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Role of Financial Inclusion in Attaining Sustainable Development Goals (SDGs)

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Abstract: The concept of Financial Inclusion is gaining popularity worldwide. It offers financial services at affordable price to the downtrodden sections of the society. The United Nations set up 17 Sustainable Development Goals to be achieved by year 2030 to make our world a prosperous one. Although financial inclusion is not mentioned in any of the SDGs, but it is nearly impossible to attain many of the SDGs without access to financial services. This paper highlights the role of FI in attaining the SDGs. The outcomes of the study indicate that access to financial services helps in eliminating poverty (SDG1), reducing hunger (SDG2), achieving good health & well being (SDG3), fostering quality education (SDG4) and promoting gender equality (SDG5). Thus, greater the number of financially included people, easier it gets to attain SDGs.

Keywords: Financial Inclusion, Sustainable Development Goals, Gender Equality, poverty, etc.

Introduction

Financial inclusion simply means involving massive number of people from all the classes of the society within the financial sector periphery in the form of various banking services like savings accounts, access to formal credit, making people financially literate and so on. CRISIL (Credit Rating Information Services of India Limited) defines financial inclusion as, "The extent of access by all sections of society to formal financial services such as credit, deposit, insurance and pension services." (CRISIL Inclusix, 2018)

On 25 September 2015, the United Nations General Assembly adopted the 2030 Agenda for Sustainable Development, along with a new set of development goals that are collectively called the Sustainable Development Goals (SDGs). The Agenda is a culmination of many years of negotiation and was endorsed by all 193 membernations of the General Assembly, both developed and developing—and applies to all countries. UN Secretary General Ban Ki-Moon noted that "the new agenda is a promise by leaders to all people everywhere. It is an agenda for people, to end poverty in all of its forms—an agenda for the planet, our common home." The SDGs comprise an ambitious 17 goals. While the SDGs do not explicitly target financial inclusion, greater access to financial services is a key enabler for many of them.

Financial inclusion is positioned prominently as an enabler of other developmental goals in the 2030 Sustainable Development Goals, where it is featured as a target in eight of the seventeen goals. These include SDG1, on eradicating poverty; SDG 2 on ending hunger, achieving food security and promoting sustainable agriculture; SDG 3 on profiting health and well-being; SDG 5 on achieving gender equality and economic empowerment of women; SDG 8 on promoting economic growth and jobs; SDG 9 on supporting industry, innovation, and infrastructure; and SDG 10 on reducing inequality. Additionally, in SDG 17 on strengthening the means of implementation there is an implicit role for greater financial inclusion through greater savings mobilization for investment and consumption that can spur growth.

Objectives of the Study

The objective of the study is to examine the role of Financial Inclusion in attaining the SDG goals.

Role of Financial Inclusion in Attaining SDG

(i) Eliminating extreme poverty (SDG 1)

By providing poor people with services they need to make investments and manage unexpected expenses, financial inclusion facilitates the first SDG: eliminating extreme poverty. According to the World Bank, more than 700 million people live on or below $1.90 a day. Access to savings, credit, microinsurance and the like have been shown to be powerful levers in the transition out of poverty. Research also shows that access to financial services is a key indicator of how an individual builds and maintains reserves, plans, prioritizes, manages and recovers from financial shocks. Such savings, when invested in small businesses, provide income flows that helps pay for food, education and health which are all indices for poverty measurement.

Financially included individuals are better equipped to save and plan, thus, improving their economic well being and standard of living. Access to credit also empowers low-income earners to invest in agriculture (a main source of livelihood in rural regions) thus improving production, food security and increasing the sector's contribution to GDP.

(ii) Reducing hunger and promoting food security (SDG 2)

Farmers who have access to financial services often produce more bountiful harvests, leading to progress on the second SDG: reducing hunger and promoting food security. According to the UN Food and Agricultural Organization (FAO), about 795 million people globally are undernourished, with most living in rural areas neglected by the financial system. A lack of access to credit and insurance prevents farmers from making investments that could increase crop yields and strengthen food security (FAO 2015). However, the Global Findex database shows that only 10 percent of rural residents in developing countries use formal credit and only half have an account. Financial services can help farmers increase their production to meet the food needs of growing populations—in other words, greater food security. Research suggests that access to agricultural insurance can embolden farmers to make more and riskier investments, which can lead to increased earnings.

(iii) Achieving good health and well-being (SDG 3)

Financial inclusion improves health by giving people the ability to manage medical expenses and rebound from a health crisis. Research suggests that out-of-pocket payments on health care in developing countries are a main reason why people remain in poverty (Priyanka et al. 2011; Krishna 2006). In the absence of an efficient public health care system, the burden of medical costs rests on poor people themselves. Health shocks not only drain their resources for paying for medical treatment, but they also result in income loss because of the patient's inability to work or the depletion of their assets to confront health costs. Financial services like medical insurance can provide a formal channel for mitigating the risks of health emergencies. Women especially have a high demand for health insurance products to address the common health concerns associated with pregnancy and child birth, including greater susceptibility to infection.

(iv) Fostering quality education (SDG 4)

Achieving quality education depends on people having the ability to invest in learning opportunities. Worldwide,about 57 million children of primary school age do not attend school. Since economic growth is closely linkedwith human capital, academic underperformance slows development. Educational underperformance alsocontributes to economic inequality between rich and poor countries.Savings products help families plan for and manage education expenses.Research also shows that small, short-term loans, commitment products, and direct debit services can helphouseholds pay expenses such as tuition fees. When people send money tofriends or relatives, digital payments products can provide influence over how the money is spent.

(v) Promoting gender equality (SDG 5)

Access to financial services enables women to manage their finances and be less dependent on their spouses. Addressing gender equality means figuring out ways to bring access to females since research has also shown that women tend to invest savings returns on their families and communities (which has potentially broad economic benefits). With increasing efforts towards increasing women's access to financial services, several economies are now promoting policies that give women the right to full economic participation, thus lowering gender inequality.

(vi) Access to Infrastructure: Water and Sanitation (SDG 6) andEnergy (SDG 7)

Two of the SDGs focus on access to essential infrastructure and resources—water and sanitation, and energy.Both of these goals are likely to have significant impact on people's quality of life. There are many reasons tobelieve that innovations in digital financial services are likely to accelerate access to these resources, althoughthe literature does not yet document this impact. About 1.3 billion people lack access to electricity, including two-thirds of the entire population of sub-SaharanAfrica, reports the International Energy Agency. Without access to modern energy, people are forced to relyon dangerous and inefficient energy sources, such as wood and charcoal, to meet their cooking and heatingneeds. Availability of energy can improve working conditions and provide greater access to education and healthservices, thereby increasing productivity and quality of life.

(vii) Promoting shared economic growth (SDG 8)

When poor people are excluded from the formal financial system, the foundations of shared economic growth areweak. Over the past two decades, incomes have increased significantly for the majority of the world's population. Despite this, income inequality between rich and poor in advanced economies remains at itshighest level in decades. Access to financial institutions and products allows people to gain higher returns on capital. This leads to increasesin their income and consequently affects economic growth. Effective financialsystems can mobilize savings to finance productive economic ventures and improve the probability of successfulinnovations.

Conclusion

Given the increasingly clear link between financial inclusion and development, governments should continue to push for greater access to and use of financial services. Prioritizing financial services does not take away resources from other key priorities set through the SDGs. The studies discussed in this report build a strong case that financial inclusion helps create the conditions that ultimately bring many of the SDGs within reach.The more people get included and gain access to financial services, the easier it will be for us to attain the Sustainable Development Goals. And the better our collective future will be.

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