FINANCIAL INCLUSION: DOES IT PLAY AN IMPORTANT ROLE IN A COUNTRY? REVIEW OF THE LITERATURE

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ABSTRACT

Financial Inclusion (FI) is a key pillar of financial development and inclusive growth in a country. It plays an immense role and is showing an evolving nature around the world. Most research now investigates this concept mainly due to its supportive nature for a country's development perspectives. Many countries make investments and pay considerable attention to initiating FI agendas and national FI strategies to improve the level of FI in their countries. Economic empowerment through formal financial sector activities, poverty reduction, lowering income inequality, enhancing savings and investments, and improving productivity are some of the contributory factors of FI. Reviewing nearly 50 past literatures, this article attempts to develop new literature regarding the importance of FI for a country. Furthermore, the study examines FI definitions and barriers to FI. The findings of the literature reveal that FI directly supports the achievement of a country's growth objectives. The main contributory factors of FI are employment creation, reducing income inequality and poverty, smoothing the financial sector while maintaining financial system stability, and working with technological developments towards financial activities. However, there are several important bottlenecks such as lack of income, difficult access points due to long distance, barriers to digital finance and payments, and lack of financial knowledge. Affordable financial sector products and services for everyone tend to improve the level of FI. The outcome of the research provides valuable insight for policymakers and responsible authorities to take proactive actions to reach the FI targets by eliminating barriers to FI. In this regard, higher participation of the population towards the formal financial sector in a country is an important element, and actions should be arranged for the gradual transformation of people to achieve this target. The findings of this study further provide avenues for future studies and policy-level decisions, highlighting the fact that FI is an important concept for creating a financially inclusive country.

Keywords: ***Barriers to Financial Inclusion, Digital Finance, Economic Growth, Financial Inclusion, Formal Financial Sector***

1. INTRODUCTION

1.1 Background

Over the past decade, countries have initiated various actions to improve the level of Financial Inclusion (FI). These efforts can be observed as actions taken at the individual country level and as collective actions by groups of countries or organizations (International Monetary Fund [IMF], 2015). The initial step of FI is gaining access to formal financial sector services in an affordable manner, which includes a range of financial products and services.

Easy accessibility and affordability to formal financial institutions may support poor and low-income communities in reducing their disparity levels by encouraging active participation in financial transactions such as savings, investments, borrowings, and insurance products. Pazarbasioglu et al. (2020) stated that about 65 percent of adults in the poorest countries lack access to the formal financial system, resulting in fewer account transactions compared to developed nations. Furthermore, Pazarbasioglu et al. (2020) indicated that only 20 percent of the adult population engages in financial transactions, primarily savings, with the formal financial sector. Demirgüç-Kunt et al. (2017) revealed that after engaging with the formal financial sector, adults open accounts, save, send and receive money through their accounts, and conduct other financial transactions regularly. An inclusive financial system supports a country's growth while contributing to people's well-being (Dahiya and Kumar, 2020; Kim et al., 2018; Sarma, 2016). Abor et al. (2018) highlighted that eight out of seventeen goals included in the United Nations Sustainable Development Goals directly target developing FI due to its supportive nature toward a country's growth. Affordable finance for all segments of a country helps create regular income sources, manage proper cash flow, identify profitable projects, and make investments while allowing individuals to arrange their work schedules to lift themselves out of poverty. Most theories and empirical studies have investigated FI and related topics over the past decade, demonstrating that FI directly influences economic growth and plays a vital role in a country's development goals (Demirguc-Kunt et al., 2017).

Nevertheless, digital finance and its developments have significantly contributed to achieving high levels of FI in the present world. With the Covid-19 pandemic, countries worldwide have altered their approaches to the financial market. Most financial transactions, including purchasing goods and services, are now conducted via online platforms, mainly using services like internet banking, digital banking, fintech, and mobile apps. These practices continue to be widespread. Consequently, digital payment modes have become more popular and are continuing to grow as the majority of people transition to digital transaction methods. Digital finance platforms reduce the need to visit physical financial access points, providing easy access to formal financial sector activities. Access to finance can be significantly improved through the use of mobile phones, as highlighted by Pazarbasioglu et al. (2020) and some constraints associated with the formal financial system can be reduced through the expansion of mobile/online banking systems. Accordingly, an inclusive financial system supports both people and countries in achieving economic growth while reducing income inequality and levels of poverty (Honohan, 2008).

