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A CONCEPTUAL REVIEW OF THE FINANCIAL INCLUSION AND BUSINESS SUSTAINABILITY - AS NOTABLE TOOLS TOWARDS ACHIEVING SUSTAINABLE DEVELOPMENT GOALS (SDGs) IN 2030

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Abstract:

That financial inclusion is a key factor and in fact undoubtedly a practical approach to sustaining business and other development goals is an understatement. It was however observed that though the 2030 Agenda for Sustainable Development recognizes its importance in achieving several sustainable development goals (SDGs), it does not however include financial inclusion as a stand-alone goal. This observation was based upon the empirically proven fact that about 50% of the world's adult population is financially excluded. They lack access to most financial/banking services including formal or semi-formal savings, credit, insurance services and the likes. The vast majority of these adults live a hand-to-mouth existence in the developing world. This paper, ***with our methodology being argumentative discourse analysis****, examines how basic formal financial services under the major umbrella of financial inclusion contributes to greater sustainable development by ensuring that access to finance, especially by the poor and the downtrodden of the world is guaranteed vis-a-vis the provision of basic financial services to unbanked adults in a sustainable way, based on sustainability principles in order to yield lasting impact for sustainable development. The paper thus concluded that though financial inclusion*

provides limited benefits to the environment, it increases the economic and business opportunities as well as social welfare of banked adults and as such, proffered an approach whereby there exists a sustainable link between financial inclusion and sustainable development which should be based on sustainability principles premised upon polices that will integrate financial inclusion into the sustainable development agenda.

***Keywords**: sustainable development, financial inclusion, stand-alone, unbanked adults, downtrodden.*

1. Introduction

Social and Management scientists as well as economic and financial experts globally have occupied themselves with certain factors concerning the realization of the Sustainable Development Goals (herein after sometimes referred to as SDGs) against the projected year 2030, less than a decade from now. Noteworthy of these factors is the financial inclusion, which this study considers, alongside business sustainability, as notable tools in this regard.

Financial inclusion (herein after sometimes referred to as FI) is understood as the effective access to affordable, quality and sustainable basic financial services like credit, savings, insurance and payment services among others, and has today become a household idea as far as economic and sustainable development issues are concerned.

According to World Bank, Financial inclusion means that individuals and businesses have access to useful and affordable financial products and services that meet their needs which includes but not limited to series of banking and financial transactions, payments, savings, credit and insurance; and these services are delivered in a responsible and sustainable way. Financial inclusion does not only include the access to and usage of financial services by individuals and businesses, it also includes the dimension of quality of the products and the service delivery. Equally, FI is a key to a financial development

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which, apart from being cautious, it also caters for peoples' well being, both- at the individual level and for the economy as a whole. An all-inclusive approach which considers both demand side and supply side needs to be adopted to reach global goal of Universal Financial Access in record time (UFA), says World Bank.

In its real sense, financial inclusion implies that people should have easy and local access to adequate financial services to improve their livelihoods. It offers people within various social classes an opportunity to access financial services such as payments, savings, loans, and investments. In the case of MSMEs, financial inclusion can aid development by encouraging financial stability in businesses.

This makes possible the provision of more opportunities for job creation, which in turn potentially promotes sustained and inclusive economic growth in response to the 1st and 8th SDG, which are "No Poverty but access to Decent Work and Economic Growth".

It is no gainsaying that access to financing and being part of a banking system is a giant step toward economic development. In essence therefore, the increased popularity of FI is due to the realization that universal access to financial services can play a critical role in alleviating poverty, reducing inequalities, and achieving sustainable economic development (Beck et al., 2007; Demirgüç-Kunt and Levine, 2009; Demirgüç-Kunt et al., 2014). There is empirical evidence that FI improves the living conditions of the poor in different ways, including the availability of savings mechanisms and the possibility to avoid the often exploitative and coercive offers of informal moneylenders. Typical example is the access to a savings account allowed households in Nepal to increase their cash assets by over 50 per cent and their entire net worth by 16 per cent (Prina, 2012). For this and other reasons, enshrining FI as a SDG was crucial to raise global awareness of the urgent financial needs of the poor and to focus enough energy and resources to meet them. It is as well an opportunity to galvanize efforts at the global level to build inclusive financial systems.

