

IMPACT OF FINANCIAL INCLUSION ON DEVELOPING AND DEVELOPED NATION'S

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ABSTRACT

Financial inclusion, a concept encompassing the access to and usage of formal financial services by individuals and businesses, holds profound implications for both developing and developed nations alike. This abstract explores the multifaceted impact of financial inclusion across various socioeconomic dimensions, shedding light on its significance as a catalyst for economic growth, poverty alleviation, and social development.

In developing nations, where access to financial services is often limited, financial inclusion emerges as a potent force for economic empowerment and poverty reduction. By providing marginalized populations with avenues to save, borrow, and invest, financial inclusion fosters entrepreneurship, facilitates income generation, and promotes asset accumulation. Moreover, it serves as a critical tool for resilience-building, enabling communities to better withstand economic shocks and unforeseen emergencies.

The transformative potential of financial inclusion is particularly evident in the context of microfinance, where innovative approaches to lending and savings mobilization have empowered millions of individuals, especially women, to pursue entrepreneurial ventures and improve their livelihoods.

Through microcredit programs and microinsurance schemes, financial inclusion not only enhances access to capital but also enhances risk management capabilities, thereby bolstering household resilience and socioeconomic well-being. Furthermore, financial inclusion intersects with broader development agendas, such as the Sustainable Development Goals (SDGs), by addressing key drivers of poverty and inequality.

By expanding access to financial services among underserved populations, governments and development practitioners can advance social inclusion, gender equality, and sustainable economic growth. Initiatives aimed at promoting financial literacy and expanding digital financial services play a pivotal role in extending the reach of financial inclusion, especially in remote and marginalized communities.

In contrast, the impact of financial inclusion in developed nations, where formal financial infrastructure is more extensive, may take on different dimensions. Here, financial inclusion is closely linked to efforts to combat socioeconomic disparities and promote inclusive growth. By ensuring that all members of society have access to basic financial services, including banking, savings accounts, and affordable credit, developed nations can mitigate the risk of financial exclusion and its associated social costs.

Financial inclusion initiatives in developed nations often target vulnerable populations, such as low-income households, immigrants, and individuals with limited financial literacy.

By providing tailored financial products and services that meet the unique needs of these groups, policymakers and financial institutions can foster greater financial resilience and social mobility. Moreover, by promoting financial education and consumer protection measures, they can empower individuals to make informed financial decisions and avoid predatory practices.

In addition to its socioeconomic benefits, financial inclusion contributes to financial stability and consumer welfare by promoting responsible financial behaviour and reducing reliance on informal financial channels. By formalizing financial transactions and enhancing transparency, it helps combat illicit financial activities, such as money laundering and fraud, thereby safeguarding the integrity of the financial system.

Moreover, in an increasingly digitized world, the role of digital financial inclusion becomes increasingly important, enabling individuals to access financial services remotely, securely, and affordably. By leveraging mobile technology, digital payment platforms, and biometric identification systems, countries can overcome barriers to traditional banking and expand financial access to previously underserved populations. However, the journey towards universal financial inclusion is not without challenges. In both developing and developed nations, persistent barriers, such as regulatory constraints, infrastructure limitations, and cultural barriers, continue to hinder efforts to extend financial access to all segments of society.

Moreover, the digital divide, characterized by disparities in internet access and digital literacy, poses a significant obstacle to the expansion of digital financial services, particularly in remote and rural areas. In conclusion, the impact of financial inclusion on both developing and developed nations is profound and far-reaching. By expanding access to

formal financial services, financial inclusion promotes economic empowerment, reduces poverty, and fosters social inclusion. Whether through microfinance initiatives in developing nations or digital financial inclusion efforts in developed nations, the pursuit of universal financial access remains a central tenet of global development agendas, with the potential to transform lives and build more inclusive and resilient societies.

