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ROLE OF FINANCIAL INCLUSION IN REALIZING SUSTAINABLE DEVELOPMENT GOALS OF DEVELOPING ECONOMIES

Manasi B

Research Scholar, Institute of Financial Management and Research, Andhra Pradesh, India

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ABSTRACT

Sustainable development is the need of the hour and financial inclusion is a necessary step in achieving the SDGs, especially for emerging economies. Financial inclusion is not listed as one among the 17 SDGs, but it plays an active role as a mediator in achieving SDG1, SDG2, SDG3, SDG5, SDG8, SDG9 and SDG10. Digital inclusion will undoubtedly be the future of financial inclusion policies, especially during the times of crisis.

KEYWORDS: *Sustainable Development, Sustainable Development Goals, Financial Inclusion, Developing Economies*

INTRODUCTION

Achievement of sustainable development is not anymore a choice, but a necessity for the all the countries across the globe. According to the United Nations Development Plan, "the greatest challenge faced globally is eradication of poverty in all forms and dimension, especially extreme poverty." The 2030 Agenda of Sustainable Development realizes this challenge and lists 17 goals for the betterment of people throughout the world (United Nations 2030 Agenda). While financial inclusion is not listed as a direct sustainable goal to be achieved, it plays an active role as a mediator in achieving several of them (Klapper et al., 2016). Many programmes and policies focussed on financial inclusion helps in improving the financial services and other opportunities in developing economies which paves way in realizing the SDGs.

FINANCIAL INCLUSION

The need for financial inclusion for the growth and development of countries is recognized by the governments and policy makers, especially of emerging economies. Financial inclusion can be defined as a process of enabling easy and affordable formal financial services to all (Sarma & Pais, 2010). Rangarajan Committee had defined the financial inclusion an inclusive allocation of financial services has multi fold benefits other than poverty eradication. Curbing the growth of informal sources of credit and other financial services is one among them. While discussing the importance of financial inclusion, having a broader understanding of the terms social exclusion and financial exclusion is imperative. The literature on the meaning and definition of social exclusion is widely dispersed. It includes the processes associated with deprivation and poverty along with an array of different categories of marginalised and vulnerable people who gets excluded (Peace, 2001). Financial exclusion is a form of social exclusion where a section of economy gets excluded from the formal financial system. (Conroy, 2005) defined it as a system where the poor and marginalised are not able to access the formal financial services in their respective countries. The process deters a section of the society from accessing affordable, fair and safe financial products and services from the formal system (Mohan, 2006)

FINANCIAL INCLUSION AND DEVELOPMENT

On defining the meaning of financial inclusion and exclusion, the common theme of recurrence is its effect in hampering the development of the vulnerable and marginalised sections. Owing to its multi-dimensional facets, an inclusive financial system requires policies for both demand and supply side for it to be useful for the intended beneficiaries. Past literature on the effect of financial inclusion clearly underlines its ability to improve the welfare of the poor by making them more equipped to deal with financial shocks, improve consumption, initiate entrepreneurial activities etc (Beck et al., 2011). Evidence from Africa suggests that the 60 % of the economic growth was a result of increased financial development and most of it came from the income growth of the poorest quartile of the demographics (Beck et al., 2007).

Extensive studies have been done in the India as well to establish the linkage between financial inclusion and development. The empirical studies are mainly of three categories – Randomized Control Trials, quasi random experiments and cross-country analysis. The following section will detail how financial inclusion impacts various sustainable development goals with special focus on Indian policies.

FINANCIAL INCLUSION AND SDGS

As previously mentioned, financial inclusion does not fall under any specific sustainable development goal, but it plays a pivotal role in helping to achieve 7 of 17 SDGs listed (UNCDF, 2019). Thus financial inclusion is not an end, but a means to achieve a sustainable development and progress. The list of 7SDGs that are enabled by financial inclusion is listed in the following table:

Table 1 shows Past literature and evidence show that financial inclusion can have a significant impact on sustainable development goals and thereby impact the sustainable development of the economies.

Table 1: List of SDGS That Are Impacted By Financial Inclusion

SDG Goal	Objective
SDG 1	Eliminate Extreme Poverty
SDG 2	Reduce hunger, improve food security
SDG 3	Better health and well being
SDG 5	Gender equality
SDG 8	Improve work, economic growth
SDG 9	Industry, innovation, Infrastructure
SDG 10	Reduce Inequalities

Source: Author's report based on the UNDP list of SDGs

SDG 1–Eliminating Poverty

Financial inclusion facilitates the eradication of poverty by providing accessible and affordable financial services to the poor. The global poverty rate is around 8.6 percent according to the World Population Review, 2020 with South Africa exhibiting the highest rate of 26.6 percent while India has a poverty rate of 21.9 percent. Majority of the poor is found to be women and children in most places (World Bank, 2020). A preliminary study done in 2020 by World Bank estimates that the pandemic can push back many more to extreme poverty and bringing the total to 729 million. Financial inclusion is an immediate action required to handle this crisis by providing them with adequate access to credit, savings and other social security schemes. A study in Ghana found evidence that the effect of financial inclusion on poverty was two-fold. It reduced the probability of a household's poverty by 27 % and also reduced the chance of exposure to poverty in future by

28 %. The effect is found more pronounced in rural areas than urban area, with households having female heads responding better to the initiative (Koomson et al., 2020).

