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Financial Capability for Wellbeing: An alternative perspective from the Capability Approach

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Abstract:

Financial inclusion is about increasing the set of financial service options available and the concept of financial capability seeks to capture the idea that their effective use will lead to improved wellbeing. Studies on financial capability have so far adopted an ontological assumption that financial capability is a set of "optimal" financial behaviours which can be defined and measured universally, failing to capture the potentially deeper meanings and values that poor people's financial practices represent. In this context both financial inclusion and financial capability require an evaluative framework for the exploration of how and to what degree the ways in which poor people engage with financial services and transactions can improve their wellbeing. This paper examines the potential of Sen's capability approach (CA) as such an evaluative framework. Adopting the CA as an evaluative framework suggests that increasing the availability of financial services is valuable only if the increased range of options allow people to pursue their wellbeing goals. We argue that the capability approach presents a number of characteristics which enable the evaluation of inclusion policy, thereby offering a framework through which financial inclusion is evaluated in terms of its ability to expand people's valued capabilities to achieve wellbeing.

Keywords:

Financial capability, financial inclusion, capability approach, wellbeing

[1] We are grateful to the Financial Sector Deepening Trust Kenya for funding this research and note that this paper will also be published on their website: www.fsdkenya.org. We acknowledge comments on earlier drafts from Severine Deneulin and Amrik Heyer. All errors and omission remain our responsibility.

1 Introduction

Increasing poor people's access and use of formal financial services is a global policy goal (GPFI n.d.). While informal financial services are seen to offer more flexibility and convenience than formal financial instruments, they lack the same level of reliability, security, affordability, value and potential for scale (Chaia, Dalal et al. 2013). In this context, the increased attention paid to financial literacy and capability in developing countries is strictly linked to the policy interest around financial inclusion (OECD 2005).

Ultimately, the policy goals for financial inclusion intend to contribute to economic growth and poverty alleviation (GPFI 2010), people's financial wellbeing[2] as well as economic and social inclusion (Atkinson and Messy 2013) through the provision of more affordable and appropriate financial services. Meanwhile, financial capability seeks to enable people to make responsible financial decisions in order to improve their wellbeing (Accion 2013). However, to date there has been little research on understanding what financial capability means for low-income people in developing countries or to explore the potential relationship between financial capability and financial inclusion and whether this actually leads to wellbeing improvements for poor people. Indeed, so far, the approach to financial capability has been based primarily in universalist models of rational choice and behavioural economics.

This paper proceeds as follows. First, we present the concepts of financial literacy and capability as they are being used in developing countries. We then will present the CA and argue in favour of a wellbeing perspective on financial capability and inclusion. The final section considers how this capability-based approach to financial inclusion is in line with a broader perspective on financial decisions and money management evident in research of economic anthropology and sociology.

2 Background

2.1 Financial literacy and education to improve financial decision-making

The interest around financial literacy and education that spread in developed countries at the beginning of the twenty-first century (OECD 2005) has influenced a similar discourse in developing countries. However, in developing countries where financial access is predominantly low, financial literacy is mainly seen as a means to promote financial inclusion, by increasing access and take-up of financial services rather than to support people's ability to take better decisions among the wide variety of financial services that are already available to them (Xu and Zia 2012).

This view that financial literacy leads to stronger ability to make informed financial life choices has however led to financial education programmes being prioritised by public policies and

[2] "Financial inclusion refers to 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" (Atkinson and Messy, 2013, p.11).

private institutions in both developed and developing countries. These initiatives have been guided by the assumption that financial knowledge and skills - which are teachable – are key determinants of the ways in which people manage their financial resources and use financial services (OECD 2005).

Nevertheless, to date there is not only little agreement on the definition and measurement[3] of financial literacy or on effective financial education strategies, but there is also no evidence that increased financial literacy, measured in terms of knowledge of financial concepts, does in fact lead to improved financial decision-making (Hilgert, Hogarth et al. 2003, Cole, Sampson et al. 2009, Mandell and Klein 2009, Carpena, Cole et al. 2011). This lack of evidence seems to suggest that financial literacy defined as knowledge and skills is a rather limited approach to understanding poor people's financial behaviour. Rather, it suggests that financial literacy is only one input into financial decision-making and other factors, such as impulsivity, external circumstances and behavioural biases, also contribute to what is regarded as poor financial management (Huston 2010).

Behavioural economics has been a key contributor to developing this wider understanding of how decisions are made (OECD 2011). This field of study has offered a more complex picture of the financial decision-making process: personal traits such as confidence, willingness and intentions are now taken into consideration as factors which influence individuals' financial decisions. Hence, there is now a stronger understanding that improved financial decisions would not necessarily be the outcome of higher levels of financial literacy and that training on these may not be the most appropriate approach to improve people's financial management.

For instance, behavioural economics highlighted how due to emotions, instinct and previous experience, people tend to develop shortcuts (heuristics) that allow them to take quick decisions which often result in suboptimal outcomes (De Meza, Irlenbusch et al. 2008, Thaler and Sunstein 2009, Kahneman 2011, Altman 2012). These patterns of behaviour are relevant when considering financial decisions. Indeed, this literature seems to suggest that people using such shortcuts are highly likely to adopt reactive behaviour to external circumstances rather than a proactive and more rational behaviour. Moreover, in terms of public policies for financial inclusion, these findings suggest the need to nudge people towards optimal financial decisions, which they would otherwise fail to achieve (Thaler and Sunstein 2009). This raises the question of how such optimal financial outcomes are in fact defined and identified and what role people themselves should play in assessing what is in their own best interest.

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[3] The most common way in which financial literacy has been measured in developed countries is through the three questions below. This approach was later adapted for developing countries by Cole et al., 2009 and expanded by Carpena et al. 2011.
"1) Suppose you had $100 in a savings account and the interest rate was 2% per year. After 5 years, how much do you think you would have in the account if you left the money to grow?
More than $102, Exactly $102, Less than $102, Do not know, Refuse to answer
2) Imagine that the interest rate on your savings account was 1% per year and inflation was 2% per year. After 1 year, how much would you be able to buy with the money in this account?
More than today, Exactly the same, Less than today, Do not know, Refuse to answer
3) Please tell me whether this statement is true or false. "Buying a single company's stock usually provides a safer return than a stock mutual fund."
True, False, Do not know, Refuse to answer" (Lusardi and Mitchell, 2011, 3).

