

# FINANCIAL INCLUSION AS A TOOL FOR SUSTAINABLE DEVELOPMENT

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**Abstract:** *Financial inclusion is one of the recent tools used by financial entities in order to provide suitable education for potential clients from groups of society that have a low level of education, in general, and almost no financial , in particular. Financial inclusion actions aim at explaining to lower educated groups of people and the mechanisms of the financial instruments that they can access in order to improve their day-to-day life. These programs are targeted towards people that are exposed to the risk of poverty and social exclusion. According to Universal Financial Access 2020, around 2 billion people from the global workforce do not use any form of financial services. As a result, the World Bank and the International Finance Corporation set the target to include 400 million adults in transactions by providing technical and financial support in the case of the World Bank and help 600 million adults to be included in investments and advisory services in the case of the International Financial Corporation. The highest impact of financial inclusion programs will be made in emerging countries with low economic literacy. As sustainable development became the highlight of nowadays agenda, financial inclusion may be viewed as an important tool to promote sustainable development in least developed countries and developing ones. As financial inclusion became a target for regulators and global development agencies, many countries around the world made commitments and some were developing national strategies to promote it. The development of financial inclusion may take on many forms, so the field is open to financial and non-financial institutions, which can innovate and explore new forms of financial services, like the case of microfinance that became very used in many developing and developed countries as a tool to lift people from poverty. Alongside with this free development space there needs to be a body to ensure consumer protection and responsible practices.*

**Keywords:** *financial inclusion; sustainable development; micro-finance; UFA 2020*

**JEL Classification:** *G34, I22.*

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## 1. Introduction

Financial inclusion represents is the process of providing access to financial products to the entire population of a country. If a financial system is inclusive it allows an efficient repartition of resources which leads to a reduction of the cost of capital. Another effect of financial inclusion is the decreasing in informal credit providers like money lenders. As a result the influence of financial inclusion can be a catalyst towards financial system efficiency, insuring a safe and secure way to access a palette of financial services.

Along the way the importance of financial inclusion becomes more and more appealing for policymakers and advanced to a priority policy in many countries which seek to alleviate poverty and advance their economy to the next level of development in a sustainable manner. The initiatives for financial inclusion have come from financial regulators, the governments and the banking industry (Sarma & Pais, 2010). Policy has been initiated by the government in different countries like: US – Community Reinvest Act, France – Law of Exclusion, UK – Financial Inclusion Task Force; or by the banking sector like: The German Bankers Association, The South African Banking Association and The Reserve Bank of India; or the microfinance providers and self help groups with the role to provide financial services to excluded groups or remote parts of the country.

## 2. Literature review

Inspecting the literature on financial inclusion we can observe that there is a common ground between researchers as it is almost universally agreed that financial inclusion promotes economic growth. The level of economic growth that is achieved through financial inclusion differs from country to country and region to region. The role of financial inclusion is to create a bridge between excluded groups of people and banks. The biggest problem of emerging countries is to convince the financial system actors to carry out their part and promote the financial inclusion actions in order to expand their operations to the excluded groups of people.

In the past the role in economic growth, in the industrialized world, was attributed to the state, also known as *developmental state* (Marglin & Schor, 1990; Wade, 1990). The developing world of the past advanced to its actual status under the sign of state intervention in fields like policy and economic development and inclusive sustainable growth (Epstein & Grabel, 2007). As development economics into the picture (Krugman, 1995), changed the onward economic thinking regarding the development of a country and its drivers came.

Among the first that acknowledged the relation between financial inclusion and poverty reduction is Levine (1998) and Beck *et al* (2007). Also economies with strong financial system witnessed a quicker poverty reduction (Deininger & Squire 1998; White & Anderson, 2001; Bourguignon, 2003).

Latest surveys on financial inclusion unveiled an entire range of reasons for not using financial instruments, but three of them are common to almost any study such as: no cash to save, account costs and fees and trust in formal institutions (Chakravarty & Pal, 2010; Desmond & Sprenger, 2007; Demirgüç-Kunt & Klapper, 2012; Dobbie *et al*, 2009). According to these studies there are a lot of factors that converge to generate the decision of an individual to hold or not an account provided by a financial institution. These factors can be classified in four categories: economic, financial, infrastructure, inequality and social trust (Van der Werff *et al*, 2013)

There are two ways in which financial inclusion can be achieved by *supply-leading* where financial development spurs growth or *demand-following* when growth generates demand for financial products (Swamy, 2014). When poor and vulnerable people have easy access to affordable financial service the seeds for sustainable growth are in place. Also by ensuring the same opportunities to access a functional financial system to all, allows a quicker integration of socially excluded people to reach economic integration.