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1.1 Statement of the Problem

Premising upon the above stance among others, one would have assumed a perfect position and status of financial inclusion in the African business environment and economy to say the least; the reverse is however the case, as more than 2 billion adults are still excluded from financial markets. They are mainly poor people living in developing countries, with African countries taking the lead. The issue of having the access to financial services extended to the poor has been on the table from the very beginning of the three-year consultation and negotiation process which gave rise to the 2030 Agenda for Sustainable Development. Quite unfortunately, the outcome of the recently adopted document on this subject takes a rather unambitious approach to the problem.

Further to the above, and even in the face of increasing policies to advance financial inclusion in Nigeria and Africa at large, it becomes worrisome that gaps remain in areas where there is little or no access to digital technologies, with the businesses in these areas facing challenges such as lack of access to a bank account to receive payments or access credit. In a research conducted by the Center for Strategic & International studies (CSIS) in 2021, two major financing challenges facing SMEs were highlighted– access to working capital and being able to afford the cost of the capital. This appears a big deal as it goes a long way to hamper their potential for job creation and economic development. When business owners are denied the right education, integration, or ability to pay through a formal system, keeping adequate track of their expenditures becomes difficult if not impossible, this may likely occur in situations where they need to make money transfers to customers or vendors on an on-demand basis. This then translates to an obstacle on the path of these businesses to thrive and bring forth some of the radical innovations that may lie within their confines, which are significant for export, economic growth, and development.

Digging into possible causes of these and other anomalies not mentioned, we observed that it may be a misnomer for an item as important as FI to have only been diluted among the 169

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targets that constitute the Sustainable Development Goals (SDGs) and not to have been included as one of the 17 goals. Although the Agenda was said to be a non-binding treaty, it still is a normative document – the result of a consensus building process that involved the 193 UN member states. It remains an embodiment of a set of global objectives and the commitment of all the states to take action towards them.

1.2 Objective and Methodology

Premising on the **main objective of this study**-that *"Financial inclusion is a reliable pathway and notable tool towards achieving SDGs in 2030"*, this paper addresses this issue of non-inclusion by presenting a conceptual discussion and analysis on some of the reasons that might justify not recognizing FI as a stand-alone goal. Using discourse analysis, it was argued that none of them withstands any close scrutiny and that financial inclusion contributes to sustainable development by ensuring that access to basic financial services is guaranteed in a sustainable way, based on sustainability principles in order to yield lasting impact for sustainable development.

The conceptual discussion in the paper adds to the existing literature by presenting a strong argument as to why FI should be made a stand-alone goal in the SDGs. In addition, it adds to the existing sustainable development studies by presenting a link of sustainable development to financial inclusion. The study comprise of five (5) different sections. It opened with the Introduction section, followed by the "Conceptual views on Sustainable Development"; this is followed by the "Conceptual views on Sustainability" and "The Concept of Financial Inclusion" respectively. The paper is concluded in section 5.

2. Conceptual views on Sustainable Development

Sustainable development involves the need to preserve today's resources to make it available for future generations who will need them (WCED, 1987, paraphrased). These much touted sustainable development goals were preceded in the early 2000s, by the sustainable development agenda, which was said to have translated to the millennium development goals. The millennium

development goals focused on demanding better outcomes towards poverty reduction, reducing inequality, protecting the environment, increasing security, preserving democracy and ensuring economic prosperity (Rogers, Jalal and Boyd, 2012).

According to Harris (2000), three aspects of sustainable development have been identified: *the social aspect, environmental aspect and economic aspect*. The economic aspect is concerned with the continuous production of goods and services; the environmental aspect is concerned with creating an environment that preserves natural resources and the avoidance of wasteful depletion of non-renewable resources; while the social aspect deals with creating a social system that promote equity and fairness in the society. In practice, Barrow (1995) points out that there are many routes to sustainable development; and despite the sustainable development concept presenting a great value, implementation has been very disappointing in many countries. He further stressed that there is a need for the world population to change their attitude and behavior towards sustainable development.

