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Financial Inclusion Used As Tool For Sustainable Development

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Abstract: Financial inclusion is a recent tool which helps various financial and non financial institutions in providing basic education for people belonging to underprivileged and undefendable section of society. Financial inclusion helps low income people in bringing an understanding about the use of financial instruments to enhance their day to day standard of living. These programmes have been targeted to people who belong to poverty and social exclusion.

The impact of financial inclusion is found in emerging countries with low economic stability. In the recent past sustainable development has gained popularity in developing countries making financial inclusion to be used as a tool in sustainable development.

Keywords: Financial Inclusion and Sustainable Development.

Introduction

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Financial inclusion is a process where financial products and services are provided at affordable prices to vulnerable groups such as low income groups and weaker sections of the society. If financial system allows a repartition of financial resources which would lead to reduction of cost of capital. Another effect of financial inclusion is that it would help to decrease informal credit facilitators like money launders. Financial inclusion act as a catalyst towards enhancing financial system efficiency, insuring a safe and secure way to access various financial services.

The importance of financial inclusion becomes appealing for policymakers which has been advanced to a priority policy in many countries which strive to eradicate poverty and improve their economy towards development in a sustainable manner. The initiatives for financial inclusion have come from financial regulators, the governments and the banking industry (Sarma & Pais, 2010).

Policies have been initiated by the governments 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.

Research Design

This research study is based on data collected from secondary sources such as Newspapers, RBI Reports, Research Articles, Research Journals, E-Journals, Books and Magazines.

Statement of the Problem

To achieve greater financial inclusion, financial products and services have to reach low income groups and weaker sections of the F. Microfinance institutions have played a vital role in filling this gap.

As per the study it is evident that various microfinance institutions make use of a tool known as financial inclusion for sustainable development.

Objectives of the study

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- To understand the concept of how financial inclusion acts as a tool in sustainable development
- To understand the impact of microfinance in providing financial instruments and services to low income groups and weaker sections of the society.

Review of Literature

- In the past the role of economic growth, in the industrialized world, was 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 came into picture (Krugman, 1995) it changed the onward economic thinking regarding the development of a country and its drivers.
- 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 & Squire1998; White & Anderson, 2001; Bourguignon, 2003).
- Latest surveys on financial inclusion revealed 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*etal*, 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 (Vander Werff*etal*, 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).
- Underprivileged and undefendable people are provided with affordable financial services which lays path for sustainable growth and development. It also ensures same opportunities to be accessible by a functional financial system so as to allow faster integration of socially excluded people to reach economic

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integration. The individuals or economic-social groups tend to react to external shocks as well as their resilience (Zaman &Vasile, 2014).

- Financial Inclusion as a tool for Sustainable Development (Marian Catalin Voica June,2017): talks about how financial institutions helps in providing knowledge to low literacy population and bringing in an awareness of how financial inclusion can be used as a tool for sustainable development.

Global Initiatives towards Financial Inclusion

Financial inclusion has emerged as a critical development challenge and is a hot topic among policymakers, development practitioners and the private sector.

A database known as Global Findex was introduced in the year 2011 by world bank group which helps us to determine financial inclusion accomplishment throughout the globe. At the same time the 3rd edition was released on April 2018 which laid efforts to improve the financial sector stability, develop a flourishing private sector and create jobs.

It was realised by the world bank that too many people had no access to financial account which did not allow them to participate in the economy.

According to Findex 2011 data 2.5 billion adults were said to be unbanked and 2011 IFC MSME Finance Gap database showcased that more than 200 million micro to medium enterprises had no access to economic financial resources and credit in the developing economies.

A global vision was declared by world bank in 2013, for financial avenue and launched Universal Financial Access by 2020(UFA2020) to help people globally to gain entry to a transaction account.

It its observed that from then more than 30 partners belonging to financial sectors have signed on to achieve this goal.

Over the last few years a lot of progress has been made towards extending financial access and the number of adults who were unbanked has been falling to 1.7 billion, as reported by the recent Findex data.

The number of unbanked people continues to fall, even when accounting for population growth.

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Financial Inclusion enables almost all parts of the World Bank Group which serves to be part of the institutions lending and advisory operations. It join hands with governments and regulators to guide responsible regulatory reform while the International Finance Corporation (IFC)'s financing would help in expanding and stabilising companies with high performance which would in turn increase demand for financial services. This is particularly true in the Bank Group's work to close the gender gap on financial inclusion.

The World Bank Group is on target to achieve its commitment of reaching 1 billion new accountholders through its lending, advisory and analytic services.

Financial Inclusion and Sustainable Development

It is examined that financial inclusion plays a very important part as a social inclusion driver which indeed acts as a driver for sustainable development.

By this we can infer that financial inclusion acts as a driver for sustainable development.

The main objective of financial inclusion is to recommend financial instruments to people who did not know their being, were not able to understand them or considered them to create problems if they are used. Through various channels financial inclusion encourages sustainable development by using micro finance to promote development for excluded groups of people or remote communities; encouraging them to get educated for a better understanding of financial products and efficient ways to utilise them in terms of financial education.

Microfinance is the most prominent technique used to promote financial inclusion so as to bring out sustainable development in their respective communities.

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

- A group of organised associations which were divided according to their religion, culture and political background made groups which promoted microfinance to create micro enterprises;
- Models based on Bank Guarantees - An internal and external sources of bank guarantee were used to approach for a loan

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- Community banking models – Usually achieved with the help of NGOs. This model views the community as a whole and formal or semi-formal institution are used to allow access to microfinance;
- Cooperative models – Are composed of group of people with the same social, cultural and economic needs who start an enterprise in order to finance an activity.
- 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 bank officials 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.
- Rotating Savings and Credit Associations (ROSCA) Model – Is another widely used model which is composed of a group of people that make regular deposits to a fund Financial inclusion as a tool for sustainable development. The funds collected are given to one member in each cycle. After he receives the sum from the group he repays it with the regular contributions.
- Small Business Model – As the small and medium enterprises (SMEs)were recognised in the economic life which created employment and opening for services which increased incomes, which paid way to microcredit. 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.

Conclusion

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

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tools to self extract from poverty and not expecting a foreign intervention to do the work for them.

Internationally this topic is so well represented and the trends show a positive evolution. It is considered to be good progress on the indicators that quantifies the level of financial inclusion. Internationally initiatives have been taken to probe and research about the most powerful ways to promote financial inclusion by joining hands to spread awareness about the most efficient models to gain financial inclusion which guarantees 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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