FINANCIAL INCLUSION AND ITS IMPACT ON ECONOMIC DEVELOPMENT: A SYSTEMATIC REVIEW OF GLOBAL STUDIES

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ABSTRACT

This systematic review investigates the influence of financial inclusion on economic development; studies published in the period from 2005 to 2017 being the main focus. The review combines empirical studies that show the extent to which financial services access affects economic growth, poverty alleviation, inequality, and gender equality. The overall conclusion is that financial inclusion is a contributing factor to economic development which is mainly through its role in giving access to loans and promoting businesses. However, the situation varies according to the quality of institutions, the nature of the regulations and the level of financial literacy. The review also points out the increasing significance of electronic financial services like mobile banking; at the same time, it recognizes that there are some hurdles to be overcome like those concerning digital literacy, data protection and the uneven situation of men and women. The research makes it clear that financial inclusion does not work on its own but it needs to be supported by policies that tackle financial education and consumer protection in order to get the most out of its developmental advantages. It is recommended that further studies look into the merger of digital and traditional financial services as a way of increasing accessibility.

Keywords: *Financial Inclusion, Economic Development, Poverty Reduction, Digital Financial Services, Gender Equity*

INTRODUCTION

Financial survival, explicitly mentioned as the right of persons and companies to get a variety of economic services that are low-priced and suitable using, is one of the most critical facets of economic development that does not exclude the latter from taking place. It includes all kinds of banking services consisting of saving deposits, loans, insurance, and payment systems that make it easy for people to handle their money (Demirgüç-Kunt, Klapper, Singer, & Ansar, 2017). With financial inclusion, a person will be able to do all: from building his assets and smoothing consumption to investing in education and businesses and overall economic well-being. Financial inclusion is, indeed, a great poverty-reducing and economic-developing tool that has become the prime concern of the policymakers and the development organizations globally.

Access to formal financial services has been extended massively, especially in low- and middle-income countries, during the last two decades. The Global Findex Database (2017) mentions that account ownership worldwide has gone up dramatically, thanks to the digital payment and mobile money platforms (World Bank, 2017). Rural people, women, and low-income groups are the main categories that still suffer from significant access gaps even though much has been done already. Customers of financial accounts are increasing but there are studies that show the users still encounter difficulties in availing the services properly and the standard of the services has been a prime factor determining the developmental potential of the services (Demirgüç-Kunt et al., 2017).

The interplay between financial inclusion and economic development has been a major area of research in the literature, with studies frequently highlighting a positive relationship between financial service access and a variety of economic indicators such as growth, poverty alleviation, and more equal distribution of income. Ayyagari, Demirgüç-Kunt, and Maksimovic (2015) in their work on Asia established that, the more the financial inclusion, the less the capital (especially) required for SMEs and the less the unemployment problem for the economy, hence creating a thriving environment for growth and bringing more people into the formal economic sector. Aguirre and Rojas (2015) cited the case of Colombia, where they found that improved customer access to banking services increased credit, especially for the agricultural sector, as a main driver of growth. More research in Africa, e.g., the work of Koker and Jentzsch (2013), has evinced that factors such as increased access to and use of banking services positively influenced economic growth especially in countries with deeply rooted banking and credit supply.

But even though the use of financial services is a big contributor to economic development, it alone cannot be a sufficient factor. The impact of financial inclusion on economic growth and poverty reduction is highly dependent on the financial services' quality and the overall institutional context. For instance, a case study by Islam (2016) showed that in a number of Asian countries, the development of banking services did not necessarily lead to the improvement of development outcomes, especially in places with regulatory and financial literacy issues. In such instances, even if financial services are accessible to the masses, populations that are less privileged economically cannot benefit from them in terms of economic upliftment.

Some studies have pointed out, nonetheless, that financial inclusion can be risky. Usually, credit availability is a good thing for the economy, but it can also be a bad thing when it comes to unstable credit markets leading to people being over-indebted and the whole market being financially unstable (Ozili, 2017). This is how the financial inclusion-economy development correlation can be complicated sometimes, and the quality of financial services, consumer protection, and regulatory frameworks act as the main factors determining the overall impact. Not only in terms of economic growth, but also in terms of potential to reduce inequality and increase social inclusion, financial inclusion is getting more and more recognized. Various studies have reported that financial services contribute to the creation of income-generating possibilities, the enhancement of gender equality, and the lessening of poverty. As an illustration, Demirgüç-Kunt et al. (2017) pointed out women's access to financial services can grant them with the power of being economically active by allowing them to be entrepreneurs, save money, and control household finances. Such power has wider consequences on gender equality and social development.