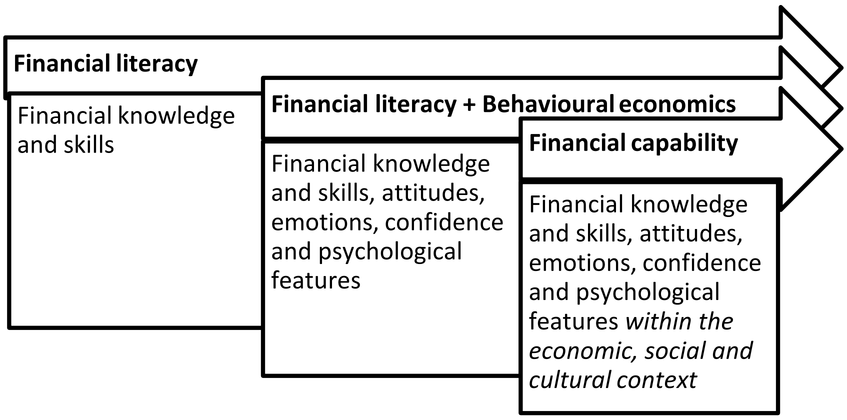
2.2 From financial literacy to capability: a holistic view of financial decision-making

Based on the contribution from behavioural economics, there appeared the need for a wider understanding of people's ability to manage their finances and their use of financial services (Cole, Sampson et al. 2009, Drexler, Fischer et al. 2010, Carpena, Cole et al. 2011). This has led to the concept of financial capability superseding that of financial literacy as a way of better representing the multitude of factors that are at the root of financial decision-making. Indeed, the use of this definition resonates with a holistic view of people's financial behaviour, which goes beyond the sole consideration of people's knowledge and skills.

Qualitative research in low- and middle-income countries showed that people discuss financial capability as being constituted by behaviours, attitudes, psychological traits and motivations (Kempson, Collard et al. 2005, Kempson, Perotti et al. 2013). In a small qualitative study conducted in Kenya, financial capability was associated more with individual efforts, commitment and discipline to increase household income and individual virtuous behaviour, rather than use of financial instruments and allocation of funds among them (Zollmann and Collins, 2010). In low- and middle-income countries, research respondents regarded planning for the future and day-to-day management of resources as the most relevant skills for good financial management and an indicator of being financially capable (Kempson, Perotti et al. 2013).

These studies suggest that the role of knowledge is not central in people's financial decision-making process. Rather, financial capability would be affected by a multitude of factors, such as knowledge, skills, attitudes, individual abilities and behaviours as well as the social, cultural and financial contexts in which people take their financial decisions (Atkinson and Kempson 2008, Collins, Zollmann et al. 2009). Ultimately, financial capability is seen as multidimensional and composed of multiple domains (FINRA 2009, Kempson, Perotti et al. 2013), implying that individuals may be very good at some aspects of it but not all (Collins, Zollmann et al. 2009). Moreover, financial capability changes over people's lifetime and depends on environmental and personal circumstances (Accion 2013). This suggests that financial capability is in itself dynamic.

Figure 1 The evolution of the concept: from financial literacy to capability



The holistic concept of financial capability is well captured by the following definition of financial capability given by Guy Stuart from MFO:

> "Financial capability is the combination of attitude, knowledge, skills, and self-efficacy needed to make and exercise money management decisions that best fit the circumstances of one's life, within an enabling environment that includes, but is not limited to, access to appropriate financial services."[4]

Guy Stuart summarises three main features of financial capability. First, the concept of financial capability seeks to capture the idea that individuals need skills and knowledge as well as the ability to put these into practice through their attitudes and self-efficacy. Second, he points out the dynamicity of the concept highlighting that financial decisions need to best fit different circumstances of life, thus financial capability may mean different financial practices for different people and even for the same people at various stages of their life. Third, the concept brings the external environment into the picture, allowing for a consideration of those external structures which may or may not enable individuals to exercise their financial capability[5].

The latter point is particularly relevant when considering developing countries. For example, studies have shown that people may be very able to manage their little, irregular and unpredictable income even when not using formal financial services (Collins, Morduch et al. 2009). Therefore the lower level of financial access may not be a good indicator of financial capability and the two issues may be quite separate (Kempson, Perotti et al. 2013), as pointed out by a small qualitative study conducted in Kenya (Zollmann and Collins 2010). Higher poverty levels also need to be taken into consideration since it is necessary to distinguish between the lack of income and the lack of skills and ability to manage it (Atkinson and Kempson, 2008).

Another factor to be taken into account is the geographical distribution of the population. Indeed, a large portion of people in developing countries live in rural areas which are far from formal financial services and where a communal style of living is more widespread. Therefore it may make more sense for people to rely on each other's financial support and informal forms of savings rather than banks and other formal services (Kempson, Perotti et al. 2013). This points out that different practices for money management should not be taken *a priori* as a sign of not being financially capable and need to be evaluated in their particular context.

Indeed, in a context where low education levels are predominant, people's ability to manage their money may not be adequately captured through people's ability to perform arithmetic calculations, as the value of transactions does not solely lie in its monetary value. Similarly, the higher level of informality which characterises developing countries results in different ways in which individuals plan for the future and manage risks. The frequent absence of state run social safety nets and the need to make provision for the future means that it is entirely an individual responsibility which should also be taken into consideration when exploring people's financial capability (Kempson, Perotti et al. 2013). For instance, in countries where

4 http://cfi-blog.org/2013/11/01/what-is-financial-capability/
5 Ibid.

provision for old age is not ensured by the state, developing family networks may be far more important than saving at the bank.

To summarise, behavioural economics showed that financial decision-making does not solely depend on financial knowledge and skills: indeed, the consideration of attitudes and behavioural traits has now steered the discourse towards a perspective on financial decision-making centred on individual characteristics. The superseding concept of financial capability has further widened the perspective, showing that the ability to manage money well is dynamic and also dependent on cultural and contextual factors, rather than given *a priori*.

However, the policy discourse around financial capability is still predominantly characterised by a normative language in which financial capability is associated with a set of optimal financial decisions, such as planning and budgeting, while impulsivity, inconsistent and risk-taking behaviours are synonymous with a lack of financial capability and poor money management skills (MFO 2015; Kempson, Perotti et al. 2013). This view is still influenced by what it means to be financially capable in developed countries. Indeed, it is still conservative and risk-averse in its focus on planning and saving, therefore missing the fact that often livelihoods in developing countries are developed and maintained through multiple sources of income and by taking up what may appear to be risky business opportunities in a context of high vulnerability and uncertainty. Moreover, it should be noted that despite the widening of the understanding of this concept as shown in this section, its measurement and conceptualisation often still involve an attempt to define a set of optimal financial behaviours, which exist and can be measured across countries, so losing this wider and more contextualised perspective (Ibid.).