Given the evolving nature of FI and the ongoing efforts by many countries, this study aims to investigate the importance of FI for a country by reviewing past literature while investigating barriers to FI. The findings of this research offer valuable insights for FI initiatives. The primary objective of this study is to investigate the importance of FI for a country. Further, the study aims to identify various definitions of FI highlighted in the literature. Moreover, the study seeks to highlight the barriers to FI, given its impact on achieving a country's growth objectives. The study thoroughly reviewed nearly 50 past literature covering FI, its importance, barriers, growth perspective, and related topics with both theoretical and empirical literature. Accordingly, the paper has been structured to provide new literature concerning the importance of FI and barriers to FI which support reaching the growth objectives of a country.

2. LITERATURE REVIEW

Both theoretical and empirical literature on FI has been reviewed comprehensively to analyze its importance for a country. It was observed that some literature discusses various aspects of FI, including country-level and peer-group comparisons of FI activities. Many theoretical works highlight the link between theories and FI, examining its relationship and influencing factors. Empirical studies mostly cover factors influencing FI and its impact. Therefore, understanding the literature on FI can help people grasp its importance for the well-being of individuals and for achieving a country's growth objectives.

2.1 Theoretical Literature

Various theories have been discussed regarding FI and its relationship with different aspects (Ozili, 2021). The theories directly linked with FI include Social Learning Theory, Public Good Theory, Harrod-Domar Theory of Growth, Financial Intermediation Theory, Life Cycle Theory, and System Theory. The following section describes each theory, highlighting its relationship with FI.

2.1.1 Social Learning Theory

Many people in society tend to learn from others not only in financial-related activities but also in other behaviors and movements. Bandura (1986) highlighted that people learn by observing and imitating others. According to social learning theory, people change their behavior by observing and following others (Ramsden and Moses, 1992). FI aims to facilitate rational decision-making in financial transactions, including savings, borrowings, investments, and insurance (Beck et al., 2007; Zins and Weill, 2016; Allern et al., 2016). Through social learning theory, people's behavior towards financial activities may be influenced. Information about opening accounts, savings, borrowing, fund transfers, internet banking, and bill payments can be shared among individuals, leading to behavioral transformation through observation and emulation within a society. Stack (1982) stated that financial literacy programs, knowledge sharing, and other FI activities directly support the improvement of FI in a country. Therefore, social learning theory plays a direct role in enhancing FI by fostering positive behavioral changes in financial activities through observational learning and shared information.

2.1.2 Public Good Theory

FI has been identified as one of the important elements for achieving the growth objectives of a country (Beck et al., 2007). Due to its supportive nature, FI aims to ensure that all people are treated equally (World Bank, 2018; IFC, 2019). The public good theory explains that for a good or service to be considered public, it should be commonly used and accessible to everyone in a country without discrimination (Ozili, 2018). Health, education, and transportation facilities in most countries are categorized as public goods because they equally benefit everyone. Similarly, the World Bank (2018) highlights that FI has been recognized as a common phenomenon that anyone can enjoy equally without discrimination. Therefore, financial services offered by the formal financial sector are meant to be equally accessible to all individuals. Considering the above, FI is directly linked with the public good theory and provides avenues for people to achieve FI on an equal basis.

2.1.3 Harrod-Domar Growth Theory

The growth theory of Harrod-Domar discusses savings, investments, and capital growth and how these factors support a country's growth objectives. The main target of FI is to enhance savings, investments, and other opportunities through engagement with the formal financial sector to improve the well-being of people and promote inclusive growth in a country. The concept of creating more savings and mobilizing these savings for productive purposes to enhance a country's production level is described in the Harrod-Domar growth theory (Harrod, 1939; Domar, 1947). In FI, the goal is to encourage people to save and invest their savings in productive ventures (World Bank, 2018). Demirguc-Kunt and Klapper (2013) stated that FI helps a country expand access to finance for its people through the formal financial sector, thereby encouraging saving and investment activities. The ultimate aim of FI is to improve the effective utilization of finances for productive purposes, thereby supporting growth objectives. Therefore, FI can effectively explain the factors considered in the Harrod-Domar growth theory.