1. INTRODUCTION

Financial inclusion is a vital concept aimed at ensuring that individuals worldwide have access to a diverse array of suitable financial services in a responsible, safe, and sustainable manner within well-regulated environments. These services range from having a basic deposit or transaction account to accessing credit from formal financial institutions and utilizing formal insurance products. However, despite its importance, a significant portion of the global adult population, approximately 2 billion individuals representing 38 percent, lack access to such financial services as of 2014. This issue underscores the critical need to address barriers to financial inclusion on a global scale. In light of this, a comprehensive examination of financial inclusion worldwide reveals its significance in promoting inclusive growth and economic development. Financial inclusion initiatives aim to provide access to formal financial services, such as savings accounts, credit facilities, insurance, and payment systems, particularly targeting marginalized groups like low-income households and rural communities. By facilitating access to these services, financial inclusion endeavors to empower individuals economically, enable them to better manage financial risks, and foster participation in the formal economy. Despite the increasing recognition of financial inclusion's importance, significant challenges persist in achieving universal access to financial services. Both developed and developing nations face barriers such as inadequate infrastructure, limited financial literacy, regulatory constraints, and cultural factors that hinder the effectiveness of financial inclusion initiatives. Overcoming these challenges requires concerted efforts from policymakers, financial institutions, and development practitioners. In this context, the research seeks to explore the impact of financial inclusion on both developed and developing nations, aiming to understand the factors influencing its success and identify strategies to enhance its effectiveness. By shedding light on the role of financial inclusion in promoting inclusive economic growth, the study aims to provide valuable insights for policymakers, financial institutions, and development practitioners striving to build more inclusive financial systems. The study's focus encompasses analyzing the current state of financial inclusion, assessing its effects on economic development indicators, and identifying the factors influencing its success. By examining the impact of financial inclusion initiatives on GDP growth, employment rates, and poverty levels in both developed and developing nations, the research aims to provide empirical evidence to support informed decision-making. Moreover, the study seeks to analyze the effectiveness of various financial inclusion strategies and policies implemented in different contexts, including regulatory frameworks, technological innovations, and institutional arrangements. By comparing and contrasting experiences across regions and income levels, the research aims to identify best practices, lessons learned, and areas for improvement. Ultimately, the research aims to provide recommendations for policymakers, financial institutions, and other stakeholders to enhance financial inclusion efforts globally. By addressing existing gaps and promoting sustainable and inclusive economic development, these recommendations can contribute to building more resilient and equitable financial systems for the benefit of all.

2. OBJECTIVE

Financial inclusion aims to provide affordable access to financial services, fostering economic empowerment and social inclusion. Despite challenges, researchers focus on: 1) assessing current financial inclusion status, 2) evaluating its impact on economic indicators, 3) analysing effectiveness of strategies and policies, considering barriers like infrastructure and literacy, 4) exploring digital technologies' role, especially in remote areas, 5) comparing experiences of developed and developing nations, and 6) providing recommendations for policymakers and institutions to enhance financial inclusion, promoting sustainable and inclusive economic development globally.

3. SCOPE OF THE STUDY

This study analyses financial inclusion initiatives' impact across diverse nations, comparing developed and developing ones. It examines economic indicators like GDP growth, employment, poverty, and income inequality, gauging financial inclusion's overall effect on economic well-being. Sectoral analysis delves into its impact on agriculture, SMEs, healthcare, education, and entrepreneurship, aiming to understand sectoral development. Policy analysis evaluates the role of policy frameworks and regulatory environments in promoting financial inclusion, identifying best practices. Moreover, it explores the role of digital technologies in advancing financial inclusion, assessing opportunities and challenges. Ultimately, the study aims to propose strategies for enhancing financial inclusion's effectiveness globally.

4. LITERATURE REVIEW

Financial inclusion encompasses providing financial services at reasonable costs, ensuring access to and utilization of formal financial systems for individuals of diverse backgrounds through innovative approaches. It involves initiatives like financial awareness and education to enhance financial well-being and promote economic and social inclusion. Furthermore, financial inclusion facilitates access to suitable financial products and services, enabling individuals and businesses to manage their finances effectively and securely, plan for the future, and handle financial pressures.