3 Applying the Capability Approach to Financial Inclusion

3.1 An overview of Sen's Capability Approach

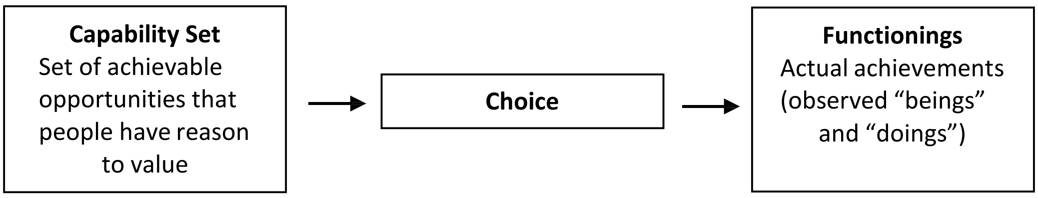
The CA was developed by the economist and philosopher Amartya Sen with the intention of creating an alternative space for the evaluation and comparison of people's living standards and wellbeing. One of the main contributions of this evaluative framework stands in the paradigm shift that proposes people's wellbeing to be evaluated based on what people are able to be and do in life rather than utility and commodities. Indeed, Sen (1980, 1985, 1987) argues that the notion of utility, as happiness, choice and desire-fulfilment, is a poor measure of people's quality of life, since mental states can easily adapt to disadvantaged circumstances.

At the same time, Sen argues that objective measures of wellbeing, such as income and commodities, are also inadequate for inter-personal comparisons: commodities are only means to an end and because people are different, they will need different objects in order to reach similar states of wellbeing. For example, two people who can afford to and eat the same amount of food may be considered similarly nourished by an evaluation based on the amount of food intake of each individual. However, physiological, medical, climatic and social factors all influence the level of nourishment so that if the two people's metabolic rates differ they would need different amounts, and perhaps types, of food to reach the same level of nourishment (Sen, 1985).

A sole consideration of income and commodities is therefore a rather limited approach when trying to evaluate and make comparisons between people's living standards and levels of wellbeing. Such an approach only shows the means and resources that people can make use of in order to reach certain states of being and doing, while having resources *per se* does not ensure the achievement of such states. For instance, if we consider the ability to move around, a disabled person (with a physical impairment) would have different requirements in terms of material and perhaps psychological support to achieve similar states of mobility of an able-bodied person. In this regard, Sen gives the example of a bicycle - an asset which is often included in lists for the evaluation of a household's wealth or standard of living. By using mobility, which is the actual "doing" or achievement of the individual, as the evaluative parameter for comparison, it is clear that although both a disabled person and an able-bodied person might own a bicycle, they are not likely to enjoy or achieve the same level of mobility as a result. Hence, they may have similar levels of wealth and quality of assets but they greatly differ in what they can achieve with those assets.

Based on the previous arguments, Sen proposes that inter-personal comparisons of wellbeing look at what people have reason to value in terms of "beings" and "doings" and what they are able to be and do in life. People's quality of life should be observed through their valued achievements rather than through what people desire or the goods they possess. Sen (1999) defines functionings as "the various things a person may value doing or being" (p.75), while capability is "the substantive freedom to achieve alternative functioning combinations" (*Ibid.*). In other words, capability is the combination of achievable opportunities that people have reason to pursue because they are valuable, while functionings are the real achievements that they reach.

Figure 2 Capability set and Functionings



The CA stresses the importance of people's freedom to choose the type of life they have reason to value among several options and considers choice as being intrinsically important for wellbeing. In order to include the aspect of choice within the evaluation of quality of life, Sen argues that policies should focus on the improvement of the capability set. This focus would, for instance, allow the distinction between the person who is starving because voluntarily on a diet and who is starving because they are lacking food. In the first situation, the individual had the option not to starve, while in the latter the person has not voluntarily chosen to go without food. If wellbeing was to be evaluated through functonings, the two people would look the same as they are both starving. On the contrary, by focusing on capability sets, Sen attributes intrinsic importance to people's freedom of choice, which includes both the availability of options and the selection process (Sen 1988).

The identification of the valuable functionings – the good life - depends on value judgments which Sen leaves up to individuals to take (Sen and Hawthorn 1987). Because individuals have different ideas of what a good life is, even when they start from the same capability set – their achievable and valued options in life - they will most probably value and select different sets of functionings. However, Sen emphasizes that the relevant capabilities and functionings should be those that people have reason to value, trying in this way to deal with negative behaviours (e.g. smoking, committing murder) which people may individually value but not have reason to value if put under public scrutiny. Therefore, while Sen is not against listing important capabilities for human wellbeing, he decides not to endorse a pre-fixed list of fundamental human capabilities which would automatically discredit the importance of the selection process through public reasoning and democratic discussion (Sen 2004). In this way, the CA pays attention to the selection process leaving people the freedom to choose the life they have reason to value. This rather positive view of the selection process does not intend to ignore that there may be structural constraints which prevent people from choosing their valued "beings" and "doings" in complete freedom. Indeed, social constraints, political regimes, religious beliefs, cultural and gender norms can all constitute such constraints.

3.2 Financial capability for Wellbeing

The current policy focus on financial inclusion is based on the view that increasing access to financial services[6] for poor people will lead to an increase in their wellbeing. The focus has so far primarily been on the improvement of the availability and quality of formal financial services, the regulation of the financial sector and the ability of users to engage with the financial sector (through financial literacy and education programmes). However, there has not been a clear attempt to evaluate financial inclusion from the user's perspective to examine whether and in what ways financial inclusion actually improves people's achievement of valued states of "being" and "doing".

Developing an evaluative framework for financial inclusion based on how financial inclusion supports the achievement of people's valued "beings" and "doings" means, first, finding out what people have reason to value in order to live a good life, and second, whether the financial system that is available to them supports them in the achievement of these goals. Ultimately, this means that the value of financial inclusion does not stand in the services *per se* but in what those services allow people to pursue, in the fact that they should facilitate people's pursuit of their valued goals. This approach might therefore include a much wider range of considerations which go beyond standard impacts on consumption or assets, such as how the services enable funds to be circulated within communities or how they support the development of meaningful relationships with others.

Hence, evaluating financial inclusion for its potential to support wellbeing goes beyond consideration of the number and quality[7] of financial services judged on the basis of

[6] Formal financial services are still mainly seen as being better and more adequate in terms of reliability, security and affordability than informal financial services, and therefore they remain the main focus of financial inclusion. However, more recent initiatives for financial inclusion have extended their data collection effort to the informal sector (GPFI n.d.).