Another problem that can be addressed by the financial inclusion is the increase of the resilience in front of natural disasters or economic shocks through the use of financial related instruments like insurances. The individuals or economic-social groups tend to react to external shocks as well as their resilience (Zaman & Vasile, 2014).

### **3. International initiatives towards promoting financial inclusion**

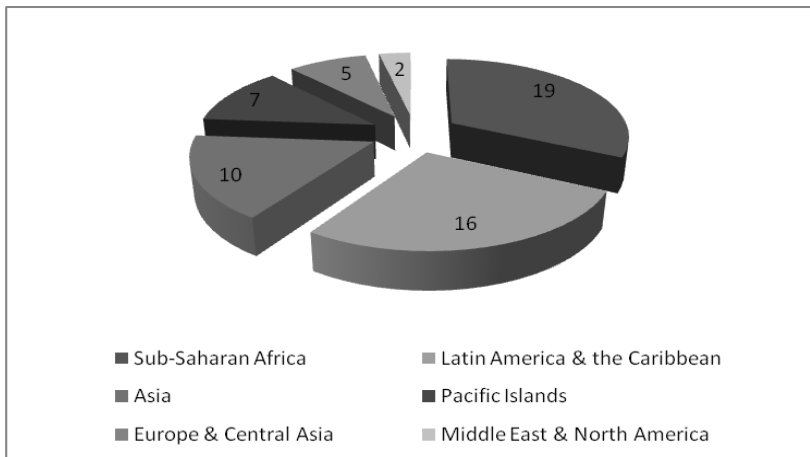
As almost 2 billion individuals are unbanked in the world, the need for worldwide initiatives in the field of financial inclusion are needed the most. Even though specific needs for each region must be addressed, the lessons learn in other parts of the world may prove time and cost reducing for the implementation of proper financial programs and instruments in order to achieve a global financial inclusion. There are a lot of organizations that have the role to explore and promote sustainable development by reducing poverty through financial inclusion. Two of the most important of them are The Alliance for Financial Inclusion (AFI) and The World Bank

#### **3.1. Alliance for Financial Inclusion**

The AFI is one of the world's most advanced organizations with the role to promote sustainable policy and regulations on the topic of financial inclusion. The organization is composed of a network of members with the role explore and propose solutions to make life easier for poor individuals by means of use financial instruments in order to generate a sustainable development through financial inclusion.

The AFI is composed of members, partners, central banks and other financial regulatory institutions from developing countries. Their role is to help the development of financial inclusion by promoting innovative financial inclusion policies. The AFI includes members and partners from more than 90 countries. The AFI is based on two key priorities: country-led approaches and peer-to-peer engagement.

**Figure 1 - Institutional commitment by region**



Source: AFI Maya Declaration 2016 Fact Sheet.

The main instrument by which AFI is working towards reaching financial inclusion is the Maya Declaration which was launched in 2011 at the Global Policy Forum. The Maya Declaration was the first commitment platform with the role of allowing AFI members to set financial inclusion targets, develop country-level policy and share the progress. There are three core values in the centre of Maya Declaration: self-determination, peer-to-peer knowledge exchange and new form of cooperation. A number of 59 Maya Declaration Commitments have been made and by now 32 AFI members set themselves goals and 9 members already complete them. The AFI Financial Inclusion Data Working Group is a set of core indicators divided into three pillars of financial inclusion: access, usage and quality.

### **3.2. World Bank**

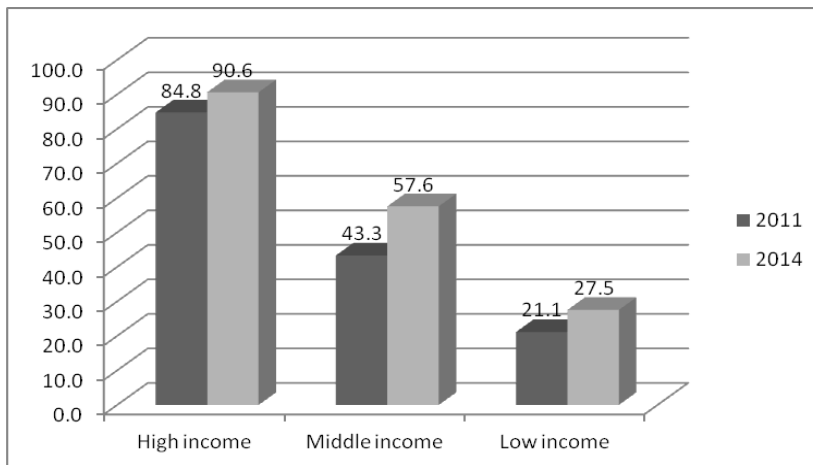
The World Bank is one of the most important drivers of development around the world and in the case of financial inclusion it provides a set of more than 100 indicators that allows for a better comparison and evaluation of the evolution of financial inclusion in the world collected in The Global Financial Inclusion (Global Findex) database. This

database allows interested parties to research topics like the way people save and borrow money, make payments and manage risks.