2.1.4 Financial Intermediation Theory

Another important theory related to FI is the financial intermediation theory. In FI, the main supply-side factor is the financial institution. Financial institutions play an intermediary role by connecting surplus parties and deficit parties in financial transactions. By collecting savings from surplus units, financial institutions effectively provide necessary facilities to deficit units, resulting in savings and borrowings. Gurley and Shaw (1960) revealed that financial institutions play an immense role as intermediaries. Therefore, the theory effectively explains the role played by financial institutions, which are key players in FI. People can actively engage in financial transactions through financial institutions and improve their wealth accordingly.

2.1.5 Life Cycle Theory

Modigliani (1970) and Modigliani and Brumberg (1954) discussed the life cycle theory, highlighting savings, income, and the well-being of people. The theory explains how individuals maintain their lifestyles with a long-term vision, considering savings and consumption, which depend on their income levels. FI primarily targets effective financial activities within the formal financial sector. Through FI, people can enhance their wealth by increasing savings and making rational decisions about borrowing and investments. Despite income level being a main factor in the life cycle theory, better FI can also contribute to improving income levels. Increased savings create more opportunities to invest in profitable ventures, thereby enhancing both income and well-being. Therefore, the life cycle theory is directly related to FI.

2.2 Empirical Findings of the FI

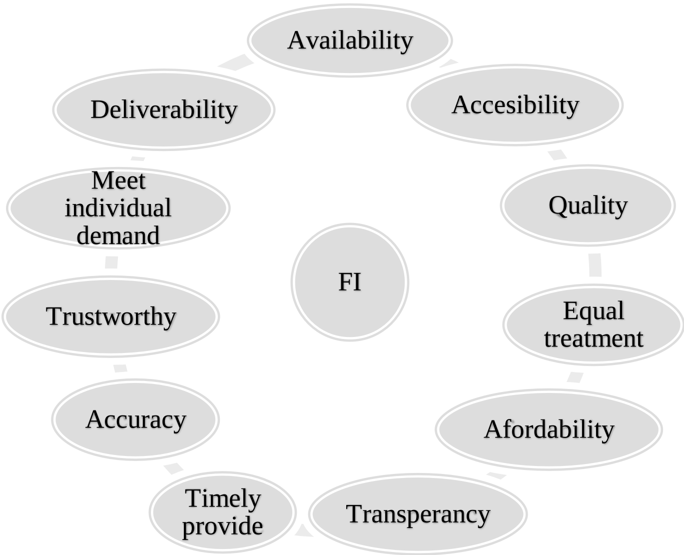
Empirical literature covering FI and its various aspects can be found in past studies. Some literature discusses the determinants of FI (Beck et al., 2007), while others cover various measurements of FI (Sarma and Pais, 2011; Cámara and Tuesta, 2017). Determinants of FI can be divided into two main parts: demand-side and supply-side factors (Damayanthi, 2022). Both demand-side and supply-side factors that determine FI play important roles in discussing improvements in FI. Demand-side factors mainly include personal characteristics such as age, income level, number of family members, gender, and financial literacy (Naceur et al., 2015). Geographical and macroeconomic factors are considered supply-side factors of FI determinants. Examples of supply-side factors include branch expansion and penetration, ATM penetration, location and distance, and infrastructure facilities such as internet and mobile banking (Soumaré et al., 2016). Macroeconomic factors such as inflation rate, gross domestic product (GDP), and interest rates are also important considerations (Omar and Inaba, 2020). FI has a positive influence on achieving a country's growth objectives (Biswas, 2023). To achieve FI, a country should improve its required infrastructure facilities, provide solutions, and reduce barriers to FI.

