Chapter 3
Role of Financial Inclusion on Economic Growth:
Comprehensive Literature Review

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ABSTRACT

The objective of the study is to analyze the effect of financial inclusion on the economic growth of the nation. The report of the World Bank indicates more than 1.6 billion adults to be unbanked globally as of February 2021. Women, deprived, and poor people of rural areas constitute a major portion of the unbanked population. The purpose of financial inclusion is to eliminate all obstacles, both on demand as well as supply side, to aid the deprived people for improved livelihood and eventually emanate in line with the mainstream of the economy to contribute towards sustainable growth. This study presents a comprehensive review of economic growth and financial inclusion. After examining the facts and figures, it can be established that financial inclusion plays a vital role for the economic growth and thereby social development of the community. Financial inclusion inculcates a habit of savings. It will intensify financial wealth and better fund management, which in-turn promotes trade and economic progression.

INTRODUCTION

In an attempt to attain sustainable development goals and empower people financial inclusion has become an important agenda for policy formulation in most of the economies. Hence, it is of prime importance to appraise the impact of financial inclusion on economic development across the globe. Usage, access and banking penetration with suitable products and services are the three dimensions to measure finan-

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cial inclusion. Financial Inclusion is a process to ensure access to mainstream financial products and services in affordable, approachable with equal opportunities to all the deprived people and vulnerable groups like backwards, weaker sections and small earners. Once these deprived people are streamlined their contribution can be realized into national economy. Such inclusion is mutually beneficial for both. It promotes trading activities at larger platforms and circulation of money in the economy. Strong financial systems are building blocks for inclusive growth of any economy.

A strong access to financial amenities can stimulate economic growth by sinking vulnerability, escalating the output of Micro enterprises, Small and Medium Enterprises (MSMEs) and strengthening of businesses (Lapukeni, 2015). Financial inclusion is the key to modulate small business development particularly in developing countries. The small businesses entail occupations such as tailor, vegetable sellers, welder, mason, etc.). It plays vital role in development of the native economy. Hence it upsurges per capital income of individuals as national income rises with growing economy.

The global Findex report of World Bank estimates that more than 1.4 billion people are unbanked globally as on April 2022, though account ownership have increased from 51% in 2011 to 76% in 2021 (Demirgüç-Kunt et al., 2022). Poverty, cost, and financial education are main reasons among other barriers to avail banking facilities. More than half (about 54%) of the world's unbanked people live in just seven countries. Most of which are women (about 13%). Women and poor people of rural areas contribute major portion of the unbanked population. Adults of urban areas in the Lao People's Democratic Republic are 39% more likely to possess formal bank account than the rural population. (Source: Global Findex Database 2021). The Lao People's Democratic Republic has maximum gap between rural and urban adults having formal bank accounts. It is observed that more often than not these excluded people belong to deprived or relegated populations and face discrimination in financial institutions. It is well established fact that all individuals need financial services at some point of time. The motive of financial inclusion is to eliminate all obstacles, whether on supply or demand side. The Supply side barriers include financial infrastructure, availability, affordability, or practically possible documents availability. While, Demand side barriers represent lack of financial literacy, poor financial capability, cultural or religious or ritual beliefs. Financial inclusion promotes saving habits and regulates investment activities inculcated through financial literacy.

Financial Inclusion is equal opportunity to access financial services and products affordable cost. It includes apt and timely credit facilities to the deprived people and debarred groups such as backward sections and low earners at reasonable cost. Financial inclusion has been a buzz word since early 2000. Every year central banks launches various schemes and plans to increase the level of financial inclusion and thereby covering maximum possible citizens under banking umbrella. According to the financial inclusion index (IFI) based on World Bank report Luxembourg leads the tally, followed by United States of America. Canada spotted third place. Index for financial inclusion was measured in a cross- country impact assessment. It was observed that the Developed countries have better coverage of financial inclusion followed by developing nations and least developed countries. The middle of tally includes mostly Asian countries while bottom countries indicates African continent (Park & Mercado, 2018). Progress in the Index of Financial Inclusion (IFI) is indicated in table 1:

These reports are based on the recent studies conducted using Findex, World Bank and IMF reports. These indexes indicate the front-runners of financial inclusion. They are selected to represent a hierarchal comparison among the top countries. Citizens of Developed states have privilege of ease, access, and affordability towards banking services. Based on World Bank reports Seychelles and Singapore have picked up fact to lead the tally, while Estonia and San Marino displayed negative growth in terms of

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