Financial Inclusion in the developing and transitional countries

The Sustainable Development Goals (SDGs) proposed by the United Nations refer to financial inclusion (FI) as a mechanism for supporting inclusive economic growth in developing and transitional economies. In essence, FI is generally viewed as the extent of the population who have access to and use formal financial services. In this context, greater access to and usage of the formal financial sector enables hitherto unbanked poor households' access to resources and to channel savings into productive investment activities including education and health, to broaden business and entrepreneurial opportunities, smooth consumption patterns and to better manage financial risk.higher in developing countries.

Project 1: This project aims to evaluate the effect of greater financial inclusion on various development outcomes, in low-and-middle income countries. A similar project was funded by the Economic Research Institute for ASEAN and East Asia (ERIA) in 2019. Important research questions that were addressed by the 2019 project:

- What is the nature and landscape of FI in Asia and beyond?
- What is the poverty reducing effect of FI in developing countries, such as Cambodia, India, Indonesia, and African countries?
- Is there a consistent measure of FI across countries?
- What are the cross-country impacts of FI on human development outcomes?

Key Findings:

- The growth in financial inclusion has occurred mainly in the South Asian and East Asian groups of countries and significantly lower in African countries.
- Among financially inclusive countries, there is a pattern in adopting usage, access, and quality dimensions of financial inclusion over time.
- FI has a significant positive impact on lowering poverty and income inequality for low-and-middle income countries.
- There are systemic development gaps in financial inclusion – particularly between poor and non-poor segments of society, and rural and urban populations.
- Growth has occurred in traditional banking as well as in areas of fintech and digital finance.
- New measurements of FI provide more consistent explanations on why there are development gaps between poor and non-poor segments of society.
- The effect of FI on development outcomes varies by gender and income.

Project 2: This project aims to evaluate the effect of greater financial on health outcomes and whether the effect is conditioned by the degree of income inequality and poverty levels.

Key findings:

- FI enables economies to attain better health outcomes, e.g., higher life expectancy and lower infant mortality rates.
- By lowering income inequality and poverty, the positive effect of financial inclusion on health outcomes is higher in developing countries.
- Greater financial inclusion offers the scope to invest in health capital and enhances the capacity for risk-management among the most vulnerable populations in society in the face of health shocks.

https://www.unsgsa.org/news/driving-new-development-agenda-what-role-financial-inclusion

Project 3: This project examines the influence of both traditional and digital financial inclusion on access to sanitation services.

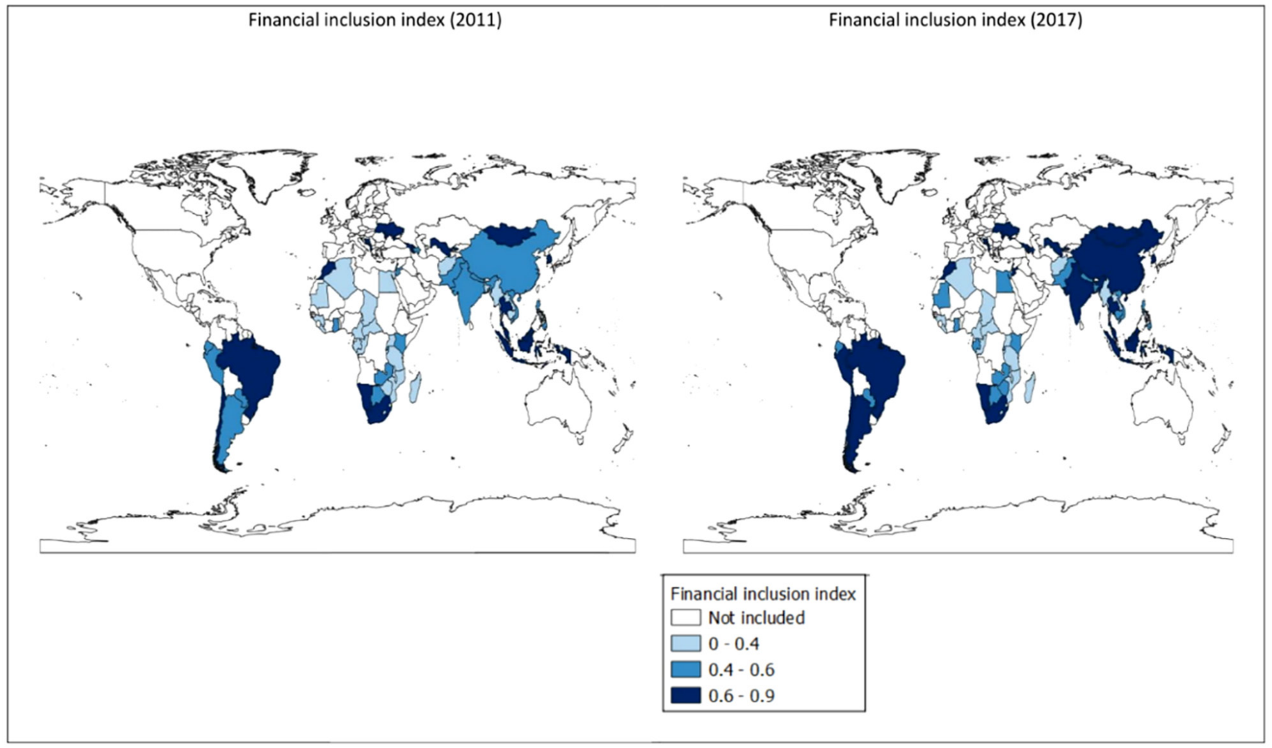
Key findings:

- Financial inclusion emphatically and robustly increases access to sanitation.
- This applies to both traditional indicators and digital measures of financial inclusion.
- The impact is pronounced for rural sanitation, and for low-income, and lower-middle income economies. This suggests that policies supporting greater financial inclusion may help households and firms to employ traditional and digital financial services more effectively for financing sanitation infrastructure in developing economies.

Project 4: This project examines the effect of fintech and digital financial inclusion on measures of subjective well-being for low and low-middle income countries.

Key findings:

- Digital financial inclusion tends to decrease the degree of subjective wellbeing - notably people's feelings of thriving, struggling or suffering.
- We conjecture that this result is due to the potentially disruptive nature of new technologies as they are introduced to developing economies, and the compatibility of such technologies to communities in these economies.
- Regulators must therefore be mindful of such unintended consequences when setting financial policy



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The Future

1. How does financial inclusion increase women empowerment in low-and-middle income countries?
2. Can financial inclusion help to lower crimes in developing and transitional countries?
3. The effect of financial inclusion and development on output and trade for small and medium enterprises (SMEs). What is the role of trade finance and trade policy?

Partners

Economic Research Institute
for ASEAN and East Asia (ERIA)

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Building a sustainable and inclusive future