In FI initiatives, digital banking plays a crucial role as it enables easy access to the formal financial system for people, including those in remote areas. Currently, many countries prioritize improving the use of digital finance to enhance financial access for everyone in the country (Rathnija and Shanuki, 2020). Beck et al. (2007) emphasized that an inclusive financial system supports effective access to the formal financial sector and helps achieve a country's growth objectives. Much literature indicates that FI plays a significant role in achieving fast and sustainable economic growth by leading the financial system (Subbarao, 2009; Fadun, 2014). Therefore, investigating the importance of FI for a country is a timely and valuable topic, especially as many countries are making efforts to enhance the level of FI.

3. KEY FINDINGS

3.1 Definition of Financial Inclusion

FI lacks a universally agreed-upon definition, and its definition varies from country to country based on numerous factors and contexts. When examining the definition of FI described in past literature, several important common factors may be observed and indicated in Figure 1 below.



Source: Author constructed based on literature survey

Figure 1: Important Features of FI

Definitions for FI have been developed by considering important areas, which vary from country to country and sometimes from institution to institution. Table 1 presents some of the definitions found in the literature survey.

Table 1: Definitions of Financial Inclusion

Definitions	Source/Author
Easy accessibility and use of financial services offered by the formal financial sector by everyone	IMF (2015)
Access to useful and affordable financial sector services to meet individual demand in a responsible and sustainable way	World Bank (2018)
Accessing and using financial sector services to fulfill individual requirements while supporting the well-being of the people	International Finance Corporation (IFC) (2019)
Affordable financial services to the poorest and financially excluded people in the formal economy	United Nations (2006)
Enjoy formal financial services from poor	Beck et al. (2007); Bruhn and Love (2014)
Increase the access to finance by people mostly in the poor category by way of opening an account in a formal financial system	Ozili (2018)
Access to appropriate financial sector services for all segments including weaker and vulnerable groups in a transparent manner.	Reserve Bank of India (2019)
Availability of a variety of financial sector offers to the low-income and poor community	Asian Development Bank (2000)
Access to finance by adults for a broader range of financial sector products and services to fulfill their needs	Central Bank of Nigeria (2012)
Access to required and affordable financial sector offerings to fulfill the requirements of individuals and businesses	Demirgüç-Kunt et al. (2015)
Fulfill the financial requirements of everyone in a responsible and convenient manner	Clámara and Tuesta (2014)
Access to the range of financial sector products and services and use such services for all	Sarma and Pais (2008)
Access to formal financial services by everyone in a way of fulfilling the affordability, quality, and security while utilizing such funds efficiently and effectively towards better quality for better lives	CBSL (2021)

Source: Author constructed based on the literature survey

3.2 Importance of FI for a Country

An inclusive financial system is an essential factor for a country to achieve its growth objectives. FI provides key determinants for selecting optimal financial sector services and facilitates rational financial decision-making (Damayanthi, 2022; Ozili, 2021). The main objectives of FI include helping people escape poverty through the formal financial system, reducing income inequality, enhancing access to formal financial sector services, promoting competitive and rational usage of these services, supporting employment generation by fostering entrepreneurship, and ultimately achieving a country's growth objectives (Kim, 2016; Beck et al., 2007). In addition to the above, FI supports improving the well-being of society, enhancing the financial sector, and fostering the development of new technologies within a country.

The main components of FI include opening accounts in formal financial sector institutions, borrowing from such institutions, saving money with them, using accounts for transfers, remittances, and payments (including online platforms), accessing insurance services, utilizing internet and mobile banking facilities, and receiving pension payments (Zulfiqar et al., 2016). Given the supportive nature of FI across various aspects, the following section outlines its importance and the positive impacts it has on a country.

3.2.1 Reduce Poverty

The main objective of FI is to provide equitable access to better financial sector services for all people in a country. When a significant portion of the population is financially excluded, a country's growth objectives may remain unfulfilled. Therefore, many developing countries are making concerted efforts to enhance the level of FI (IFC, 2019; World Bank, 2020). As FI improves, accessibility to formal financial sector services also tends to increase. More people open accounts, increase savings, and obtain loans for various needs such as business, personal, or development loans. With better FI, access to the formal financial sector is expected to increase, ensuring equal treatment for everyone regardless of income level by financial institutions. Increased access to affordable finance leads to higher savings, credit availability, and insurance coverage, all of which contribute to reducing poverty levels (Demirguc-Kunt et al., 2017; Aker et al., 2014; Babatz, 2013). Investigating the relationship between FI and poverty reduction across 116 countries, Omar and Inaba (2020) found that both poverty and income inequality decrease gradually with higher levels of FI, not only in Asian countries but also globally.