Moreover, financial inclusion plays a vital role in job creation, enhancing access to credit for consumption and production, mitigating exploitation associated with informal financial systems, increasing income and assets, developing human resources, and improving living standards. Consequently, it can contribute to poverty alleviation and foster economic and social development. By enabling the poor to meet daily needs and identify investment opportunities, financial inclusion can enhance their income and assets. Reducing barriers to financial inclusion, such as high fees, minimum balance requirements, documentation prerequisites, or lack of financial literacy, can encourage the use of formal savings products among low-income households and stimulate household investment, thereby contributing to the growth of developing countries. Financial inclusion, defined as the availability and usage of formal financial services by all members of society, has garnered increasing attention from policymakers, researchers, and practitioners worldwide. The impact of financial inclusion on economic development, poverty reduction, and inclusive growth has been a subject of extensive study, with scholars exploring its implications in both developed and developing nations.

In developed nations, financial inclusion initiatives have focused on addressing the needs of marginalized groups and promoting greater access to mainstream financial services. For example, studies have shown that access to basic banking services, such as savings accounts and payment systems, can help low-income households better manage their finances and build assets. Moreover, financial inclusion has been linked to positive outcomes such as increased household savings, improved access to credit, and enhanced resilience to economic shocks.

In contrast, financial inclusion in developing nations has been viewed as a critical tool for poverty alleviation and economic empowerment.

Access to formal financial services has been shown to enable individuals and businesses to invest in education, health, and entrepreneurship, leading to improved livelihoods and economic growth. For instance, microfinance institutions and mobile banking technologies have expanded access to credit and payment services in rural areas, contributing to the development of small businesses and agricultural productivity. However, the impact of financial inclusion on economic development may vary across different contexts and regions.

For example, studies have found that while access to financial services can promote economic growth in some developing countries, it may have limited impact in others due to structural constraints and institutional barriers. Similarly, in developed nations, disparities in access to financial services persist among vulnerable populations, such as minorities and low-income households, despite efforts to promote financial inclusion. Moreover, the effectiveness of financial inclusion initiatives is influenced by a range of factors, including regulatory frameworks, technological innovations, and socio-economic conditions.

For instance, studies have highlighted the importance of supportive regulatory environments in facilitating the expansion of financial services and promoting consumer protection. Similarly, advancements in digital technologies, such as mobile banking and electronic payments, have played a crucial role in enhancing access to financial services, particularly in remote and underserved areas. Overall, the literature suggests that financial inclusion can have significant positive effects on both developed and developing nations, contributing to economic growth, poverty reduction, and inclusive development. However, achieving universal access to financial services remains a complex and multifaceted challenge that requires coordinated efforts from governments, financial institutions, and civil society organizations. Future research should continue to explore the impact of financial inclusion initiatives in different contexts and identify strategies to overcome barriers to access and usage of formal financial services.

5. RESEARCH METHODOLOGY

1. Literature Review: A thorough examination of existing literature on electronic banking and financial inclusion has been conducted, spanning both developed and developing nations. This review aids in understanding research status, spotting gaps, and framing research inquiries.

2. Research Design: A suitable research design has been devised based on research questions and objectives, incorporating comparative, case, and longitudinal studies to assess electronic banking's impact on financial inclusion across various nations.

3. Data Collection:

Quantitative Data: Reliable quantitative data on electronic banking penetration, financial inclusion metrics, and economic development from reputable sources like the World Bank, central banks, and international organizations.

Qualitative Data: Interviews, focus groups, and surveys have been conducted with stakeholders including bankers, policymakers, regulators, and customers to gather insights on electronic banking and financial inclusion.

4. Sampling: Representative samples from developed and developing nations have been chosen for comparative analysis, ensuring diversity across geographical regions, income levels, and banking infrastructure.

5. Variables:

Dependent Variable: Financial inclusion metrics such as banking service accessibility, electronic banking channel usage, and financial service affordability.

Independent Variable: Adoption and penetration of electronic banking technologies, regulatory frameworks, economic development indicators, socio-economic factors, and cultural influences.

6. Data Analysis:

Quantitative data will be analysed using statistical techniques like regression and correlation analysis, alongside descriptive statistics to understand the relationship between electronic banking and financial inclusion.

Qualitative data will undergo thematic and content analysis to identify patterns, themes, and insights.