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Records show that none of the sustainable development indicators said to have been developed by the efforts made to create certain measures of sustainable development are generally accepted or formulated based on careful empirical computation. These, according to Parris and Kates (2003), were put in place in line with the terms of measuring sustainable development. Conroy and Berke (2004) showed that it is important to have a national planning mandate for sustainable development. Jabareen (2008) undertook a critical assessment of existing studies and found that there are no effective operational definitions of sustainable development.

Recent studies, such as Silvestre and Ţîrcă (2019), argued that innovation can transform private and public efforts toward sustainable development. Ozili (2022a) showed that developed countries benefit most from the UN SDGs by focusing on the social and environmental factors that promote sustainable development, whereas developing countries benefit most in the area of economic and social factors which promote sustainable development. Rashed and Shah (2021)

explored how private sector agents can support sustainable development efforts. They suggest the need for the private sector to develop organizational-level sustainability initiatives that align with the sustainable development goals.

3. Conceptual views on Sustainability

Sustainability was defined by Pezzey (2017) as the process of maintaining the usefulness of resources and human wellbeing over the long term future. White (2013) showed that people and corporations who are interested in communicating and implementing sustainable practices often encounter definitional difficulties, which then translate to implementation difficulties. Expectedly, we know that sustainability of course means different things to different people. Costanza and Patten (1995) pointed out that the issues surrounding the sustainability concept are more of a prediction problem than a definitional problem because it is only sustainability after the fact that is assessable and not sustainability before the fact, since we can only assess whether practices are sustainable only after it's occurrence. Similarly, Hasna (2007) confirmed that there is diversity of opinions about the definitions, themes and descriptions of sustainability. This diversity of opinions raises more questions than answers, and it leaves the sustainability concept open to multidisciplinary interpretation especially along social, economic, technological and ecological dimensions. Keiner (2006) pointed out that the sustainability concept may remain an abstract concept and may not actually become a reality regarding developmental principle that improves society and the environment. Scoones (2007) showed that sustainability concept has over the years, has led to a rise in innovative ideas, a change in policies, varying forms of political mobilization, different priority issues, new actors and networks. In their own opinion, Wilkinson et al (2001) argued that organizations need to manage people and environmental concerns, this interestingly will involve adopting a decision making process that emphasize medium to long-term sustainability rather than short term horizons in decision making, and there

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arises the need for political support so that sustainability can be put forward in the national agenda.

In recent times, scholars have explored sustainability along multi-dimensional and multi-disciplinary dimensions. For instance, in business, Lubin and Esty (2010) showed that business executives have to consider how sustainability will affect the competitiveness and survival of their organizations, and as such, they will need to go beyond launching superficial initiatives and move towards embedding sustainability into the organizational vision or plan so that it becomes a strategic issue in organizations. Purvis, Mao and Robinson (2019) pointed out three-pillar conception of sustainability consisting of three aspects. In their argument, they stressed that there may be more aspects because the sustainability discourse arose from different schools of thought historically, and there has not been a solid theoretical conception that establishes the three pillars and the existing nexus among them. Nishant, Kennedy and Corbett (2020) posited that artificial intelligence can be used to address sustainability problems but developing countries do not have the capability to operationalize artificial intelligence capabilities. This is largely due to their lack of the required technological advancement.