[7] Indeed, this approach raises the fundamental question of what quality is and from whose perspective quality is defined. It

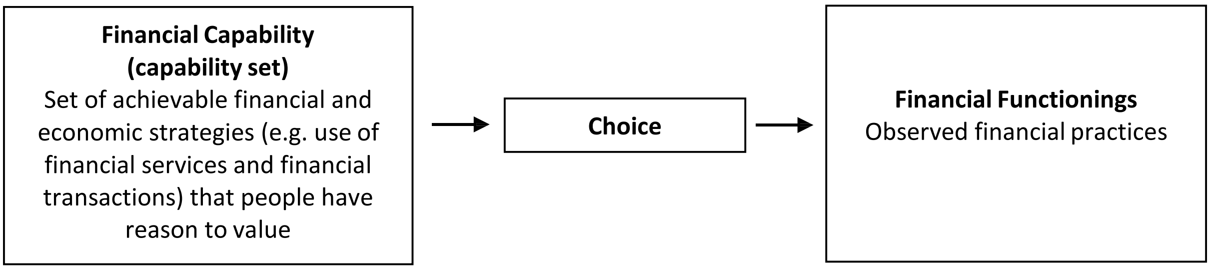
convenience, price, safety, flexibility and so on to recognising how these are used by the individual in the broader context and how they support the "beings" and "doings" that people have reason to value. The shift to what people have reason to value suggests that the perspective on financial inclusion becomes user-centred and hence emic: what poor people regard as a good life is what primarily matters and how financial services can support them in the achievement of such priorities should guide the development and improvement of the financial sector. In this way, such improvement will be attuned to the social and cultural environment of reference, rather than the financial sector appearing as something distant which does not reflect people's values and goals (Johnson 2012).

By using this perspective on financial inclusion, two further considerations can be highlighted. First, while people have freedom to choose the financial services that best fit their needs and goals, the perspective recognises the existence of structural barriers, such as geographical distance and cultural and gender norms, which may prevent people from accessing certain services and being financially included. Second, because attention is paid to people's freedom of choice, it is important to point out that people may also choose not to use certain services, even if available. This may suggest the inadequacy of certain services in meeting people's needs. Considering both the final functionings and the selection process which involves people's freedom of choice thus can bring a new depth to the understanding of people's use of financial services and eventually financial inclusion. For instance, this would allow the distinction between a person who is not using bank services because they are not locally available and a person who could easily access bank services but decides not to because he values more keeping his money circulating rather than sitting in a bank account. Again, this connects to Sen's idea of capability or substantive freedoms: it points towards the states of "being" and "doing" that people are trying to achieve. If financial inclusion is meant to improve people's wellbeing through increased use of financial services, it is ultimately important to understand not only why people access certain services but also why they decide not to use others.

Based on Sen's definition of capability as "the substantive freedom to achieve alternative functioning combinations" (1999, p.75), we are defining the concept of financial capability as the bundle of available financial and economic strategies and services among which people can choose and the various possible ways to make use of them in support of their valued life goals. We suggest here that within a certain context – and its constraints – people have a variety of options as to how to manage their money – their set of achievable and valued opportunities. They choose from this set based on their valued life goals thus developing a certain set of practices - their financial functionings.

may for example be defined by low cost and safety of savings. But even if costs are regarded as low, a poor person may take the view that being charged for keeping their money through the imposition of a deposit withdrawal fee violates a valued feature of what it is to be a trustworthy custodian of resources.

Figure 3 Financial Capability and Functionings



By looking at people's behaviour through the CA perspective, people define their own priorities in terms of what they want to achieve through certain financial services and practices. This may show that people regard it as necessary to maintain social relationships through economic transactions, even if these transactions are not very profitable from a solely financial benefit perspective. Therefore this approach may value ways of doing things which run counter to a mainstream rational choice perspective of how people should engage with the financial sector. This approach to financial capability again underlines the point that there is no "optimal" set of behaviours valid for everyone across contexts. People manage their financial resources and assets in light of reaching wellbeing goals that they have reason to value and consequently their financial transactions and decisions should be evaluated in the light of these broader wellbeing goals.

3.3 The intrinsic and instrumental value of financial and economic practices for wellbeing

In the CA, Sen makes the distinction between the means and the ends of wellbeing and argues that only the ends have an intrinsic importance for wellbeing. The means, such as money and economic resources, on the other hand, need to be considered as instrumental to the achievement of a good quality of life (Sen 1999, Robeyns 2005). However, such a focus does not imply that resources are not important for wellbeing. Rather, Robeyns (2003, 2005) argues that inequalities in resources can indeed be at the origin of inequalities in wellbeing and therefore a capability analysis should also take into consideration resources, social institutions, the economic environment and so forth. Indeed, the amount and types of resources available will surely have an effect on what people can achieve in terms of wellbeing: ultimately resources can expand or restrict people's freedom to achieve other valuable functionings. If money and other economic resources are some of the means to wellbeing, a variety of ways – including financial instruments - to manage them in the most effective way appear to be an important human freedom for people to value, even more so when the economic resources available are very little.

However, material resources (including financial resources) and the ways to manage them are not only instrumentally important for the achievement of material wellbeing. They are also intrinsically important and constitutive of people's overall freedom to achieve a life that they value. For instance, individuals often value the reputation and status that they acquire by being part of prestigious clubs which they can join by paying a regular club fee. Indeed, Adam Smith (1975 [1776]) talked about how social norms and cultural practices define the commodity requirements for people not to feel ashamed of being in public. Similarly, entering into multiple relationships of debt can allow individuals and households to close the gap between their needs and their irregular income sources, thus being instrumentally important for their wellbeing. Meanwhile, such financial relationships may also be intrinsically valuable because being a symbol of the identity and status of the borrower as someone who is reliable and trusted by the community.

Exploring the financial capability set of poor people from a broad wellbeing perspective shows the importance of considering people's financial options and the ways in which they develop their financial practices both in terms of their instrumental and intrinsic importance. Therefore, the type and quality of the financial sector should be evaluated based on a broad set of beings and doings that people in a local community have reason to value. These may be related to living in peace with regard to the future, providing enough food for the family, as well as being esteemed by the community or being a loyal and trusty person. The different financial strategies available will be valued based on a set of different wellbeing goals. Therefore, this perspective recognises not only the instrumentality of economic and financial resources to wellbeing goals, but also their intrinsic importance for people's quality of life.

The field of economic anthropology offers many examples of this. For instance, Shipton (2010) shows that owning livestock in the form of savings in East Africa is linked with the identity of the owner and a source of respect from the community, thus being not only instrumental to wellbeing as economic assets but also intrinsic to wellbeing for their symbolical value. Similarly, when Luo people exchange livestock, they do so for both instrumental and intrinsic motives. In fact, borrowing cattle from a relative or friend can support the material needs of the household, while providing a sense of greater respect from the community, which is positively related to the size of the herd. These examples suggest that managing resources well is both instrumentally and intrinsically valuable. Further research conducted in developing countries to try and understand what people value (Narayan, Chambers et al. 2000, Narayan, Petesch et al. 2002, Ibrahim 2011), also show that managing economic and financial resources well is both something that people value in itself and as an instrument for the achievement of other life goals. For instance, while being able to save can be intrinsically important because of the sense of security and control over one own life which can derive from it, savings will also be instrumental for people to achieve other goals like being educated or healthy.

