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Role of financial inclusion in realising sustainable development goals (SDGs)

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Abstract

Sustainable Development Goals are the blueprint to achieve a better and more sustainable future for all. They address the global challenges we face, those related to poverty, inequality, climate, environmental degradation, prosperity, peace and justice. The United Nations General Assembly adopted the 2030 Agenda for Sustainable Development along with the development goals that are collectively called the Sustainable Development Goals on 25 September 2015. The Agenda was endorsed by all 193 member nations of the General Assembly, both developed and developing—and applies to all countries. Though the global goals directly do not target financial inclusion, access of financial services to the masses is a key enabler for many of the goals. There are 17 SDGs which enhance economic development. Economic development requires sound foundations. Universal access to education and health services, access to financial and insurance services, new technologies and affordable bank loans, and improved distribution of resources are all important components of sound economic development. In early 1990s India took a giant leap by liberalizing its economy and eventually, the 2000s have seen India make its economic development just and socially progressive by bringing in a number of financial inclusion policies and initiatives. A good economy is both a necessary condition as well as the goal of any financial inclusion initiative. Financial inclusion models can support overall economic growth and the achievement of broader development goals. Digital Finance has played a major role in the delivery of financial services to the vulnerable groups through mobile phones, personal computers, the internet or cards linked to reliable digital payment system. The objective of the paper is to study the role of financial inclusion in achieving Sustainable Development Goals and also the impact of digitalisation on the same.

Keywords: sustainable development goals, economic development, financial inclusion, digitalisation, digital finance

Introduction

The 2030 Agenda for Sustainable Development, adopted by all United Nations Member States in 2015, gives a blueprint for peace and prosperity for people and the planet, for the present as well as the future. The Agenda is to alert all the developed and developing countries to focus on the 17 Sustainable Development Goals (SDGs), which is the need of the hour in a global partnership. In the 1970s and the 1980s, the inequalities gaps were on the rise amongst the people, the phrase, rich are becoming richer and the poor are becoming poorer was very relevant at those times and it was a cause for a global concern. The United Nations Organisations then in the 2000 developed the Millennium Development Goals (MDGs), for tackling the problem of inequality and rooting for overall development at all levels. The United Nations MDGs consisted of 8 goals that the members had agreed to achieve by 2015. The goals mainly focused on combatting poverty, hunger, disease, illiteracy, environmental degradation and discrimination against women. The MDGs were successful in some aspects by 2015, but the result was not satisfactory due to poor monitoring, lack of reliable data, poor governance and lack of funds in the developing countries for proper implementation of the goals. The UN and its members were not satisfied with the result and they realised that the MDGs cannot alone solve the main objective of eradicating inequality. Thus, the UN launched the Sustainable Development goals (SDGs) also known as the global goals. The SDGs consist of 17 goals that the UN and its members plan to achieve by the year 2030.

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The main objective of the SDGs is to eradicate poverty, hunger and disease in all developed and developing countries. These goals can be achieved with the assistance of financial inclusion. Higher the inclusion of the poor into the formal financial sector, higher the economic growth of the country. This paper aims to study the role of financial inclusion in achieving 4 of the SDGs.

Literature Review

Sarma (2008) ^[1] had conducted the research on Index of Financial Inclusion. The purpose of the study was to develop an Index which can be used to measure the extent of financial inclusion in a country. For the purpose of calculating the index three dimensions were considered *viz.*, bank penetration, banking services and usage of banking services. It was found that the index developed could be used to determine the relationship between development and financial inclusion. Park and Mercado (2015) ^[8] did a study on Financial Inclusion, Poverty and Income inequality in developing Asia. The purpose of the study was to examine the correlation between Financial Inclusion, poverty and income inequality. The required data were collected from 37 selected developing Asian economies. They developed a financial inclusion indicator for the purpose of the study. They found that per capita income and demographic characteristics affects financial inclusion in Asia. The paper concluded that there is a significant correlation between higher financial inclusion and lower poverty and inequality. Patil (2016) ^[10] did a study on Financial Inclusion in India-An overview. He examined the scenario of financial inclusion at global and national level and covered the basic concepts of financial inclusion. He proposed that integrated efforts should be formulated by the government, RBI and the implementing agencies to develop methods and measures to take forward financial inclusion. Voica (2017) ^[13] in his study explained that FI is considered as a part of social inclusion driver and social inclusion is a driver for sustainable development and on this basis he concluded that FI is a driver for sustainable development. He proposed that international initiatives should promote financial inclusion in an effective manner for the overall growth of the economy. Sujhlana and Kiran (2018) ^[14], conducted a research on A study of status of financial inclusion in India. The study aimed to provide an overview of the status of financial inclusion in India in the past few years. It is found that financial inclusion is in progressive stage in India and efforts towards overall inclusive growth need to be given a concrete shape with proper implementation of the various initiatives for the purpose of overall development of the people in the rural areas. Soyemi, Olowofela and Yunusa (2020) ^[15], in their study evaluated the impact of financial inclusion on sustainable development. For the purpose of their study they used error correction model and fully modified ordinary least square. The study proposes that more number of bank branches should be opened in the rural areas and the rural people should be oriented in regards to the importance of having a bank account and indirectly contributing to the growth of the country. Makau and Olando (2021) ^[16] conducted a research on Digital Banking Strategy and Financial Inclusion among commercial banks in Kajiado County, Kenya. The study aimed to analyse the gap which is present during the process of realising financial