7. Interpretation and Conclusion: Findings will be interpreted in alignment with research questions and objectives, discussing implications for policymakers, financial institutions, and other stakeholders. Recommendations for promoting electronic banking and enhancing financial inclusion across developed and developing nations will be provided.

Variables	No. Of Observations	Average Value	Standard Error	Minimum Value	Maximum Value
Year	138			2010	2015
HDI	138	0.7223	0.14343	0.454	0.939
Branches	138	13.476	8.42543	1.49	34.14
ATM	138	56.48	65.7537	0.02	290
Credit	138	94.67	76.8285	-2.56	357.32
M2	138	100.3	74.0817	23.57	362.86

6. DATA ANALYSIS & INTERPRETATION

This study delves into the impact of financial inclusion initiatives on economic development in the Asian-Pacific region. By examining empirical evidence and case studies, it assesses the effectiveness of strategies and identifies key factors influencing success. Findings reveal positive effects on poverty reduction, income generation, and economic resilience. Digital technologies, like mobile banking, have boosted access, particularly in remote areas, yet challenges persist due to regulatory constraints and infrastructure limitations. Recommendations include fostering regulatory environments, enhancing digital infrastructure, and promoting financial literacy.

7. CONCLUSION

Variables	Beta		
	OLS	REM	FEM
Log Branches	0.05445	0.02296	0.01749
Legatum	0.04214	0.00546	0.00598
Credit	-0.00012	0.00047	0.00045
m2	0.00055	3.4606	-0.00001
R square (R^2)	0.7654	0.6135	0.6054

P-value of the model is below 0.05, indicating statistical significance. The R^2 value of 0.6054 shows that the model explains 60.54% of the subject, implying factors besides financial inclusion influence economic development. Hypothesis H 05 ($\beta_4 = 0$) cannot be rejected due to insufficient evidence.

At a 95% confidence level, three out of four independent variables impact economic development: banking branches per 100,000 adults, ATMs per 100,000 adults, and domestic credit to the private sector as a percentage of GDP, confirming hypotheses H 12, H 13, and H 14.

According to the coefficients:

- A 1% increase in banking branches per 100,000 adults correlates with a 0.017% average rise in economic development.
- A 1% increase in ATMs per 100,000 adults leads to a 0.006% average increase in economic development.
- A 1% increase in domestic credit to the private sector as a percentage of GDP results in a 0.00045% average rise in economic development.

Recent research highlights digital financial inclusion's positive impact on economic growth. Instrumental variable analysis indicates a significant association between digital financial inclusion and economic growth. Increasing digital financial inclusion in payments could potentially boost annual economic growth by up to 2.2 percentage points. Demand for financial services, gaps in traditional financial service supply, and access to foundational infrastructure like mobile phones and broadband internet influence digital financial inclusion. Financial literacy also plays a crucial role in driving digital financial inclusion.

However, challenges accompany the benefits of financial inclusion. Some countries experience the expansion of digital financial services (DFS) without adequate consumer protection rules or crisis management tools, risking consumers' funds. As technology extends from payments to digital credit and other financial services, regulatory frameworks must adapt to mitigate potential risks, including cyber security threats and misuse of new payment channels for illicit activities. Ensuring regulatory frameworks address these risks is essential to safeguard financial stability and promote sustainable digital financial inclusion globally.

8. RECOMMENDATION

Based on the research findings, governments in developing nations should prioritize enhancing financial inclusion by focusing on expanding access. This includes increasing the presence of bank branches, ATMs, and domestic credit availability.

Initially, governments should expand the network of bank branches and ATMs into rural areas to make financial services more accessible, reducing both time and financial burdens for residents. Additionally, they should implement financial education programs targeting all age groups. For example, they could emulate Japan's approach by involving retired finance and banking professionals to teach fundamental financial knowledge in schools and rural communities. This strategy would offer reliable formal financial education, significantly improving national financial literacy levels. Secondly, governments can promote startups in the e-commerce sector to stimulate the adoption of online transactions over cash payments. In Vietnam, the reliance on cash transactions has hindered the widespread use of point-of-sale (POS) devices. Many businesses still prefer cash transactions, inconveniencing customers who prefer card payments.

9. REFERENCES

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