Gender is a critical factor in the context of FI in both developed and developing countries (Martinez et al., 2013; Allen et al., 2012). One of the primary reasons for lower FI at the country level is the lower participation of women in financial activities compared to men in many countries (Allen et al., 2012). Therefore, to enhance the level of FI, it is essential to develop country-level FI agendas that specifically target women and children. Increasing FI among women can lead to improved participation in economic activities, which positively influences economic growth (Martinez et al., 2013). Saha and Qin (2022) revealed that reducing gender inequality enhances the level of FI. As more people, including women, participate in financial activities and utilize formal financial sector products and services for efficient and productive purposes, the poverty level may decrease.

Bruhn and Love (2014) revealed that providing opportunities for lower-income individuals to participate in the formal financial sector can lead to increased income levels and greater access to employment opportunities. By addressing the main barrier to FI (lack of income) individuals can engage with the formal financial sector and use financial resources more effectively. Enhancing FI through formal financial sector channels and platforms creates opportunities to expand future investments, manage risks and shocks more rationally, and maintain family consumption more smoothly (Arandara and Gunasekera, 2020). These factors directly contribute to poverty reduction and income equality in society. Additionally, efficient resource allocation facilitated by FI helps to alleviate poverty. Therefore, effective and efficient financial institutions are crucial for achieving the objectives of FI in a country.

3.2.2 Reduce Income Inequality

A primary concern in advancing a country's growth objectives is addressing income disparities among its people. To become a developed nation, individuals must be treated equally by the formal financial sector when seeking financial services. Similarly, income distribution needs to be equitable to reduce disparities and elevate living standards. Park and Mercado (2015) conducted a study across 37 developing Asian nations to identify factors determining FI and its impact on poverty reduction and income inequality. Their findings revealed that FI directly contributes to reducing poverty and income inequality in Asian countries, underscoring the importance of FI agendas.

Access to finance allows all individuals in a country to utilize financial products and services equally, empowering them to meet financial needs and improve lifestyles. Many people face uncomfortable lifestyles due to financial constraints, but accessing financial services can enable engagement in income-generating activities and business enhancement. Closing the financial gap can help reduce income inequality and boost productivity by empowering people for productive purposes.

Jabir et al. (2017) investigated the impact of FI on poverty reduction and income inequality across 35 Sub-Saharan African countries in 2011, showing significant positive effects on poverty reduction and income equality. They attributed this to wealth improvement and the implementation of larger welfare schemes for impoverished communities. Similarly, Omar and Inaba (2020) studied 116 developing nations from 2004 to 2016 and found that improved FI significantly reduces income inequality. These studies highlight the direct influence of FI in reducing income inequality, emphasizing the importance of greater FI for achieving development goals.

3.2.3 Employment Generation

Unemployment poses the greatest challenge for a country's growth objectives in both the short and long term. Therefore, fostering job markets and income-generating activities across all sectors, micro, small, medium, and large enterprises is essential for utilizing the workforce productively and addressing macroeconomic issues. Wu et al. (2023) investigated FI, unemployment, and worker remittances in the Asian region, emphasizing the need for enhanced policy priorities to improve FI levels. Through FI, underserved segments can actively participate in the formal financial sector, enhancing access to productive employment opportunities through lending programs and promoting saving habits (Wu et al., 2023). Bruhn and Love (2014) noted that access to credit improves career opportunities, and lending programs can support expanding labor market activities, thus alleviating poverty. The growth of the financial sector fosters productive opportunities in an economy and effectively integrates various economic sectors, leading to the creation of more employment opportunities (Chen and Zhang, 2021). However, factors such as economic growth, financial system expansion, regulatory environment, and labor market conditions can vary and affect both unemployment rates and FI (Pal et al., 2021). Through FI, financial markets can expand and provide access to finance for individuals and institutions. Project loans increase overall business capacity and create more job opportunities, thereby improving economic growth and lowering unemployment rates (Wu et al., 2023). A well-functioning financial sector facilitates meeting funding needs locally, reducing the cost of accessing external funding sources, and increasing market credits and investment opportunities.