Economic anthropology shows that economic resources at large, rather than financial resources alone, are both intrinsically and instrumentally important for people's wellbeing. This broadens the focus from money management to management of economic resources which include money but also productive assets, livestock, property and so on. This is in contrast with the predominant focus of the current literature on financial capability which rests on money management and in line with a broader view that shows that people attach values and meanings to both their economic and financial resources and transactions (Shipton 2007; 2010). For instance, Shipton (2007, 2010) shows that credit and debt can take forms that are not monetary. It is useful then to take into consideration how people not only manage money in narrow ways but also how they manage their economic resources as a whole.

The CA assumes the various individual capabilities to be interconnected and not exclusive so that, for instance, if an individual is healthy, she will also be more likely to benefit from greater mobility, as well as education and income-generating opportunities, while financial and economic disadvantages may constrain people's opportunities, therefore also affecting their capability set. In other words, the different "beings" and "doings" interact with each other. Therefore, using the CA to explore people's financial and economic practices also allows them to be related to other wellbeing goals. These considerations show that the CA allows us to investigate the ability to take appropriate financial decisions within the context in which such decisions are taken, which is something advocated for but – as previously shown - not offered by the current literature on financial capability.

3.4 An argument for an emic perspective of people's valued financial and economic practices

One of the aspects of the CA that has mostly been criticised is the lack of both a list of relevant capabilities and guidance for the selection of such relevant capabilities (Nussbaum 2000; Robeyns 2005). Indeed, the capability approach does not prescribe a fixed list of relevant capabilities and endorses public and democratic discussion as the selection processes for relevant capabilities (Sen 2004a). This process of public reasoning stresses the role of agency, democratic reasoning and freedom of choice in the selection of relevant capabilities. For instance, when the CA is used for policy work, it will be the people affected by such policies who should select the relevant capabilities (Robeyns 2005). In this way, the selection becomes context-specific as it should pay attention to the particular individual, social and economic circumstances. However, Sen does not give a clear picture as to how this process of public reasoning should take place, neither is it realistic to think that all empirical applications of the approach would allow for such open discussion among all of those affected. For instance, while small-scale projects are characterised by a small number of people who will be affected and who can all potentially participate in such discussion, large-scale assessment projects researchers may not be able to engage with all the people who will be affected (Robeyns 2005). Based on this, different methodologies would need to be applied in order to ensure a genuine selection of relevant capabilities.

Through public reasoning and discussion, the CA can offer a framework in which to take into consideration the perspective of people from the ground – emic perspective. This will allow exploring what people are able to be and do with their money and wider economic resources but also in terms of the values and meanings that they attach to their behaviours, motivations, attitudes and achievements. Using the approach means that the value judgments will be made on the ground through an on-going process and it will be possible to consider several levels of participation and perspectives (Alkire 2002, Alkire 2005). Why are people choosing certain financial practices over others even when the chosen ones are not the most economical? These are the questions that the CA proposes would be explored rather than a pre-defined set of 'good financial skills and optimal behaviours', as put forward by the available literature on financial capability. Therefore, the focus shifts from those skills and behaviours that allow people to engage more 'effectively' with the financial sector to those skills and behaviours that allow people to manage their financial and economic resources in a way that improves their wellbeing, bringing to surface those values and meanings which are associated with such management practices. This means that financial behaviours that are not clearly financially optimal from an outsider's perspective (e.g. giving funds to a relative instead of putting them in a bank account) may be regarded as good practices from a wellbeing perspective.

Sen was also aware that the CA might be subject to the criticism that people's preferences adapt to their meagre circumstances, and likewise what they have reason to value may also adapt. Clark (2005) argues that the only way to avoid being paternalistic is to actually ask poor people about what they value, although this will not guarantee that results may not be distorted by adaptation to circumstances. However, in so far as there are no proven objections to such results, Clark argues that such results should be considered as true. Otherwise the adaptation argument may end up undermining "the moral case for listening to the poor"(Clark 2012). Similarly, poor people's financial and economic practices may adapt to the circumstance of poverty: certain financial and economic alternatives may not even be considered because poor people are not aware of them or not familiar with certain strategies, or because they think that certain options are only for rich people. However, even if that is the case, there is still a strong argument for listening to poor people's perspectives because eventually that represents what is potential and realistic in their life at the moment, even though a different person may see different opportunities.

The emic view offered by the CA therefore argues for a very different perspective on evaluating what is important from the point of view of financial capability. It provides a platform for the exploration of financial and economic practices as developed by individuals within their social and cultural environment of reference. By understanding the values and meanings, as well as the beliefs, which are at the origin of such practices, it may also be possible to understand why other options are not considered and chosen. This highlights that the values and meanings that are at the base of the current practices may need to be considered in the policy discussion around financial inclusion.

3.5 Human heterogeneity and financial and economic practices

Two further aspects of the CA are important to consider in relation to financial capability. One is the idea of ethical rationality used by Sen and the other is the consideration of human heterogeneity and conversion factors (Sen 1985, Sen 1988). One of Sen's criticisms of mainstream economic thinking is the use of a very narrow and restricted view of rationality, which he considers as technical rationality (Sen 1987). Individuals have infinite desires and wants but only a limited amount of time and resources and according to this idea of rationality, they will be able to allocate appropriate means to achieve selected ends, which are normally equivalent to the maximization of utility. On the contrary, Sen argues that economic decisions need to be evaluated from a perspective of ethical rationality to take into account the fact that people value both the objectives of their actions and the process by which they reach such objectives (Alkire 2002).

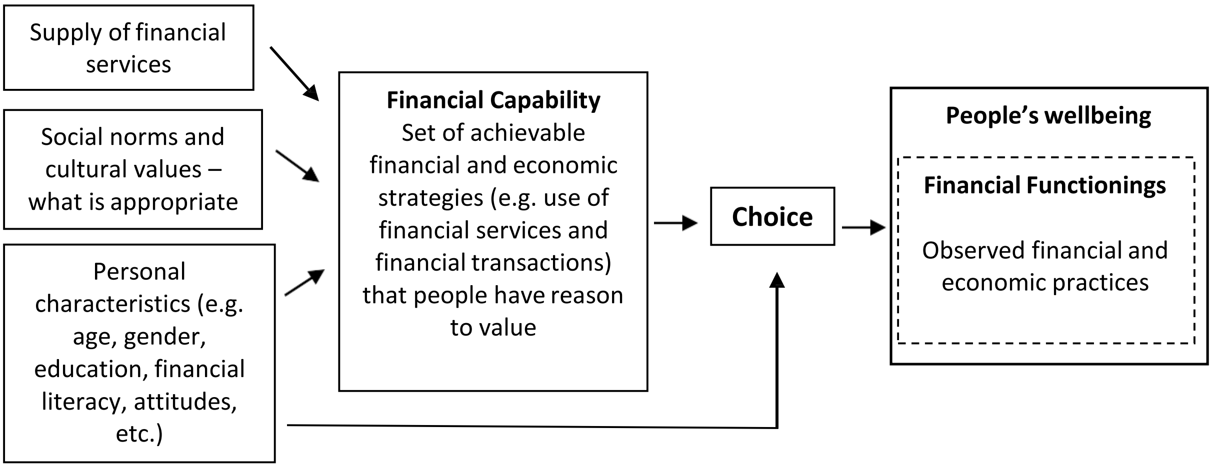
This expansion of the concept of rationality seems to be very relevant for exploring financial capability sets from an emic perspective. Indeed, ethical rationality allows for a consideration of different and often conflicting valuable functionings; it requires a critical examination of cultures and traditions and the values attached to them; and finally ethical rationality promotes a process of public discussion and value judgment (Alkire 2002). Broadening the concept of rationality is therefore instrumental to include other human motivations and values to economic decisions and promote a better understanding of economic behaviour. This is in line with the ways other disciplines, such as anthropology, sociology and psychology, have looked at economic behaviour and shown that similar financial strategies may assume different meanings for different people (Guérin 2012) . Similarly, other authors have looked at a variety of human motivations beyond self-interest, such as compassion and altruism (Nussbaum 1996, Sen 1997, Frey 1998, Kolm and Ythier 2006).