inclusion and evaluated the effects of digital banking strategy on financial inclusion midst the commercial banks in Kajiado country. It is found that at 5% error level, digital banking channels, digital financial infrastructure and convenience of digital banking services have a statistical positive significant effect on financial inclusion.

Objectives of the Study

1. To examine the key indicators in achieving financial inclusion.
2. To study the role of Financial Inclusion in achieving SDGs.
3. To identify the challenges in achieving SDGs through financial inclusion.

Research Methodology

The study is descriptive in nature. For the purpose of the study secondary data was used from various government and World Bank websites. Various news articles, journals and authentic internet sources were extensively used for the study.

Financial Inclusion

Financial Inclusion (FI) is considered as an evaluative benchmark of development and well-being of society. As a result of renewed thrust on FI, an inclusive financial system is widely recognized in policy circles as a proactive measure and has become a basic priority in many countries – including India. The span of financial services include the provision of basic savings accounts and access to adequate credit at affordable costs to vulnerable groups such as the excluded sections of the society and low-income households. Financial inclusion expands the asset base of the financial framework by developing a culture of savings among a large section of the rural population and plays its own role in the process of economic development. Further, by bringing low-income groups within the perimeter of the formal banking sector; financial inclusion protects their financial wealth and other resources in critical circumstances. The banks have opened more branches in the rural areas and have set up ATMs and kiosks to enable them to utilize these services with ease. Further, the banks have provided the facility of no-frills accounts and deployed bank correspondents for convenience of people living in these areas. There are various government plans and policies which cater to the needs of the marginalized communities and help them into the financial sector. According to World Bank, the indicators required to measure financial inclusion are divided into 3 categories *viz.*

- Access Indicators which examines the extent to which financial services have reached the rural population. Access indicators include bank penetration, ATM availability and point of sale devices in rural areas.
- Usage Indicators measures the usage of the financial services by the rural dwellers on a regular basis. Usage indicators include number of people using payment products, saving product, credit product, insurance product and pension product and the frequency of use.
- Quality Indicators measure the awareness levels of the rural dwellers. Quality indicators mainly focus on the information availability of various schemes under financial inclusion to the rural poor.

FI as A Catalyst for Realising SDGs

The financial inclusion policies aim at including larger number of the poor into the formal sector and this has a positive effect on the overall development and economic growth of the country. FI is an enabler to achieve few of the sustainable development goals 2030. The SDG 1 which focuses on eliminating poverty has been assisted by the Governments flagship scheme Pradhan Mantri Jan Dhan Yojana (PMJDY) which was launched in the year 2014. PMJDY is India's biggest financial inclusion drive which provides access to financial services viz., a basic savings &

deposit accounts, remittance, credit, insurance, pension in an affordable manner. Under PMJDY, 42.40 crore beneficiaries have been banked with a total deposit amounting to 14 crores up to May 19th 2021 within a span of 6 years which can be seen in table 1. The scheme provides benefits viz., accidental covers of 200,000 along with rupay debit cards, an overdraft facility up to Rs.10000, old age pension and eligibility for direct benefit transfer (DBT). The adult population in the formal financial sector has doubled since 2011, and 80% of the credit for this massive growth is because of the Jan Dhan scheme.

