INSIGHTS

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# Financial Inclusion -- A Key Enabler to Reducing Poverty and Boosting Prosperity




## KEY COMPONENTS




Affordable financial products and services—such as transactions, payments, savings, credit and insurance—help people manage risks, build assets and invest in businesses. Financial inclusion ensures that individuals and businesses have access to and can use affordable financial products and services that meet their needs and demands, which are delivered in a responsible and sustainable manner. Financial inclusion is a catalyst for achieving seven of the 17 Sustainable Development Goals (SDGs). It fosters economic growth and employment, promotes economic empowerment of women, and contributes to eliminating poverty.

Financial inclusion supports entrepreneurship and business growth. Access to credit and capital, secure savings, and efficient payment services enable smaller enterprises to expand, create new jobs, and drive economic development. Access to insurance enhances resilience by offering protection against unforeseen risks and financial shocks

providing individuals with security and allowing entrepreneurs to undertake ventures with greater confidence. By bringing more people and enterprises into the formal economy, financial inclusion strengthens economic activity, boosts productivity, and lays the foundation for inclusive and sustainable economic development.

Financial inclusion also contributes to empowering women. By reducing barriers to economic participation, financial services equip women with tools and resources to start and grow businesses, manage household finances, and invest in their futures. This strengthens their voice in decisions affecting them and narrows gender gaps in financial access, promoting broader social and economic equality.

Financial inclusion helps build resilience for people and businesses vulnerable to climate change and natural disasters. Over 80 per cent of the world's 1.3 billion adults without financial accounts reside in places at risk from climate, intensifying their susceptibility to economic and environmental shocks. Financial services enable individuals and businesses to invest in climate-resilient infrastructure, adopt sustainable agricultural practices, and implement energy-efficient technologies, thereby contributing to climate change adaptation and mitigation. Moreover, availability of insurance and savings products speed recovery from environmental shocks.

Transaction accounts enable people to securely store funds and efficiently conduct transactions and are typically the first step to the use of other financial services. The expansion of digital financial services has helped decrease the number of adults without access to an account. Globally, 79 per cent of adults own a financial account (bank or mobile money), a significant increase from previous years, driven by digital and mobile money services, especially in developing nations, although about 1.3 billion adults still remain unbanked, according to the World Bank's 2025 Global Findex report. Account ownership is highest in regions like East Asia and the Pacific (83 per cent) and lowest in the Middle East and North Africa (MENA), highlighting ongoing disparities despite progress. Despite these advancements, challenges persist. This disparity in account ownership between low- and high-income countries underscores the need for continued efforts to bridge the financial inclusion gap and ensure equitable access to financial services worldwide.

Between 2017 and 2021, the gender gap in account ownership in developing countries narrowed from 9 to 6 percentage points. Despite these advancements, the persistent disparity continues to impede women's ability to fully manage their financial lives. Early indications suggest that mobile money accounts are playing a role in bridging this gap across various nations. The adoption of mobile money in Sub-Saharan Africa has contributed to the general increase of access and has been successful in closing the gender gap in financial inclusion.

For countries where 80 per cent or more of the population holds accounts—such as China, Kenya, India, and Thailand—the next frontier is transitioning from access to active usage of a broader range of financial services. Between 2011 and 2021, savings increased globally, yet the gap between advanced economies and the developing ones widened, with savings rates at 58 per cent and 25 per cent, respectively. Similarly, while borrowing also saw improvement, the divide remains pronounced, with rates of 56 per cent in advanced economies compared with 23 per cent in developing economies.

Small businesses also face a substantial and growing financing gap, estimated at $5.7 trillion, equivalent to 19 per cent of GDP, or 1.5 times the current supply of funding. This shortfall affects 40 per cent of formal micro, small, and medium enterprises (MSMEs) in these regions, leaving their financing needs unmet. When informal enterprises are considered, the gap widens much further. The MSMEs are vital to economic growth, making up more than 50 per cent of employment in these regions. However, limited access to finance restricts their ability to expand operations, invest in new technologies, and enhance productivity. Closing the persistent finance gap will help boost productivity, drive long-term growth, and create more and better jobs in developing regions.

