Title: Mind the gap: Is ability or opportunity to act the key constraint to improving financial well-being?

Financial inclusion is considered a key enabler for implementing the 2030 Sustainable Development Goals—featured as a target for 8 of 17 goals. It has received prominent support from international organizations and local governments alike, leading to ambitious efforts such as the World Bank's Universal Financial Access 2020 initiative, among others. However, it has also become increasingly scrutinized over numerous demand-side issues, including high-profile cases of over-indebtedness crises, victims of predatory or fraudulent providers, and weaker-than-expected results found in recent impact evaluations. This has led to questions over whether "base-of-the-pyramid” consumers primary constraint to improving financial health is rather a lack of financial literacy and if this may explain the considerable heterogeneity of outcomes from financial inclusion interventions.

To help answer this, I draw on nationally-representative micro-data covering a diverse set of 6 emerging and 6 developed economies. Applying coarsened exact matching to create synthetic control and treatment groups, I find that populations commonly targeted for financial inclusion face significant gaps in financial health, even given identical financial literacy ("ability to act"), demographic backgrounds, and apparently similar integration into financial systems. However, a notable part of this gap is explained by differences in meso-level features of individuals' financial systems, such as the balance of products offered and used, competition levels, information sources, and efficacy of informal and semi-formal finance. These have generally been overlooked in past metrics of financial inclusion and suggest that barriers in "opportunity to act" are still a primary constraint. Finally, despite this opportunity gap, most of the targeted populations exhibit financial literacy levels associated with improved financial health from increased financial inclusion.

The study contributes to extant literature on financial literacy and inclusion. First, it helps explain why financial education interventions are less likely to impact financial health among populations targeted for financial inclusion. Second, it illustrates one of the drivers behind the highly-skewed distribution of outcomes found in recent RCTs on microfinance. Practical implications are that promotion of universal financial access may fail to deliver expected outcomes, absent greater attention paid to improving institutional features of financial systems, and other requisite aspects of contextual environments.