Nevertheless, even though the findings are mainly positive, a considerable amount of literature is still concentrating on the economic growth that financial inclusion can provide, whereas the other effects of the latter on inequality, poverty, and gender, etc. are not being studied as extensively. Therefore, a lot of research that looks into these wider impacts, especially in the case of various institutional and cultural settings, is required. Moreover, albeit the literature hinting at the good side of digital financial inclusion, there are still some concerns connected to the risks of mobile banking and digital platforms, such as data security and fraud (World Bank, 2017). This paper wants to fill these gaps by performing a systematic review of empirical studies on financial inclusion and its influence on economic development, with a special focus on articles published between 2005 and 2017. The review will (a) take a closer look at how financial inclusion has been thought of and the ways it has been measured in the literature, (b) compile evidence about its effects on growth, poverty reduction, inequality, and gender outcomes, and (c) point out important contextual factors that could clarify the differences in findings among regions and income groups. By doing such a comprehensive perspective of the evidence, this study aims at giving the policymakers, development practitioners, and researchers, the information on the most efficient approaches of using financial inclusion as a tool for facilitating inclusive and sustainable economic development.

MOTIVATION AND GAPS

Although there is already a large amount of research concerning financial inclusion, there are still large gaps in this area. The majority of the literature has concentrated on questions of economic growth mainly and has hardly touched upon poverty, inequality, and gender equity which are the most important distributional aspects. Moreover, the various definitions and measures of financial inclusion (e.g., bank branch penetration, mobile money, loan access) make it hard to do direct comparisons between studies. Moreover, while some studies have looked into the role of country-specific and contextual factors like regulatory environments, financial literacy, and the role of digital infrastructure, this remains a largely unchartered territory.

The present paper fills in these gaps by doing a systematic review of empirical studies from 2005 to 2017 and synthesizing the evidence on the impact of financial inclusion on economic development. Through growth, poverty, inequality, and gender outcomes analysis, the paper intents to gain a clearer view of the conditions under which financial inclusion can propagate sustainable and inclusive economic development.

METHODOLOGY

In the present study, a systematic review methodology was employed which involved the synthesis of the existing empirical research on the financial inclusion-economic development relationship, and emphasized works published between 2005 and 2017. Systematic reviews provide a thorough and transparent way to consolidate and assess the evidence available, thus allowing for a full understanding of a certain research area (Liberati et al., 2009). The systematic review approach was essential in helping the researchers determine the existing research trends on financial inclusion, make a critical assessment of the quality of the evidence provided, and also point out the areas that would require further research.

The criteria for including or excluding studies in this review were defined and described in detail so that only relevant research would be taken into account. The eligible studies must have been published in the time frame of 2005-2017 and must have dealt with the financial inclusion issue in terms of its potential effect on the economic development outcomes i.e. the areas of economic growth, poverty alleviation, income distribution, etc. The review took into account empirical articles based on both quantitative and qualitative methods that discussed the financial inclusion-related development issues from their different angles. Studies using indicators like bank account holding, credit accessibility, mobile banking, and savings to determine financial inclusion were given preference. Articles that did not directly address the issue of financial inclusion and/or its link with economic development were not considered and neither did the non-peer-reviewed publications, e.g. working papers, unless they were of great empirical significance. Besides, the studies published after the year 2017 were left out due to the fact that they would have increased the period of technological innovations in financial services up to the present day and hence would have made it difficult to focus on the earlier times.

In order to spot pertinent studies, a comprehensive search strategy was used all over the academic databases such as Google Scholar, JSTOR, Scopus, Web of Science, EBSCOhost, ScienceDirect, and SSRN. The search terms included the combination of the words “financial inclusion,” “economic development,” “growth,” “poverty reduction,” “banking access,” “inequality,” “mobile money,” and “gender equality” to encompass a vast number of relevant studies. The search was limited to English publications and was restricted to the time frame of 2005–2017 to make sure that the results were relevant to the period of interest.

After the relevant studies were recognized, data were collected from each study on fundamental aspects, e.g., the study’s characteristics (author(s), year of publication, title, and study design), the geographical area or country where the research was done and the financial inclusion measures applied (like account ownership, credit access, savings, and mobile banking). In addition, the development-related economic outcomes (such as growth, poverty reduction, inequality, and employment) were also recorded along the methods employed for analyzing the relationship between financial inclusion and development outcomes. A brief summary of the important findings and conclusions was given for each study, with a particular focus on the impact of financial inclusion on economic development.

The quality for each of the studies was rated through the CASP (Critical Appraisal Skills Programme) checklist for systematic reviews which assessed study design, data quality, statistical methods, relevance, and generalizability. The assessment made it sure that only the studies with the highest methodological quality were the ones included in the review, thus increasing the reliability of the findings and the drawn conclusions.

After the selection and quality assessment of the relevant studies, the data synthesis was carried out using thematic analysis. Studies were classified into groups according to the financial inclusion measures applied and the development outcomes researched. For instance, studies were further segmented depending on their consideration of either economic growth, poverty alleviation, income disparity, or women's rights. The impact of financial inclusion on these outcomes was assessed in comparison and patterns or trends were detected. For quantitative studies, effect sizes like regression coefficients or odds ratios were documented to encapsulate the strength and direction of the relationships between financial inclusion and development outcomes. If possible, the statistical significance of these findings was reported as well. The synthesis looked at the contextual factors that might have affected the relationship between financial inclusion and economic development, such as the quality of institutions, the legal environment, financial literacy, and the impact of digital platforms, too.