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4. The Concept of Financial Inclusion

Empirically, the theories of financial inclusion as documented by various scholars showed that its complexity translates to having a multiplier effect. For instance, Ozili (2020a), showed that financial inclusion benefits not only the economic system but also vulnerable people, and financial inclusion programs can be delivered through special agents or through tailored interventions. For financial inclusion to be effective according to Radcliffe and Voorhies (2012), unbanked people needs to be connected to the formal financial sector through an instrument of digitalisation. This position was corroborated by Mukhopadhyay and Rath (2011) in their submission. They emphasized the need to develop instruments and institutions that are capable of facilitating the attainment of financial inclusion goals. Ozili (2018) argued that digital finance is

the enabler of financial inclusion because digital finance or digital financial services can generate sizable welfare benefits for people. Dittus and Klein (2011) suggested that digital financial services needs to be loosely regulated in its early stages and can be later tightly regulated when its activities become bigger and riskier. Ozili (2018) showed that, although digital technology is an important instrument for promoting financial inclusion, digital financial inclusion itself presents some challenges particularly the propensity for increase in cyber-attacks, fraud, high transaction costs, digital illiteracy and financial illiteracy.

Recent studies such as Kelikume (2021) showed that the increase in the use of technology which includes mobile phones and widespread internet usage can significantly increase financial inclusion and contribute to poverty reduction. In agreement, Ozili (2021) showed that greater access to finance reduces the level of poverty, increases financial stability and improves the economic system. Kabir (2022) and Ozili (2022b) in another study showed that financial innovations can be used to significantly increase financial inclusion and reduce financial exclusion. Geraldes, Gama and Augusto (2022) also showed that demand-side and supply-side factors play an important role in achieving greater financial inclusion. León-Ramírez (2022) showed that social programs can significantly help to end extreme poverty in poor countries. Lupo-Pasini (2021) and Ozili (2020b) argued that digitalization can help to bypass the constraints of the cash-based economy, and increase the drive towards financial inclusion (Ozili, 2020b).

4.1 Financial Inclusion as a global policy goal

As indicated in the introductory part of this study, financial inclusion is increasingly supported as a policy and regulatory priority, both domestically and internationally. Records show that over 50 countries have made financial inclusion commitments using series of international and widely recognized platforms even at the current dispensation: these include the Alliance for Financial Inclusion's Maya Declaration, the G20/GPFI Peer Learning Program, and the UNCDF's Better

than Cash Alliance. To date, 31 countries have a National Financial Inclusion Strategy (NFIS) in place and another 27 countries are at various stages of developing their own (AFI, 2015). Internationally, global financial institutions have since become fully supportive as against their initial lukewarm attitude regarding FI. Of note is the Financial Inclusion Action Plan developed by the G20 in 2009 with the establishment of the Global Partnership for Financial Inclusion to coordinate and implement it. For its part, the World Bank recently launched the Universal Financial Access 2020 initiative, a coalition of public and private sector partners that have all made quantifiable commitments to achieve universal financial access by 2020. Complimenting the above, the major financial sector standard-setting bodies (the Basel Committee on Banking Supervision, the Committee on Payment and Settlement Systems, the Financial Action Task Force, the International Association of Deposit Insurers, and the International Association of Insurance Supervisors) have taken steps towards inculcating FI as a core mandate into their progressive mainstream of activities. All of these organizations now recognize the potential of financial inclusion complementing their areas of concern. This represents a major change in their normative standards and advisory guidance, which have traditionally been geared towards and based on experiences from developed country financial sectors (GPFI, 2011).

With the spate of the listed progress, should it then be assumed that FI may not require any further institutional boost? The answer is No, for these following reasons.

First of all, although there has been a remarkable proliferation of FI goal setting and policies, the actual implementation of them is far from even. There are series of important achievements recorded by top performers such as Peru, Colombia, the Philippines, or India, and bottom ones such as Jordan, Venezuela, Egypt, or Lebanon, though these latter ones scored poorly across all the policy and other areas identified as essential for fostering FI (EIU, 2015).

The second important reason here is that institutional capacity is a very key constraint battling the countries that are laggards in their attempts towards realizing FI. A significant number of

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governments that have made commitments to FI are yet to deliver on them mainly because they lack the necessary regulatory and supervisory capacities required to ensure the effective implementation of the policies needed to make financial systems more inclusive (Kelly and Rhyne, 2015: 29).