Investment opportunities resulting from FI contribute to business expansion, new market development, and increased employment opportunities (Ianchovichina and Lundstrom, 2009). Inclusive growth, driven by employment generation rather than income distribution, supports economic expansion, higher investment levels, and increased employment opportunities (Wu et al., 2023). This cycle of business expansion through proper financing channels leads to increased labor demand, market expansion, and economic growth.

3.2.4 Promoting Wellbeing for Both Individuals and Institutions

Ozili (2021) emphasized that better FI enhances the well-being of both individuals and institutions by efficiently allocating resources, especially benefiting low-income groups in a country. Access to affordable finance is improved, enabling disadvantaged individuals in society to transition to regular use of bank accounts and savings as a result of FI (Allen et al., 2016). Financial institutions serve as intermediaries in distributing funds between savers and borrowers, bridging gaps in the community without discrimination (Beck et al., 2007). Improving people's income levels through the productive use of financial products and services can contribute to the well-being of individuals and institutions alike. Therefore, FI promotes a financially inclusive population in a country, leading to improved well-being for its people.

3.2.5 Social Inclusion

Financially excluded individuals can transition to the financially inclusive category by observing and learning from others who actively engage in formal financial sector activities (Omar and Inaba, 2020). In societies, underprivileged and vulnerable segments, including women, observe the actions of others to understand and eventually join the formal financial sector to access basic financial products and services such as savings, borrowing, bill payments, and insurance, thereby becoming financially inclusive. By fostering connections among individuals within a society, gradual improvements can be made in embracing the formal financial sector, contingent upon eliminating barriers such as distance to financial institutions, lack of infrastructure, collateral requirements, service charges, documentation, internet access, and smartphone availability. Therefore, FI supports social inclusion, and vice versa, as both contribute to broader societal integration and well-being.

3.2.6 Financial Sector Developments

Financial institutions play a crucial role as intermediaries, facilitating the exchange of surplus funds from savers to deficit parties, thereby contributing to the growth of the financial sector and the rapid expansion of a country's development objectives. Castro et al. (2015) emphasized the importance of a robust financial sector in effectively allocating limited resources through its intermediary role. The financial sector offers various financial products and services to meet the needs of a country's people, provides guidance and support for development initiatives, mitigates risks, and ensures effective financial oversight (Agur et al., 2020). Managing people's savings, extending loans to those in need, supporting prudent investments, and facilitating payment and settlement systems are major functions performed by the financial system, all of which contribute to creating a financially inclusive population in a country (Amoah et al., 2020). To meet economic demands, financial institutions must adopt the necessary technologies to enhance payment and settlement systems. Competitive financing has led to the expansion of financial sector businesses that align with people's and industry's needs.

The current world of finance is evolving with fully automated branch networks, automated deposit and savings machines, and robotic technologies for digitalizing the financial sector. These developments are driven by expanding economies, institutional competitiveness, diverse needs of the populace, and productive investment objectives, all supported by improved FI. Inclusive finance enables effective engagement with the formal financial sector. As intermediary entities, financial institutions must work more effectively and efficiently to achieve FI targets.

The active participation of the financial sector, providing necessary products and services, directly contributes to economic scaling, increases employment opportunities, enhances productivity, and ultimately helps achieve growth objectives (Banerjee and Newman, 1993; Beck et al., 2007; Klapper et al., 2006). Therefore, FI enhances the capability and effectiveness of the financial sector as a whole.

3.2.7 Technological Developments

Improved financial markets and technological advancements are fostering innovative ideas and creating a competitive economic environment (Wu et al., 2023). Traditionally, financial services were delivered through physical visits to specific institutions for various needs such as savings or loan applications. However, with the gradual evolution of FI initiatives alongside technological advancements (fintech), we have witnessed rapid expansion of the global financial sector. Today, diverse financial needs of individuals and institutions can be met through online platforms without the need for physical visits to financial institutions. Following the financial crisis of 2007, there was a surge in technological innovations aimed at improving risk management tools adopted by regulators and financial institutions (e.g. Basel initiatives). The adoption of advanced technologies by the financial sector enhances access to finance and reduces transaction costs (Wu et al., 2023), facilitating quick and efficient transactions such as savings, borrowing, and remittances.