The broader perspective of ethical rationality and multiple motives brings with it the understanding of human beings as being different. The CA takes into account human heterogeneity through the consideration of conversion factors: these are factors which influence the ways in which individuals are able to translate assets and resources into achieved wellbeing, while at the same time influencing the individual capability set. Robeyns (2005) talks about personal factors which are, for instance, gender, metabolism, intelligence and physical condition; social factors which are represented by public policies, gender norms, power relations, societal norms and hierarchies; and geographical factors which are things like climate and geographical location (Robeyns 2005). These factors influence the set of achievable and valuable options that people have in two ways: on the one hand, structures will define what people can potentially pursue (disadvantageous structures can therefore constrain such set of options), while on the other hand personal characteristics will influence what people regard as both valuable and achievable (their capability set). “In real life, our ideas of the good life are profoundly influenced by our family, tribal, religious, community or cultural ties and background” (Ibid., p.102), and such influences may not always be negative or unjust (Robeyns 2005a). Sen has repeatedly acknowledged the importance of considering culture in the development of values (Sen 2004) and Ibrahim (2011) argues that the CA is an appropriate framework for the analysis of people’s aspirations, whose formation and achievement are intrinsically and instrumentally influenced by culture.

This aspect of the CA is particularly relevant for the exploration of financial and economic practices. Indeed, the ways in which people develop and assign them certain values and meanings is ultimately influenced by their personal characteristics as well as the social and geographical factors of reference. Ultimately, what people think is valuable in terms of financial and economic practices will be influenced by the availability of certain financial services and how easy it is to reach them (geographical factors). In addition, social and cultural values will influence the set of priorities of every individual in terms of financial and economic practices (social factors); and the individual’s personality and physical characteristics will influence their familiarity with and their use of the financial and economic opportunities available (personal factors).

The capability set will therefore be specific for each individual and based not only on the supply side of the financial sector and other social structures, such as gender norms, but also on the individual knowledge and valued judgments of potential financial and economic options. The mainstream view of financial capability that was earlier presented suggests that people need to improve the ways in which they use financial services and take financial decisions. Such a view misses the fact that such practices are embedded in a social and cultural environment and therefore may not need to be improved according to an external view of what good financial management is. For instance, even when two individuals with similar socio-economic status and characteristics live in the same place, they will probably differ in terms of attitudes and skills. Therefore, the options available to them in terms of financial and economic decisions will be different because they will interpret and use the available financial services in different ways, which they would both regard appropriate and effective by their circumstances.

Figure 4 Contributing factors to financial capability and its relation to people's wellbeing



3.6 Conclusions

This section has presented the CA as a framework for evaluating people's wellbeing which highlights that this should be based on what people are able to be and do, rather than the resources they have. Thus, the CA shifts the focus of the analysis on to people themselves and what they value. The current policy focus on financial inclusion expects that increasing access to financial services will improve people's financial wellbeing. The CA provides an evaluative framework which allows us to look at financial inclusion in terms of wellbeing by exploring the ways in which people manage their money and wider resources and how these relate to their goals for wellbeing.

Based on such a wellbeing perspective, financial capability becomes the bundle of available financial and economic strategies among which people can choose in support of their valued life goals. However, Sen does not only attribute value to the final achievements but also to the selection process, highlighting the importance of people's freedom of choice of their valued states of being and doing. In this way, we reinstate the value of exploring people's financial practices from an emic perspective, thus paying attention to the values and meanings that people attribute to them and how they relate to their wellbeing goals. This is in contrast to the mainstream studies on financial capability which put forward a certain set of "optimal" financial behaviours and explore neither the potential relations of these achievements with other wellbeing goals, nor the emic perspective of how people develop such financial practices, in relation to their social and cultural context.

Sen's distinction of means and ends suggests that managing money and economic resources should be considered only as instrumental to other wellbeing achievements. However, studies of wellbeing present a picture that is multidimensional and argue that money and economic resources are both instrumentally and intrinsically important for its achievement. Consequently, this rather seems to suggest that the financial practices (the ways in which people manage their money and economic resources) adopted by poor people may be valued both in themselves and for the achievement of other valuable goals. Based on this perspective, financial practices can be both achievements in themselves but also inputs for expanding the potential wellbeing opportunities.

Moreover, the CA highlights that human heterogeneity and conversion factors, which are personal, social and geographical characteristics, influence the ways in which people translate assets and resources into valued functionings. Therefore the CA recognises that the capability set will be specific for each individual and based not only on the supply side of the financial sector and other social structures, such as gender norms, but also on the individual knowledge and valued judgments of potential financial and economic options. By using this perspective it is acknowledged that the financial practices of poor people are valuable in their own terms and as such need to be understood rather than by comparing them to practices that are appropriate in other contexts. Literature in economic anthropology and sociology shows how economic and financial practices are also social and that there are different rationalities at work when people take financial and economic decisions. This perspective is closer to what the CA highlights and will be presented in the next section.

4 Economic anthropology and sociology for financial capability

4.1 The social and cultural meanings and values of money

Economic anthropologists and sociologists offer a perspective on human economic behaviour which differs from that offered by the studies on financial capability presented above. The construction of meanings and values is a recurrent theme throughout the economic anthropology literature and this introduces a social and cultural perspective of human economic behaviour and consequently of financial capability, which steers away from a normative and universalistic view of optimal financial management – i.e. as rational optimising behaviour. Economic anthropologists and sociologists argue that economic relationships are embedded within social relationships and the two types of relationships influence each other (Polanyi 1957, Zelizer 2010). Ultimately, everything that is economic is also social, economic relationships are embedded and influence social relationships and *vice versa*.