KEY RESULTS AND DISCUSSION

According to the results of the systematic review, there was a widespread agreement in the literature that the relationship between financial inclusion and economic development outcomes was complex but positive. Various researchers reported that the increase in the provision of financial services was directly linked to generating economic growth, easing poverty, and improving finance in general. To illustrate, Ayyagari, Demirgüç-Kunt, and Maksimovic’s (2015) research in Asia revealed that the opening up of financial services (especially through credit) caused an upsurge in the small and medium-sized enterprises (SMEs) sector, which significantly contributed to the economies of the region. On a related note, Koker and Jentzsch (2013) in their research on Sub-Saharan Africa reported that the improvement in the availability of banks was positively related to GDP growth rates and that the latter was the consequence of the former. These studies are in line with the common understanding that one of the main avenues through which financial access can stimulate economic activity is the improved capital allocation and entrepreneurship support.

Nevertheless, the situation is such that financial inclusion does not always produce both the same benefits economically and the same relationship with the latter. A number of studies point out the diverse impacts of financial inclusion through their findings that in certain circumstances it can even worsen the unfairness already existing in the society or it can even put people in the situation of being financially poor. For instance, Ozili (2017) asserts that the financial inclusion can be a double-edged sword as it not only causes the growing inequality but also still provides the possibility of fostering the economic growth if the financially excluded people are educated properly and consumer protection measures are in place. This standpoint is echoed by Islam (2016), who contends that in certain less-developed countries, the unrestrained growth of financial facilities, especially credit, can result in over-indebtedness, thereby negating the developmental potential of such countries. Hence, the differing results point to the fact that the quality of financial inclusion is the main issue rather than the quantity.

Moreover, the institutional context was identified by numerous researchers as one of the main factors influencing the developmental impact of financial inclusion. Demirgüç-Kunt et al. (2017) affirmed that the nurturing of financial institutions, the standardization of regulations, and the provision of financial education were among the factors that strongly dictated the success of financial inclusion in the Indian economy. In the areas where the described institutional conditions were not sufficient, the financial inclusion advantages were not too pronounced. For instance, some African states were assessed to be little less inclined to push poverty away through financial inclusion due to the absence of the required infrastructure and regulatory capacity (Koker & Jentzsch, 2013).

Digital Financial Services were viewed as the main focus of the literature and many researchers corroborated the transformation of financial inclusion by mobile banking and digital payment systems, especially in developing countries. The case of mobile money as an example has come to the forefront, and it has opened the door to financial services that for millions of people, mainly in sub-Saharan Africa and Southeast Asia, were non-existent. Demirgüç-Kunt et al. (2017) believe that digital financial services can make it possible to cut down transactional costs and speed up the accessibility to financial products, thereby resulting in better economic outcomes. On the other hand, the swift take-off of digital services created a set of new issues, such as digital literacy, privacy of data, and cyber-security threats. Such concerns were pointed out in a number of studies, for instance, the one conducted by World Bank (2017) which warned that if there is a lack of proper regulatory supervision, the increase in mobile money may put users at risk of getting defrauded and misused thus negating the anticipated economic development benefits.

The conversation also pinpointed gender as a critical factor in the linkage between financial inclusion and economic development. Among other things, financial inclusion was found to be highly beneficial for women whose lives changed with respect to entrepreneurship, income generation, and financial independence. One of the authors, Ayyagari et al. (2015), stated that a large part of the population in developing markets, women in particular, accessing financial facilities such as savings and, especially, credit are good enough to invest in education, health care, and businesses. This not only empowers them but also indirectly promotes social and economic development on a larger scale. Still, Demirgüç-Kunt et al. (2017) have pointed out, the gender gap in financial inclusion persists, mainly for women in rural areas and from low-income groups who are still very much blocked from accessing financial services, and this affects the overall developmental impact on the society.

The major point of the systematic review is that financial inclusion is good for the economic development phase, yet its influence depends on the prevailing factors such as institutional quality, financial literacy, and gender-sensitive policies. The findings indicate that financial inclusion should be dealt with as an all-round process; access to financial services should therefore be backed up by solid regulatory frameworks, consumer protection, and education, so that the whole society, especially the vulnerable groups, will be able to reap the benefits of financial inclusion. In addition, literature has pointed to the digital divide as a growing issue, where the unequal access to mobile technology and digital financial services would hinder the fight against inequality. Future research should then look into the arena of digital inclusion and how it relates with the customary forms of financial inclusion in the making of a more inclusive financial system.

CONCLUSION

In summary, this systematic review underlined the important position that financial inclusion plays in developing economies especially through the provisions of access to the financial services, promoting entrepreneurship and contributing to reducing poverty. Nonetheless, the effect of financial inclusion on the above-mentioned areas is determined by factors such as the quality of institutions, regulatory structures, and the level of financial knowledge, with the possibility of both good and bad outcomes. Digital financial services have widened the access but there are still problems like lack of digital literacy and security risks. In order to get the maximum benefits from financial inclusion a comprehensive approach is needed which will deal with access, quality and complementary support systems. Digital inclusion and institutional reform are the areas that future research should focus on as they are the ones that if combined will lead to the creation of financial systems that are more inclusive and environmentally friendly.

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