Currently, FI is advancing with digital finance technologies, utilizing electronic payment methods including ATMs, mobile banking, internet banking, digital wallets, and fintech solutions, which play a significant role in modern financial systems (Makina and Walle, 2019). Telukdarie and Mungar (2006) noted that robotic banking, mobile banking, and internet banking are among the most popular fintech innovations driving the rapid expansion of FI in recent years. These innovations enhance access to finance for people across various segments, including rural and vulnerable groups in society.

3.2.8 Economic Development

Inclusive finance means economic development (World Bank, 2020). Financial services are crucial for both men and women. Numerous studies have revealed that female participation in the financial sector is lower compared to male participation (Martinez et al., 2013). Therefore, to achieve development goals in a country, improving female participation in the financial sector is necessary, as it will contribute to achieving growth objectives. Empowering women to participate in financial activities such as savings, investments, and borrowings can lead to improved labor market outcomes. Developed countries typically exhibit higher levels of women's involvement in the labor market and FI compared to developing and less developed countries (Saha and Qin, 2022). With proper FI, accessibility to formal financial sector services increases, leading to greater access to financial institutions. This opens doors for financial intermediaries and positively supports economic growth in a country, while also improving the well-being of individuals and institutions. An effective and efficient financial system helps a country expand and develop its activities (Wu et al., 2023). Levine (2005) noted that financial institutions play an intermediary role by connecting people and institutions to facilitate the exchange and utilization of limited resources among them. Savings from individuals and institutions can be used for effective lending programs, investment purposes, productive insurance activities, and guiding using financial systems to exchange and utilize financial products. This expansion of the formal financial system stimulates investment and consumption activities (Amoah et al., 2020), supporting the growth of companies, including micro, small, and medium-sized enterprises (MSMEs) (Ullah et al., 2019) and ultimately advancing the growth objectives of a country.

Access to finance also supports efficient allocation of resources among various segments, ultimately enhancing economic growth. Consequently, the cost of funds decreases, allowing these funds to be used for investments and other purposes (Demirguc-Kunt et al., 2015). In countries with high levels of financial exclusion, a poverty trap exists that hampers economic growth. When people are given access to the formal financial sector, investment opportunities increase significantly, thereby supporting project financing and entrepreneurship development (Demirguc-Kunt and Klapper, 2012b). Demirguc-Kunt et al. (2013) noted a strong correlation between FI and per capita GDP in countries. Improvements in FI are associated with increased economic efficiency, accumulation of physical capital, and overall economic growth (Rathnija and Shanuki, 2020). Therefore, FI is crucial for a country to achieve its development goals.

4. BARRIERS TO FINANCIAL INCLUSION

FI can rapidly improve in a country if barriers are gradually reduced. Eliminating barriers to FI comprehensively is a challenging task due to its evolving nature. Significant barriers have been identified and highlighted in past literature. Considering the importance of identifying these barriers to FI, Table 2 summarizes the important barriers identified from the previous literature.

Table 2: Barriers to Financial Inclusion

Barriers	Source/Author
Low level of income	IMF (2015); Aggarwal, Klapper, and Singer (2013); Zuzana et al. (2014)
Lack of documentation	World Bank (2018); Aggarwal, Klapper and Singer (2013); Shankar (2013); Zuzana et al. (2014)
Lack of trust	IFC (2019); Aggarwal, Klapper and Singer (2013); Dupas et al. (2016); Zuzana et al. (2014)
Low financial literacy	United Nations (2006)