Financial inclusion in the form of credit access allows families to save and invest, thereby protects them from unforeseen emergencies. Social security schemes such as pension aimed at the destitute help in their well being and protect them from extreme poverty. A survey called Public Evaluation of Entitlement Programme has found out that the pension schemes for the poor and destitute are reaching the beneficiaries and for many, it is the only source of income (Chopra & Pudussery, 2014). IGNOAPS is one such non-contributory pension scheme aimed at the older population living in poverty. Financial deepening by increasing the number of bank branches and priority sector lending has caused a significant reduction in poverty in India (Inoue, 2019).

SDG 2–Reduce Hunger

Around 690 million people were malnourished estimating around 8.9 percent of the global population. The current scenario is termed alarming by the UN and it is expected to become worse given the current situation of COVID-19. Financial inclusion is now more relevant than ever to pump brakes on the increasing rate of hungry people in the world which has grown by 10 million since 2018. Providing formal financial access to farmers can result in improved productivity which, in turn, can reduce the hunger rate. A randomized control trial done in China on providing insurance to sow farmers had significant positive impact on the productivity, which is a positive sign of effectiveness of financial inclusion (Cai et al., 2015).

India also finds itself in the most serious hunger category as it ranks 94 out of 107 countries in the Global Hunger Index of 2020 with 14 percent of its population malnourished. Agricultural insurance to Indian farmers can be a boost for improving the food productivity and reducing the hunger rates. Commitment savings schemes and affordable credit facilities are also found to have significant effect on improving the productivity of farmers (Klapper et al., 2016). One intended impact of financial inclusion was to reduce the incidence of informal sources of lending, especially the money lenders. In the absence of crop loans, farmers will be pushed to the hands of money lenders and evidence from potato farmers in Maharashtra has found the prevalence of informal sources due to the increased difficulty in getting loans from the banks (Balachandran & Dhal, 2018). Pradhan Mantri Fasal Bima Yojana is one crop insurance scheme for the farmers launched in 2016 to incentivise farmers in increasing their production and thereby improve food security.

SDG 3–Improve Health and Well Being

The out-of-pocket expenditure is one of the main reasons for continued poverty in many developing economies. Financial inclusion facilitating better access to medical facilities can go a long way in improving the health and well being of all sections of the society, especially the poor. The amount of money spent as out of pocket expenditure is also dependent on the public policies of the government. Lack of adequate public health facilities leaves people no choice but to spend out of pocket. Thus, it becomes a matter of interest for the policymakers to understand the amount people spend on health which is also reflected as one of the SDGs (Wagstaff et al., 2020). Providing adequate medical insurance and credit access can put a check to the increased out-of-pocket expenditure. Studies done in Africa and Asia found out that community-based health insurance and Social Health Insurance could provide financial protection to the families and more utilization of services (Spaan et al., 2012).

Evidence from India suggests that urban poor has worse health outcomes that the rural population. They face the problem of lack of affordable and quality health care system, thereby needing to rely on private facilities. This leads to out-

of-pocket expenditure which probably results in Catastrophic Health Expenditure pushing them to poverty (Sharma et al., 2020). Providing health insurance like Rashtriya Swasthya Bima Yojana along with financial literacy for the people to better understand the use of the policies has a significant impact on improving the hospital visits and utilization of the services, thereby increasing the overall health and well-being.

SDG 5–Gender Equality

Global Findex reports that the gender gap present in the membership of bank accounts still remains at 9% since 2011. The reasons could be from both the demand and supply side, wherein the social norms preventing women from having formal financial access is not getting included in the financial inclusion policies (CGAP). As compared to 58% of men who owns bank accounts, only 49.6% of women own accounts in developing countries. Evidence from literature suggests that increase in income in the hands of women through their own earnings or by a transfer of cash can lead to spending habits which ultimately benefits the well-being of women (World Bank Report-2012). Studies have also found positive impact of women empowerment on the welfare of the family and children.

India has fallen to 112th rank in 2019 in the gender gap index from its position of 108. Having the 9th worst labour female participation rate in the world, the financial inclusion of women is of utmost importance in India. According to an IMF working paper (Purva, 2018), a combination of financial inclusion policies targeting gender, and policies relaxing constrictions on formal employment sector can contribute towards almost 6.8% increase in India's GDP figures. Thus, to invest in women is a high return opportunity for India. Providing credit access to women can lead to improved spending on household activities. Microcredits aimed to promote more women entrepreneurs are a strong policy initiative in India through various schemes like MUDRA, Dena Shakti Scheme etc.

