Financial Inclusion in Emerging Economies:challenges and impacts

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Financial Inclusion is one of the key policy agendas for policymakers and academicians in developing and emerging countries. According to World Bank Findex (2021), just 50% of people aged 15 and older worldwide had a bank account in 2011, with a meagre rise to 76% in 2021.

Despite advancements, the level of financial inclusion in developing and emerging economies is still below the world average, which restricts the participation of households and businesses in the formal financial system.

"Financial Inclusion is the process of accessing and using formal financial services for poor people, low-income, vulnerable, and marginalized people who were previously unbanked at affordable cost. Financial services include deposit, insurance, credit, pension, remittance, etc." (Rangarajan Committee,2008). Financial inclusion is a multidimensional concept that includes access, availability, and usage of formal financial services by previously excluded individuals and firms.

Financial exclusion causes people to depend on informal money lenders, family, and friends to borrow money(Banerjee and Duflo, 2007). Financial exclusion is a condition where some sections of people are voluntarily or involuntarily unable to access and utilize formal banking services like saving, credit, remittance etc. People also keep saving in physical asserts forms like gold, jewellery, land, and livestock in the village area.

However, Financial Inclusion helps to smooth consumption during economic shocks by saving and credit facilities from financial institutions. Studies have shown that it also increases economic growth by increasing production, economic activities and generate employment (Van et al. 2021).It helps people come out of poverty by providing credit at an affordable rate, which can be used in the productive sector to generate employment and income for the people(Sethi and Acharya,2018).

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Moreover, Financial inclusion also helps to reduce income inequality among the population as poor people can access and use banking services, which helps to grow the standard of living over time(Kim,2016). Financial Inclusion also helps micro and small businesses to grow by accessing loans from financial institutions at an affordable rate(Lapuka,2019).

It helps women's empowerment via micro-credit to Self Help Group (SHG)(Banarjee et al 2015). Universal financial access also effects environment sustainability. Past studies have shown a nonlinear relationship between financial inclusion and CO2 emission.

Credit availability at cheaper rates leads to more consumption of energy-intensive goods like AC, etc which increase CO2 emission (Le at al. 2020; Wang et al. 2022). Access to financial services also helps to adopt new technology, which reduces CO2 emissions.

Financial Inclusion has significantly increased in the last decades in emerging and developing countries. However, there is a growing Demand-side and supply-side barriers to financial inclusion (Barik and Lenka, 2022). Demand-side barriers include low income for people to save and borrow from financial institutions and low financial literacy about financial products and services.

The supply side barriers include physical barriers like lack of bank branches in hilly areas, high fees for financial services, absence of documentation, etc. The public policy should reduce demand side and supply side barriers based on need of the region.

Mr Alekha Meher
PhD Scholar in Economics
Dept of Liberal Arts