Since 2010, more than 60 nations either launched or developed National Financial Inclusion Strategies, uniting diverse stakeholders to coordinate efforts, including financial regulators, ministries of telecommunications, competition, agriculture, environment and education. Countries achieving significant progress have implemented large-scale policies, such as India's Aadhaar initiative, which has provided over 1.2 billion residents

with universal digital identification, facilitating the opening of Jan Dhan Yojana (JDY) accounts. Leveraging government payments has also been instrumental; for instance, 35 per cent of adults in low-income countries who received government payments opened their first financial account for this purpose.

In fostering uptake and market development of financial products and services, policymakers must address the range of risks financial consumers may face, and to be responsive to new and changed consumer issues from innovative products and providers. Effective financial consumer protection regulation and market conduct supervision assists in ensuring that uptake and usage of financial products and services is beneficial to consumers. As highlighted in recent reports, international good practice and trends clearly show the importance for a country to have a regulatory framework and supervision addressing financial consumer and market conduct issues.

Whilst financial inclusion is universal access, at affordable costs, to a large variety of financial products offered by mainstream retail financial institutions, inclusive finance enhances the access to financial services for the most disadvantaged segments of the society. Through inclusive finance, people living in poverty or in marginalised groups are offered a set of financial instruments and services to run their businesses, stabilise consumption and shield themselves from adverse shocks.

Inclusive finance is an innovative concept, and its central role has been widely recognised by the policymakers since it is closely interrelated with the more general notions of inclusive and sustainable development. The commitment to 'leave no-one behind' is the core theme of the 2030 Sustainable Development Agenda to promote a broader access and usage of financial services. Indeed, when access to finance and the available range of services are limited, many individuals, families and firms are not likely to gain from financial development, leaving much of the population in absolute poverty.

Inclusive finance encompasses the provision of loans and other basic financial services often through microfinance institutions, and its macroeconomic effects are multifaceted. An inclusive financial system generates not only lower socioeconomic inequality, but also a more prosperous economy and higher economic growth. Further, inclusive finance plays a significant role in moderating the impact of macroeconomic shocks on households and MSMEs. In line with many theoretical models, some empirical studies show that inclusive finance, by relaxing financial constraints, helps firms to access external funds in order to meet their liquidity needs not only in normal times but also when they are affected by adverse unexpected shocks. Analogously, an enhanced financial access allows households to smooth consumption and insure themselves against unfavourable events, so they are less likely to fall into poverty.

The promotion of inclusive financial markets has made microfinance – a source of credit for low-income and disadvantaged groups – the most prominent anti-poverty programme to enhance economic and social development. Microfinance bridges the gap between the formal financial sector and individuals or small businesses perceived as riskier and therefore as less attractive customers. Whilst financial inclusion seeks to make sure that everyone has access to a variety of financial tools, microfinance supports marginalised people along the lines of the inclusive finance goals. As originally envisaged, microfinance is the provision of micro loans to disadvantaged individuals who wish to develop or extend a basic income-generating activity in order to facilitate their escape from poverty.

Supporters of microfinance intervention claim that it plays a pivotal role in many developing economies in creating new job opportunities and in boosting incomes of the most marginalised segments of the population – especially women – thereby supporting a 'bottom-up' socioeconomic and sustainable development process. On the environmental side, microfinance is predominantly 'green' as most of the microfinance institutions provide credit to low and moderate income individuals who plan to start or expand environmentally sustainable small-scale projects based on the use of renewable and energy-efficient technologies.

Inclusive growth is economic growth that creates opportunities in terms of labour, business, and assets for all segments of the population. Specifically, inclusive growth deals with policies that allow people from different groups – gender, ethnicity, religion – and across sectors – agriculture, manufacturing industry, services – to contribute to, and benefit from economic growth. Access

to financial services, primarily to credit, enables agents to make longer-term consumption and investment plans, and to participate in productive economic activities. Indeed, recent survey evidence shows that access to financial products has a direct impact on innovation and productivity which is found to enhance economic growth. There may be also a reverse causation effect insofar higher growth, by relaxing credit constraints, deepening the availability and reducing the cost of financial services, allows more people to be financially included.

