enter into collaboration with private enterprises and strengthen financial instruction for the poor.

Thirdly, promote and sponsor research, investigation and propagation of financial information for effective and targeted financial education programs.

## RECOMMENDATIONS

To remediate the gap in the provision of financial services, Australian government needs to synchronize its financial inclusion program to new and changing realities. Traditional approaches are no longer tenable in the modern world. A new paradigm for the provision of financial amenities to the poor households has to be embraced to promote prosperity, alleviate poverty and strengthen stability. For this the following recommendations may be suggested to the government (Connolly, 2013):

Firstly, promoting innovative models of financial service provision in consonance with private sector partnerships to extend outreach to excluded groups.

Secondly, refining the financial competence of the people via effective financial teaching.

Thirdly, deflecting clients from financialexclusion and towards the path of financial inclusion by providing incentives to acquire financial products at an affordable cost.

No doubt there are many loopholes in the process of financial inclusion but with proper funding and sustainable measures path of faster economic development can be attained.

## REFERENCES

1.Arashiro, Z., 2010. Financial inclusion in Australia Towards transformative policy. Social Policy Working Paper , Issue 13.

2. Arun, T., Hulme, D., Matin, I. & Rutherford, S., 2009. Finance for the Poor: the Way Forward?. s.l.:Edward Elgar.

3.Australian goverment, 2014. Australian aid: promoting prosperity, reducing poverty, enhancing stability, s.l.: creative commons.

4.Australian government, 2010. Financial Services for the Poor A strategy for the Australian aid program 2010–15, Canberra: Australian Agency for International Development (AusAID).

5.Connolly, C., 2013. Measuring financial inclusion in Australia, New South Wales: Centre for Social Impact (CSI) .

6.Connolly, C., 2014. Measuring Financial Exclusion In Australia, New South Wales: Centre for Social Impact for National Australia Bank.

7.Mitton, L., 2008. Financial inclusion in the UK: review of policy and practice. Joseph Rowntree Foundation, p. 60.

8.Morduch, J., Robert & Cull, 2006. Financial Performance and Outreach: A Global Analysis of Leading Microbanks. Economic journal, 117(517), pp. 107-F133.

9.Shahua, C. & Ravallion, M., 2008. The Developing World Is Poorer than we Thought, but No Less Successful in the Fight against Poverty. Policy Research Working Paper, Issue 4703.

10.United Nations Capital Development Fund, 2006. Building Inclusive Financial Sectors for Development, New York: United Nations.