Thirdly, impact evaluation of FI policymaking remains limited. Though there are few studies that identify causal mechanisms between financial inclusion policies and end outcomes, it has been observed that there are many rigorous impact evaluations demonstrating causal relationships between various aspects of financial inclusion with micro, local, and macro-level outcomes, (CGAP, 2014). This is largely caused by the greater difficulty usually experienced in econometric identification of causality of macro-level policies, and also to usual limitation of data collection and monitoring which are typically most prevalent in the countries guilty of financial exclusion. Thus, to the best of our knowledge, there are a few case studies and one cross-country comparison which indicate that countries with national financial inclusion strategies have achieved significantly higher levels of bank account ownership relative to countries without them. While we can intuitively note the value of comprehensive financial inclusion strategies and having capable regulatory bodies, we still have relatively little data on how financial inclusion policy and While we can intuitively note the value of comprehensive financial inclusion strategies and having capable regulatory bodies, we still have relatively little data on how financial inclusion policy and regulation shape market development (Kelly and Rhyne, 2015: 25).

In the global world, financial inclusion could only be appraised for notable achievement based the success recorded while addressing the three challenges as described. The achievement of FI worldwide depends on successfully addressing the three challenges just described. In order to do so, it is necessary to harmonize action among the range of actors working on FI to help assign specific duties and – equally important – to guide the allocation of development resources to the

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fulfillment of such duties. The SDGs have precisely these two functions. They set standards that help to coordinate development policies and to assess the actions of particular actors in implementing those policies (Wisor, 2015: 281).

Excluding FI among the SDGs implies that the Agenda lacks the provision of a critical focal point for its promotion and by extension, the measurement of its progress. This is bad news for the unbanked poor and it is especially regrettable considering that the UN System Task Team coordinating the preparatory works clearly suggested that ‘financial inclusion could feature rather as an explicit goal’ in the new development agenda (UN, 2013: 12).

4.1.1 Failure to recognize Financial Inclusion as a ‘stand-alone’ goal among the SDGs

Considering the assumed relevance and influential status already attained and occupied by financial inclusion in the setting of the SDGs, it becomes worrisome that it is excluded in the list of the Agenda. In addition to this, financial inclusion acts as a yardstick to determine the success of the SDG as it is repeatedly mentioned in at least 6 of the seventeen SDGs which include SDG 1 — Eradicating poverty; SDG 2 — Zero Hunger; SDG 3 — Good Health and Well-Being, SDG 5 — Gender Equality; and SDG 8 — Economic Growth and more Jobs; yet, it was excluded.

Here, we shall attempt to analyze the three important normative arguments put forward in support of this decision of not recognizing FI as a stand-alone goal among the sustainable development goals (the *instrumentality argument*, the *free market argument*, and the *veil argument),* and equally present our argument against them respectively.

Some of the reasons we offer are meant to highlight the importance of expanding financial access in line with our objective in this study which centers on FI as a practical approach enroute achieving sustainable development goal in 2030.

The instrumentality argument

One of the reasons against upgrading FI to a sustainable development goal is that it only has instrumental value. The UN sees FI as just a means to an end – or many ends, but not really an end in itself. Financial inclusion contributes greatly by acting as an enabler to development goals of poverty reduction, economic growth and jobs, greater food security and agricultural production, women's economic empowerment, and health protection, inter alia (Porter, 2016).

Implicit in this reasoning is the idea that the SDGs reflect aims that are only instrumentally valuable and, therefore, anything that is only instrumentally valuable cannot be that high on the development agenda. We call this the *instrumentality argument*.

There are two ways to rebut this argument. The first shows that the distinction between instrumental and non-instrumental values does not and should not play the role implicit in this argument. The second argues that FI has instrumental as well as non-instrumental values.

Let us assume, for the moment, that the argument is right and FI is only instrumentally valuable. If we take a quick look at the SDGs, we immediately see that some of them are closely related. For example, securing healthy lives and promoting well-being at all ages (SDG 3) entails ensuring availability and sustainable management of water and sanitation for all (SDG 6). Similarly, protecting terrestrial ecosystems (SDG 15) involves promoting sustainable economic growth (SDG 8).