Inclusive development is, instead, defined as development that includes marginalised people, sectors and countries in social, political and economic processes for increased human well-being, social and environmental sustainability, and empowerment. Inclusive finance is a key tool for inclusive development since it provides access to financial facilities in a fair, equitable and affordable manner not just to improve people's lives but also to foster participation of all members of a society, especially of the poorest, in productive and sustainable economic activities. By empowering individuals to compete for and take advantage of economic opportunities, inclusive finance can, therefore, be a powerful driver for higher, equitable and inclusive growth.

Indeed, recent literature argues that there is the urgent need to find and inform policies that promote growth and inclusion simultaneously. With improved access to formal borrowing, families can smooth their consumption both in durable and non-durable goods and investments, including education and health. They can also insure against unfavourable and unexpected events and, therefore, avoid falling deeper into poverty, which is often the case with such negative events. This aspect is crucial since there is also an important gender dimension to account for. Women across the world face a range of barriers in accessing financial services. In fact, women generally own fewer assets than men, have lower wages and limited labour market participation, and therefore they are often financially excluded. Lack of or limited access to financial services reduces women's ability to climb out of poverty, increases their risk of falling into poverty traps, contributes to women's marginalisation and also reduces their ability to fully engage in productive economic activities, to find formal sector employment and to earn more. Apart from gender discrimination, those who are unable to access financial services have greater difficulties in integrating both socially and economically. Access to credit can smoothen personal consumption but it is also a key instrument to access other primary services and social activities. Lack of access to credit also impacts on achieving the minimum national standard of living pushing people to the margins of society. In addition, 'credit excluded' people who are refused credit by mainstream lenders are exposed to informal moneylenders who lend money at very high or extortionate rates (exploitative inclusion), further exacerbating their vulnerability.

# Presentation on Draft Reports of the Comprehensive Rural Finance Study



With the support of Bangladesh Bank, the Institute for Inclusive Finance and Development (InM) has been conducting a research programme titled "Comprehensive Rural Finance Study" since 2022. On 9 December 2025, a presentation programme on the draft reports of the study was held at the conference room of

the Head Office of Bangladesh Bank. The programme was chaired by the Honourable Governor, Dr. Ahsan H. Mansur. Under this study, a total of 22 reports were produced, including policy briefs/papers, a household survey report, and background study reports. The key findings of the study were presented during the programme. On behalf of InM, Dr. Farhana Nargis, a Core Researcher of the study, made the presentation. The meeting was attended by the Team Leader of the research project, Dr. Mustafa K. Mujeri, Executive Director of InM, along with the Deputy Governors of Bangladesh Bank and senior officials from various departments.

## Refreshers' Training Held to Strengthen WCAD Implementation

InM, in collaboration with Water.org, organised a day-long Refreshers' Training Session under the WaterCredit Adoption (WCAD) Programme on 25 November 2025 at the Training Centre of IDF in Mirpur-2, Dhaka. A total of 35 participants from InM's seven WCAD partner organisations—BASA Foundation, DISA, IDF, SDC, SFDW, GUK, and SDS—attended the event. The programme began with a welcome address by Dr. Farhana Nargis, Research Fellow, InM which was followed by a detailed programme overview presented by Mr. Md. Sajjad Kabir, Programme Manager, InM. The training sessions were facilitated by Mr. Md. Abu Bakar, Joint Director (Training), DSK; Mr. Md. Sajjad Kabir, Programme Manager, InM; and Ms. Shaoli Hassan, Partnership Service Associate (South Asia), Water.org.





The sessions covered a wide range of topics, including the concepts and requirements of safe water and sanitation, steps needed to ensure water safety, overview of waterborne diseases and prevention methods, and importance of safely managed sanitation systems. Discussions also included product installation and maintenance; cost considerations, safe water practices during disasters and climate change impacts, interpersonal communication skills for trainers, strategies for demand creation at the field level, and techniques for motivating field staff. The Monitoring and Evaluation session emphasised borrower selection, product installation and follow-up, loan utilisation, field visit procedures, and reporting standards. At the end of the programme, participants engaged in group presentations to reflect on the day's learning, and the event concluded with closing remarks, marking a productive and insightful training session aimed at strengthening WCAD implementation across partner organisations.

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