Table 1: Pradhan Mantri Jan - Dhan Yojana (All figures in Crore) Beneficiaries as on 19/05/2021

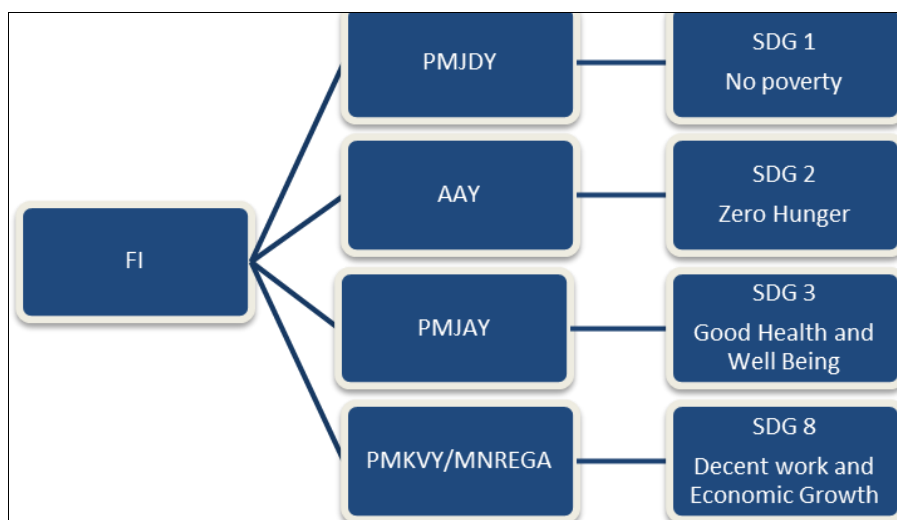
Bank Name/Type	No. of Beneficiaries at rural/semi urban centre bank branches	No. of beneficiaries at urban metro centre bank branches	No. of Rural-Urban Female Beneficiaries	No. of Total beneficiaries	Deposits in Accounts (in crore)	No. of Rupay Debit Cards issued to beneficiaries
Public Sector Banks	20.62	12.92	18.40	33.54	114093.83	26.43
Regional Rural Banks	6.65	0.95	4.40	7.60	28079.98	3.45
Private Sector Banks	0.69	0.56	0.69	1.25	4485.06	1.11
Total	27.97	14.43	23.49	42.40	146658.88	30.99

Source: Department of Financial Services, Ministry of Finance, GOI Table.1

The SDG 2 focuses on zero hunger. The Antyodaya Ann Yojana (AAY) which was first announced in the year 2000, to assist the poor and needy with ration at lower prices. The scheme prevails even now with the aim of providing food grains at lower cost to all the below poverty line (BPL) card holders. In this scheme the poorest of the poor are entitled to receive 35 kgs of food grains per household per month. The scheme helps in eradicating hunger in the most remote areas of the country.

The SDG 3 promotes good health and wellbeing. The initiative designed to focus on SDG3 in India is Ayushman Bharat, a flagship scheme of Government of India. It comprises of two inter related components viz., Health and Wellness centres (HWC) and Pradhan Mantri Jan Aarogya

Yojana (PM-JAY). Health and Wellness Centres provide an expanded range of services to address the primary health care needs of the entire population in their area, expanding access, universality and equity close to the community. PM-JAY is the largest health assurance scheme in the world which aims at providing a health cover of Rs. 5 lakhs per family per year for secondary and tertiary care hospitalization to over 10.74 crores poor and vulnerable families (approximately 50 crore beneficiaries) that form the bottom 40% of the Indian population. The households included are based on the deprivation and occupational criteria of Socio-Economic Caste Census 2011 (SECC 2011) for rural and urban areas respectively.



Source: Author

Fig 1: Financial Inclusion and SDGs

The SDG 8 focuses on decent work and economic growth. The Pradhan Mantri Kaushal Vikas Yojana (PMKVY) is an employment scheme which provides skill training to the 10 million poor unemployed youth to help them get a better lifestyle. Similarly, Mahatma Gandhi National Rural

Employment Guarantee Act (Mgnrega) ensures better living in rural areas by providing a minimum of 100 days of employment on regular wages. Currently there are 141 million active workers under MNREGA. The income earning opportunities for the people in these areas can bring

about a positive effect on the economic growth of the country. All in all, though the SDGs directly do not focus on financial inclusion, the benefits of financial inclusion have paved a way for realizing SDGs.

Issues and Challenges in Achieving SDGs through FI

There has been greater inclusion in the past years; however, there is still a large number of the unbanked population residing in the remote areas that are not inclined towards the formal financial system. Some of the issues and challenges are discussed below.