Based on the view that economic relationships are not only market relationships, people behave according to multiple motives, such as self-interest, social norms and moral values (Wilk and Cliggett 2007) depending on the type of relationship in which the economic exchange is happening. For instance, people use relationships of debt and credit to strengthen and diversify their social relationships (Shipton 2007) and relationships of savings to build social safety nets in countries where these are not provided by the state (Rowlands 1995). These studies show how the meanings and values associated with different economic exchanges depend not only on the economic, social and cultural context, but also on the personal position of the individual, and they are continuously created and negotiated through practice (i.e. constructed). Consequently, the ‘rationality’ or ‘appropriateness’ of such behaviour should be evaluated by taking these norms and values into consideration.

Within this perspective of the economy, money becomes personal and subjective as people distinguish between multiple monies (Zelizer 1997) and construct its value through relationships of exchange (Simmel 1990). People use money in different ways based on their sources, their type and the different social contexts and interactions so that money can be constrained by social structures, values and norms. Money is multiple and people distinguish some forms of money as being more appropriate than others given the circumstances. For instance, using coins to pay for the newspaper is acceptable while using a £100 paper note would not be appropriate. Consequently, monies can be subjective and qualitatively heterogeneous: money may not be always fungible and exchangeable but very personal and unique, like the £5 note on the wall of a pub with the signature of a famous football player.

Ultimately, the value of money is not defined by the market or as an objective truth but rather it is created subjectively through human exchange (Sahlins 1976, Zelizer 1997). Anthropologists argue that money has no quality in itself “apart from its uses, which depend on the traditional transactional modes of each culture’s economy” (Furnham and Argyle 1998). Through culture people construct certain views for the processes of production, consumption, circulation and exchange. Money acquires certain meanings and values within these processes and its symbolism is an ongoing construction within each culture (Parry and Bloch 1989).

This value is continuously negotiated and therefore situationally defined, created and constructed through the act of transacting (Parry and Bloch 1989, Berry 2007). Guyer (2004), for instance, shows that in Atlantic Africa there are different systems of valuation co-existing at the same time and people move from one system to the other through their daily practices in order to overcome the disjunctures between different methods of valuation and make ‘marginal gains’. This multitude of valuation systems is also compatible with the co-existence of different spheres of exchange that as shown by Guyer (2004) are very much fluid and tend to overlap, situations where the geography and local institutions define what can be exchanged and what means of exchange can be used.

When different valuation scales are at play at the same time, it becomes possible that the boundaries between different types of economic transaction blurs. In this way, what was initially a credit may become a gift (Shipton 2007), and what was a gift may in future be sold in the market. Hence, people continuously construct and give meanings to their economic relationships and resources. ‘Things’ (i.e. material objects) change their role as they move in and out of social relationships and value is continuously constructed through these relationships (Appadurai 1986). Because of this, values are unstable and historical, as people’s expectations regarding a certain exchange will be influenced by their past experiences (Berry 2007). The constructionist, social and cultural view so far delineated with regard to money and its values is similarly reflected in the ways in which economic anthropologists have discussed economic relationships of gift, credit/debt and savings.

4.2 Morality and economic relationships

This literature shows that both in developed and developing countries people continuously construct the meanings and values that are associated with their economic relationships – be they of credit/debt, savings, gifts – and assets. For instance, the exploration of gift exchange has pointed to the use of such exchanges in maintaining social relationships and recognizing each other: indeed because gifts are symbolic of the giver and of the relationship between giver and receiver they involve reciprocation (Mauss in Wilk and Cliggett (2007)). Morality in economics has normally been associated with societies where exchanges were based on reciprocity rather than market exchanges. However, it is now argued that all economic systems emerge out of a social contest that is characterised by a certain set of moral norms (Browne 2009).

Since morality is at play in every economy system, it becomes important that the terms of economic relationships are equally understood by both parties in order to maintain and strengthen such relationships. When lender and borrower do not share the same morality because, for instance, coming from different social systems, such as when international organisations lend to poor people in developing countries, the understanding of the terms of the relationship may not coincide. The meanings and values of such terms get reinterpreted by local people according to their morality – e.g. interest, default, solidarity - leading to problematic and disruptive relationships (Shipton 2010, Johnson 2013, Salazar 2013).

This shows that relationships of credit/debt are not only economic relationships. They are also social and cultural and as such they are symbolic. The types and terms of credit/debt relationships in which people enter depend on their age, gender, caste, religion and ethnicity (Shipton 2007, Guérin, Roesch et al. 2013) as well as on how close borrower and lender are, often leading to different systems of reciprocity at play (Shipton 2007). The ways in which relationships of credit/debt are valued is therefore situational and established in each transaction through practices of entrustments and obligations. Similarly to Guyer's multiple systems of calculation, credit/debt relationships are not only valued based on quantity but also on quality (Shipton 2007), so that a bad transaction is rarely the most expensive one but the one that undermines the reputation of a family and its status in the social hierarchy (Guérin, Roesch et al. 2013). These relationships and their values mutate over time (Shipton 2007) and connect the present with the future and the past (Peebles 2010).

Moreover, relationships of credit/debt are embedded in social relationships which are normally characterised by power asymmetries and social hierarchies. Debt happens in between individuals who are not in a state of equality during the time of the debt – a time where the morality of hierarchy prevails. However, the two counterparts consider to have the ability to restore such equality. Therefore, debt "is just an exchange that is not been brought to completion" (Graeber 2011). When accounts are squared and the debt is repaid, equality is restored and the two parties can walk away. Debt is therefore a "creature of reciprocity and has little to do with other sorts of morality" (Ibid).

Similarly to credit and debt, savings can assume different forms, such as cash or livestock which are symbolically connected to social norms and cultural values (Shipton 2007). For instance, Western individuals used to have the majority of their savings in banks or private companies may not easily understand why most individuals in the Nyanza countryside in Kenya may not want to save in cash (Shipton, 2010). In an unstable economic situation, where there is risk of high inflation or unstable banking systems, it may be wise to find an alternative saving solution to cash. Inevitably, saving also acquires different meanings not only based on the social and cultural circumstances but also depending on the specific form that it takes. For instance, cash may be more easily spent, especially when saved at home. It may be more easily demanded by friends or family members to whom it may be difficult to deny a monetary request, especially if this is part of a bigger relationship of entrustment (Shipton 2010, Guérin, Morvant-Roux et al. 2013).

Also, the act of saving together can create relationships which are simultaneously connected to credit and debt and embedded within social relationships and dynamics. For instance, in some instances saving is seen as a way to increase the number of debt partners which may be approached for assistance in times of need as shown by Rowlands (1995) in her study of ROSCAs in Cameroon. Indeed, these groups are often not seen as a way to accumulate wealth but as a mean to increase social relationships. ROSCAs and other informal savings groups represent how social relationships, credit and debt relationships and savings are all interconnected. Savings are also associated with different spheres (see Bohannan's spheres of exchange in Parry and Bloch, 1989) – based on the sources of savings, the type of saving and the reasons for savings. These different spheres are at times not convertible as for the money saved by women for school fees or food and the money saved by men (more often using more formal saving instruments) for livestock and agricultural inputs. Savings and its relationship with lending and borrowing brings into the picture different temporalities. Indeed, similarly to what Peebles (2010) shows for credit/debt relationships, saving relationships also link the present with the past and the future as when children inherit their parents' savings and the older generations save in order to ensure continuous support to their kin.