As the World Bank states, measurement is the key to understanding financial inclusion. Also this offers the necessary tools to identify opportunities and solve the problems that are keeping people away from financial services.

According to Global Findex since it started collecting data, in 2011 about 700 million individuals became account holders. At a global level around 62% of adults have an account in 2014, on an ascending trend from 51% in 2011. This trend has been seen in almost every country, but this varies around the world where the high income OECD countries are on top with shares up to 94% of the adults owning an account in 2014.

**Figure 2 - Share of people that own an account aged 15+**



Source: World Bank Global Findex Database.

As we can see in Figure 2, there is an ascending trend regarding the number of accounts for every type of income division. The highest evolution can be observed in the case middle income countries with an increase of 14.2 pp, followed by the low income countries with 6.4 pp, and high income countries with 5.9 pp. This can be explained by the fact that most of the middle income countries are developing countries whose population explore the use of financial products as the country develops. The low income countries still need guidance in the role and existence of financial products and how they can be of help their future sustainable development. As for the high income countries they almost achieve universal financial inclusion and only a small part of the population does not use financial products for different reasons, not necessarily economic driven.

## 4. Financial inclusion and sustainable development

Because financial inclusion is considered to be a part of social inclusion driver and social inclusion is a driver for sustainable development we can conclude that financial inclusion is a driver for sustainable development. The main role of financial inclusion is to promote financial instruments to individuals that didn't know of their existence or didn't understand them or considered them too problematic to use.

The financial inclusion promotes sustainable development through multiple channels like the use of microfinance to promote development for excluded groups of people or remote communities; providing education for a better understanding of financial products and efficient ways to use them; financial education etc.

The case of microfinance is one of the most successful ways to promote financial inclusion and generate a sustainable development in the respective community.

There are many forms of microfinance but the most important are (Srinivas, 2016):

1. Associations models, composed of a group, based on religious, cultural or political background that forms an association through which microfinance is initiated to create microenterprises;
2. Bank guarantees models – an internal or external bank guarantee used to access the loan;
3. Community banking models – usually achieved with the help of NGOs, this model views the community as a whole and formal or semi-formal institutions are used to allow access to microfinance;
4. Cooperative models – are composed of group of persons with the same social, cultural and economic needs who start an enterprise in order to finance an activity.
5. Grameen Model – one of the most successful model used by Grameen Bank started by Prof. Mohammed Yunus in Bangladesh consist in setting a Bank unit with a field manager and some bank workers who covers an area in which there are a number of 15-22 villages. The workers travel to the villages and explain to the people the benefits of the products they have in their portfolio their purpose and how they operate. Then groups of five possible borrowers are compiled and only two of them become eligible to receive a loan. After they are observed to see if they comply with the rules of the bank. If the first members repay their loan with the interest over a period of fifty weeks the next members of the group can be eligible for a loan.
6. Rotating Savings and Credit Associations (ROSCA) Model – is another wide used model which is composed of a group of people that make regular deposits to a fund

which is given to one member in each cycle. After he receives the sum from the group he repays it with the regular contributions.

7. Small Business Model – as the small and medium enterprises (SMEs) gain more and more importance in the economic life by generating employment, providing niche services and increasing incomes, microcredit has appeared. This is a component of wider policies that provide training, technical advices and management information for a better and sustainable development of SMEs.

Microfinance proved its efficiency in low-income and middle-income countries. It is especially used to provide financial instruments for poor people in order to lift them from poverty and provide them with the tools for sustainable development of their household, village community and so on.

## Conclusions

The goal to eradicate poverty can be achieved through many ways but, financial inclusion can be one of the most efficient because it provides people with the tools to self extract from poverty and not expecting a foreign intervention to do the work for them.

As the international concern about this topic is so well represented and the trends show a positive evolution we expect good evolution on the indicators that measures the level of financial inclusion.

The international initiatives have the role to explore and research the most efficient ways to promote financial inclusion and by partnering in spreading the most efficient models to achieve financial inclusion ensures the acceleration of the process.

Digital development of remote and poor areas will promote an ascending learning curve on financial instruments further accelerating the process of financial inclusion.

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