Dormant Accounts

In spite of the rising number of accounts in the PMJDY scheme, many of them are dormant. Merely opening an account in the scheme would not suffice. Having an account that is dormant with zero transactions and zero balance will not help the economy as well as the account holder. According to the World Bank Gallop Global F index survey, the dormant or inactive bank accounts under the scheme were 6.60 crores, i.e. 17.8 percent as of September 2019. Lack of money is the main reason behind the dormant accounts. The purpose of the SDGs is to eliminate poverty and promote inclusion. The zero transaction accounts are no way close to eliminating poverty. The overall development can take place only when there is a flow of money from and to the accounts.

Credit Access

In the rural areas, there is credit access from informal sources. The people in these areas are more comfortable taking credit from moneylenders who charge a very high rate of interest. The lack of awareness about borrowing from the formal sectors and trust issues is a major challenge faced by the people.

Digital Divide

The digital divide is defined as the gap between those who have easy access to technology and those who lack access. Initially, access to technology was considered as the only criteria to define the gap, but now with the digital penetration, the gap includes those who have more and less bandwidth and people who have more or fewer skills. As India is a multicultural, multi-lingual, and multi-regional country with complex socio-economic conditions, there are many difficulties in serving the rural communities such as poverty, unemployment, age, and education. The digital divide between the rural and urban population is quite prominent and the growth is biased in favor of the urban areas. The growing population, insufficient funds, affordability, and delays in implementation of government policies and programs have been some of the challenges that have led to unequal development in society, which is responsible for the digital divide.

Digital and Financial Illiteracy

The lack of awareness about the benefit of saving and having a bank account is one of the reasons for financial exclusion in remote areas. Around 1 billion people globally cannot read or write or digitally transact using their mobile phones. The lack of skill in using computer and communication technology also prevents people from

accessing digital information which in turn widens the digital divide.

Infrastructure Barriers

There are still some remote villages that remain disconnected from the facility of digital penetration. There is also an inadequate facility of proper infrastructure in terms of electricity and mobile towers and poor access to computer and communication technology. Lower bandwidth in rural areas is also a major challenge.

Security Barriers

The marginalized communities value personal relationships particularly when it comes to money. They do not trust technology except for very basic payments. The regulatory environment and consumer protection provisions are too weak to gain the trust of the rural dwellers.

Findings and Suggestions

Based on the study, it is clearly evident that as more and more people in the rural areas have a bank account and actively participate in the financial activities, the more positive impact this will have on achieving the global goals. The financial assistance provided by the banks and government to the rural dwellers will eventually benefit the overall development of the economy.

1. There are mostly daily wage workers residing in these areas who are employed in the informal sector. The government should make it mandatory to credit the daily wages of the rural dwellers to their bank account irrespective of the amount. This will prompt them to open an account with the bank and the others who do not use the accounts will be more inclined to transact using their Rupay debit cards.
2. The most significant challenge in attaining more inclusiveness is high level of financial and digital illiteracy in the rural areas. Seminars, workshops, digital literacy drives should be organised in larger number by the banking professionals and the government on the utilisation of e-banking services for the people living in the rural areas. The digital literacy drives should be in the regional language of the rural dwellers for their better understanding. It is stated that financial inclusion and financial education go hand in hand, thereby promoting financial stability.
3. The quality, quantity and reliability of infrastructure is the need of the hour. Heavy investments in telecommunication infrastructure, increase in road connectivity, and improvement in power supply are needed for inclusive, sustainable and diversified rural development along with the right governance.

Conclusion

SDGs advocate a more inclusive society for a sustainable future. SDGs greater focus has been to provide greater access to the financial services in the rural areas. Financial Inclusion has brought a large number of unbanked population into the formal financial sector. It is capable of being an enabler in achieving many of the goals directly or indirectly. Through the various schemes curated by the government under the umbrella of FI, there has been a massive impact in promoting a sustainable future. On this

basis, we conclude that there exists an alliance between FI and overall sustainable development of the economy and that is why there should be greater emphasis on achieving FI in an effective manner. Nevertheless, according to Universal Financial Access 2020, there are 2 billion people who still cannot use the formal and digital banking services to their advantage. There are few challenges in achieving these goals through financial inclusion, like financial and digital illiteracy, inadequate infrastructure, digital divide, uneven credit access and security barriers. To overcome these challenges, periodic monitoring of the schemes under financial inclusion is required and continuous digital development in the rural areas will help to achieve greater financial inclusion effectively.

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