Economic anthropology and sociology put forward a view of financial and economic transactions which are embedded within social relationships, adherent to a certain cultural context and constructed through everyday practices. Applying this view to the concept of financial capability brings to the surface a layer of considerations which are in line with the CA perspective reviewed above and so far absent from the literature on financial capability.

4.3 Implications for evaluating financial capability sets

The material reviewed from economic anthropology and sociology presents a reality where social norms and cultural values define what is appropriate; people construct their identities and social relationships around financial and economic exchanges and, *vice versa*, different monies are used to develop, strengthen and mark identities and social relationships. This perspective suggests the need to look at the financial and economic practices of poor people taking into consideration their views and everyday experiences as a basis for the normative assessment of those practices.

In this view, the understanding of financial capability is as the set of available financial and economic strategies that are appropriate based on the external context and their personal situation. For instance, people's capability set may also include their ability to manage their money in a way that allows them to be respected in the community and develop appropriate social networks, rather than by being able to save enough for their retirement. For instance paying school fees for a nephew may be a better 'retirement' strategy than saving for retirement in a situation where the value of the currency is very volatile or saving can at any time be demanded by other family members. Indeed support of this type may be in some way reciprocated by the same nephew at a later time while family ties are once again tightened. However, paying school fees for a nephew may also be a generous way to help out within the family and not associated with any economic return. It can symbolise one's sense of belonging and responsibility to one's own family, as well as being a source of respect and self-esteem.

In order to take this into account, a capability set needs to be explored as constructed by individuals through relationships and practices. Financial capability, as a construction, will make sense only at an individual level as people make sense of their lives while living them. Indeed, the meanings that people associate with money and their financial and economic transactions are based on the context but also on their individuality.

To summarise, this literature suggests that in order to better understand the financial and economic practices of poor people we must explore them taking into consideration the values and meanings that are associated with these practices and the individual and local understanding or appropriate behaviour. In fact, individual and local community practices define the construction and negotiation of economic and financial relationships as well as their symbolic meanings and values. Through this perspective, it becomes possible to take into consideration the role of power dynamics and the ways in which individuals interact with the external structures in the development of such practices. The different exploration of the financial and economic practices of poor people that is here proposed requires a different conceptualisation of financial capability and as it was shown in the previous section the capability approach represents a useful tool to explore the financial and economic practices of individuals while taking into consideration the values and meanings associated with them as well as their role in relation to wider wellbeing goals.

Table 1 Summary of concepts and implications for evaluating financial inclusion

Concepts from the Capability Approach	Contribution from Economic Anthropology and Sociology	Implications for Financial Inclusion and Capability
WB should be evaluated through valued "beings" and "doings" which people can achieve in their life – this suggests an emic perspective on what they have reason to value	Focus on financial and economic practices through everyday experiences as well as the values and meanings of such practices	The value of FI is in the ways it allows people to pursue their WB goals. Ultimately, it is valuable when it expands people's financial capability set, which is the set of achievable and valued opportunities that they have to manage money and resources, to achieve such goals.
Means and resources are instrumental to WB	Consider economic and financial resources and practices as both instrumentally and intrinsically important for people's life. Resources and practices are therefore symbolic.	Available and achieved financial and economic practices should be evaluated for their instrumental and intrinsic contribution to WB. They will have different values and meanings for different people.
Ethical rationality and human heterogeneity	A variety of financial and economic practices may be appropriate. People behave according to different motives (self-interest, social norms and moral values). Economic and financial practices are embedded within social relationships and cultural norms.	The appropriateness of available and achieved financial and economic practices needs to be contextualised, by taking into consideration people's realities, as well as the social norms and cultural values of reference.

5 Conclusions

This paper has examined the potential of Sen's capability approach (CA) as an evaluative framework for financial inclusion policy. This framework focuses on what people's substantial freedoms are (their capabilities), moving beyond a focus on the amount of resources or services that they have. It highlights that wellbeing should be evaluated based on what people are able to be and do, rather than resources they have, thus shifting the focus of the analysis on to people themselves and what they value. Adopting the CA as an evaluative framework therefore suggests that increasing the availability of financial services is valuable only if the increased range of options allow people to pursue their wellbeing goals.

The current literature on financial capability seeks to capture the idea that people's effective use of financial services will lead to improved wellbeing. However, the approach to financial capability has been based primarily in the etic models of rational choice and behavioural economics and studies on financial capability have so far adopted an ontological assumption that financial capability is a set of "optimal" financial behaviours which can be defined and measured. Therefore financial capability requires an evaluative framework for the exploration of how and to what degree the ways in which poor people take financial decisions and engage with financial services does improve their wellbeing.

Based on the CA definition of capability, we have defined financial capability as the bundle of available financial and economic practices among which people can choose and the various possible ways to make use of them in support of their valued life goals. The framework highlights the importance of people's freedom of choice of their valued states of being and doing, thus re-instating the value of exploring people's financial and economic practices from an emic perspective, paying attention to the values and meanings that people attribute to them and how they relate to their wellbeing goals. Within a wellbeing perspective, financial and economic practices, which are the ways in which people manage their money and economic resources, take on both an instrumental and intrinsic value for people's life, so that they can be both achievements in themselves but also inputs for expanding the potential wellbeing opportunities. In addition, the CA highlights that human heterogeneity and conversion factors that are personal, social and geographical characteristics influence the ways in which people translate assets and resources into valued functionings. Therefore the CA recognises that the capability set will be specific for each individual and based not only on the supply side of the financial sector and other social structures, such as gender norms, but also on the individual knowledge and valued judgments of potential financial and economic options.

Finally, this paper has presented material from economic anthropology and sociology which offers an understanding of people's financial and economic practices which reveals the ways in which they give value to them. Indeed, this literature shows how economic and financial practices are also social and that there are different rationalities at work when people take financial and economic decisions. In particular, economic anthropology and sociology present an analysis of the way social norms and cultural values define what is appropriate; people construct their social relationships around money and financial and economic exchanges and, *vice versa*, and different monies are used to develop, strengthen and mark social relationships. This suggests that financial capability should be explored and evaluated as a set of potential strategies that are continuously constructed through social relationships and within a particular cultural setting.

We have therefore argued that the capability approach presents a number of characteristics - such as its focus on individuals and their wellbeing goals, its emic perspective on people's values and the consideration of conversion factors - which enable the evaluation of inclusion policy. This therefore offers a framework through which financial inclusion can be evaluated in terms of its ability to expand people's financial capability set in ways that increase their wellbeing.

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