High distance to the nearest financial access point (branch, ATM, CDM, etc.)	Sarkar and Shetty (2008); Aggarwal, Klapper and Singer (2013); Zuzana et al. (2014)
Cost of financial services and limited financial services with high cost	Sayyad and Jadhav (2022); Dabla-Norris et al. (2015); Dupas et al. (2016)
Collateral and guarantor requirements	Jayaraman and Harriss (2006); Sarkar and Shetty (2008); Zuzana et al. (2014)
Lower-income groups highly depend on informal markets such as money lenders	Sarkar and Shetty (2008); Jain et al. (2016); Gilinsky (2006)
Cultural belief and religious reasons	Kumar (2019); Zuzana et al. (2014)
Limited data for policy initiatives	Demirguc-Kunt, Klapper and Singer (2017); Olajide (2014)
Lack of infrastructure such as internet, smartphones, computers, etc.	Bayero (2015)
Bottlenecks about legal, financial, and corruption	Beck et al. (2007)
Voluntary exclusion	Dat and Kim (2019); Zulfiqar et al. (2016)
Low opportunities for new entrance to the formal financial system	Anurag (2014)
Lack of financial products to fulfill the financial requirements	Shankar (2013)
Psychological behavior of people (fear)	Olajide (2014)
Lack of discipline toward financial activities	Olajide (2014)

Source: Author constructed

5. CONCLUSION

The paper aimed to investigate the significance of FI for an economy, given the substantial efforts many countries are currently undertaking to enhance FI levels. Furthermore, it sought to explore the various definitions of FI, recognizing their direct relation to a country's development. Identifying barriers to FI is also crucial for achieving designated FI targets and development goals. Therefore, the study reviewed approximately 50 pieces of literature to understand the advantages, benefits, and importance of FI, while examining its impact on a country's developmental trajectory. Most literature underscored that FI significantly supports the achievement of growth objectives (Allen et al., 2012; Zins and Weill, 2016; Beck et al., 2007). Effective implementation of FI agendas plays a pivotal role in meeting FI targets.

The study observed that expanding FI contributes significantly to eradicating poverty, reducing income inequality, and generating more employment opportunities while lowering the unemployment rate. To become a financially inclusive country, the financial sector must play a crucial role in positively meeting the needs of people (Allen et al., 2012).

Engaging with the formal financial sector provides individuals with opportunities to access financial products and services. FI ensures that all individuals in an economy benefit equally from the formal financial sector without discrimination (Damayanthi, 2022). Through access to the formal financial sector, individuals can utilize savings, borrowings, investments, payments, transactions, and insurance facilities, thereby improving living standards, especially for low-income and vulnerable communities. Consequently, poverty and income inequality may decrease. Moreover, meeting the funding requirements of businesses, including income-generating activities, supports the expansion of business activities and creates opportunities for new entrants to fulfill their financial needs. This business expansion directly opens avenues for generating employment opportunities. Efficient allocation of banking funds obtained from savings by surplus units can be used to expand businesses and effectively revive the economy.

In addition to the positive impacts of FI on improving the well-being of individuals and businesses, social inclusion, financial sector development, technological advancements, and ultimately the growth of a country can be observed as outcomes of inclusive finance. Therefore, implementing effective and efficient measures to enhance the level of FI may significantly and positively contribute to eradicating poverty, reducing income inequality, generating more employment opportunities, and improving overall well-being.

All of the positive outcomes mentioned above can be achieved through FI, provided that formal financial institutions effectively act as intermediaries for both individuals and industries by rationally connecting savers and borrowers. Ensuring access to affordable finance for all individuals without discrimination is a critical condition that financial institutions must fulfill. Additionally, users of financial services must make informed decisions based on necessary financial knowledge.

When improving FI in a country, several barriers have been highlighted in the literature, including low income, limited financial knowledge, extensive paperwork requirements, collateral issues, distance to financial access points, inadequate infrastructure, mismatched financial products and services, and high costs associated with financial service.

Recognizing the importance of FI, policymakers and relevant authorities should prioritize enhancing financial literacy, particularly among low-income and vulnerable groups, to achieve FI targets. Encouraging participation in formal financial activities, rather than relying on informal sector finance, is crucial for improving FI levels in any economy. Effective guidance from formal financial institutions is essential, as many institutions currently prioritize profit-driven agendas over developmental goals, hindering progress toward FI targets. Therefore, given the significance of FI in achieving growth objectives, collective efforts are needed to reach FI goals.

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