SDG 8–Employment and economic growth

Lack of financial inclusion will lead to both social and private cost which can destabilize the economic growth and development. IMF report of 2015 claims that almost 70% of the extreme poor in the world belongs to just 10 countries in the world. Exclusion of people from formal financial services can only result in increased income inequality and declining economic growth (World Bank 2014). A study in Thailand found that an increase in the formal financial services had caused an increase in economic growth from 1976 to 1990 (Townsend & Ueda, 2006).

Access to credit and savings facilities are said to have an impact on the individual's choices of production and employment, and ultimately leading them out of poverty (Banerjee, 2014). A study done on the effect of a state wide rural bank branch expansion in India found significant fall in poverty and improvement in economic growth. Mobilization of resources and disbursement of credit by the rural banks led to this outcome (Burges & Pande, 2005). Access to microcredits and loans for SMEs has a significant impact on job creation among the poor and marginalised. Policies like Start up India, Support to Training and Employment for Women (STEP) Scheme, National Employment Policy for India etc are aimed at improving the employment and thereby economic growth.

SDG 9–Innovation, Infrastructure and Industry

To enable more innovation and to promote industrialization in a sustainable manner, access to credit and investment facilities needs to be provided widely. World Bank Enterprise Surveys cites the lack of adequate formal finance as the biggest roadblock faced by small and medium enterprises in emerging economies across the globe. MSMEs create many

employment opportunities and are a cornerstone in the economic development of an economy. Evidence from Mongolia through a randomized experiment found that access to formal credit resulted in more women starting and expanding their business and also to invest in other small-scale enterprises. The village under treatment showed an increased likelihood of having entrepreneurs than the control village (Attanasio et al., 2014).

According to the Microcredit Summit Campaign of 2010, MFIs has increased rapidly in the last two decades across the world. An experimental study done in Hyderabad analysed the impact of group lending of credit to women and found that the households in the treatment were not more likely to open new businesses but had more likelihood to expand existing business (Banerjee et al., 2015). Providing business and financial training is also equally important in enabling the entrepreneurs to make use of the formal financial services. By combining access to credit and training, significant improvements can be achieved in the profitability of the business. Credit Guarantee Trust Fund for Micro & Small Enterprises (CGTMSE), Micro & Small Enterprises Cluster Development (MSE-CDP), etc are some schemes initiated by the government which provides financial assistance for improving the business and entrepreneurial skills.

SDG 10–Reduce Inequality

Presence of inequality is deep rooted in developing economies and it is in fact adversely impacting the economic growth. The poorest 50 percent of the population in the world only has less than 10 percent of the wealth globally. Financial inclusion of the poor and marginalised is thereby essential for reducing the inequalities present and to improve the well being of all sections of the society. There are multiple evidences which show that persistent inequality can result in violence and political instability in the society (Dutt & Mitra, 2008). A study had found that a 1 percent increase in the income of poorest can cause an increase in the GDP by 0.38 percent while the same for the richest 20 % will push down GDP by 0.08 % (Dabla-Norris et al., 2015). Apart from direct credit transfer, other financial services in the form of insurance and pension can also contribute towards reducing the inequality gap.

The World Inequality Lab reports that the richest 1 percent controls 21 percent of income in India. The level of inequality in India only keeps rising and effective policies aimed at financial inclusion needs to be implemented. Financial services can facilitate in assisting the vulnerable people in times of emergencies or crisis. Relief in the form of digital payments at the time of crisis are found to be more convenient and faster modes of transformation which prevents the further widening of gap between the rich and the poor. Online promotions and mobile payments were used for the fund collection for the Covid-19 pandemic in India (Pal & Ansari, 2020). Indian government has been promoting the use of bank accounts and digital payment modes by initiating various policies and schemes. The implementation of biometric identity card AADHAR, Digital India initiative etc has enabled the government to start the process of bridging the gap of inequality through financial inclusion.

CONCLUSIONS

Financial inclusion may not be listed as a direct goal for sustainable development, but an inclusive growth is the only way for achieving the 2030 UN agenda of eradicating poverty and improving the global well-being. The governments and policymakers should make tailor made policies based on the social, economic, and structural needs of each country. India had achieved a significant increase in the number of bank account holders after the implementation of Jan Dhan Yojna, but a large number of accounts still remain inactive (Global Findex Report). This is a clear indication to the need of framing

policies that is equally available and accessible for everyone. Improving financial inclusion can only result in enhancing the economic growth and in no way diminishes the existing resources. According to the UN report, the recent global pandemic had derailed the attainment of many SDGs which can be tackled only by putting serious thoughts and efforts into bringing the vulnerable and affected under a formal inclusive financial system. Digital inclusion has gained relevance like never before and is the most effective means of credit transfers during crisis time. It can be thus said that digital inclusion is undoubtedly the future of financial inclusion policies to attain the sustainable development goals.

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