In the light of these connections, it is tempting to conclude that some parts of the Agenda are redundant. However, a more charitable interpretation is to say that SDGs 6 and 8 are basically *means* to achieve SDGs 3 and 15, respectively. Surely, some goals such as ending poverty (SDG 1), ensuring inclusive and equitable education (SDG 4), and promoting peaceful societies (SDG 16) are final aspirations.

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The state of affairs they bring is desirable in itself and not *because* it has further positive consequences – although this makes them also instrumentally valuable. However, contrary to the instrumentality argument, that is not true for all the SDGs.

To continue with the examples, we do not value the achievement of sustainable consumption and production patterns (SDG 12) per se, but only to the extent that it contributes to the realization of other (instrumental or non-instrumental) ends, some of which are included in the Agenda: for example, conserve and sustainably use the oceans (SDG 14) or combat climate change (SDG 13). This alone shows it is simply not true that the fact that something is a mere means, and in fact a very important means, automatically disqualifies it from being recognized as stand-alone goal.

Our main point, however, is that even though in the development discourse, FI tends to be seen primarily as a means to advance other aims, it is possible to cast doubt on the premise that FI *only* has instrumental value. We think that FI can and should be vindicated as an end in itself. Regardless of its contribution to the realization of several valuable ends, FI is valuable because being able to make financial choices is an important dimension of autonomy, which concerns individuals' capacity to manage and possibly sustain their economic resources. The significance of this dimension is most evident in the case of women in developing countries whose finances are controlled by their husbands. The fact that they need permission from their husbands to contract financial services allows the latter to significantly restrict the choices available to them. Thus, granting these women effective access to financial services is necessary –albeit not sufficient – to increase their control over their own lives. More generally, however, access to financial services is valuable from the standpoint of autonomy because it allows people to manage their resources, circumventing barriers of time and space. For example, savings services protect individuals from daily pressures to spend their money and make it available for them to spend later. Conversely, credit allows them to acquire goods and services when they need them

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in return for a promise of future repayment. The possibility to make these inter-temporal choices gives people better opportunities to shape their lives.

Of course, a critic might say that financial services are, in that respect, a double-edged sword. They can enhance autonomy but they can also hinder it in at least two important ways (Sherrat, 2015). The first way has to do with the uses given to financial services. For example, in certain circumstances, the growth of small enterprises triggered by microcredit has led to an increase in child labour – children are taken out of school and put to work. Microfinance can also reinforce the practice of arranged marriages in that it helps parents to pay increased dowry for their daughters. The second way applies particularly to credit and has to do with its specific functioning. As several over-indebtedness crises in microfinance have shown, borrowers can fall behind on payments and get caught in a spiral of debt that leads to destitution – and even to suicide, like in the case of a woman (Iya Dada) who committed suicide in Abeokuta, Ogun State recently (January 2023) because of debts from a microcredit provider.

This objection brings to light some of the worst aspects of the existing microfinance industry. The evidence available in this respect should of course be taken into account when designing policies oriented to achieve FI. But we do not think that it poses a serious threat to our argument concerning the non-instrumental value of finance. Concerning the first point, we should stress that FI is not the recipe to overcome all the ills and injustices that affect the world's poor. Child labour, forced marriages and other wrongful practices that prevail in some developing countries should be tackled with specific policies aimed directly at them. In spite of the above, it should be stressed that when such policies do not exist – or are inadequately enforced – access to finance can be conditional upon customers not engaging in certain practices. For example, banks can refuse to offer loans to borrowers who employ children in their businesses or use the capital as dowry.

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The second point is more challenging because it seems to be intrinsically linked to the dynamics of credit services. Although it is hard to deny that credit can have great potential to improve people's capacities to shape their lives, the question is whether the opportunities it offers are necessarily attached to the possibility of over-indebtedness.

The answer is neither a straightforward 'yes', nor is it a simple 'no'. The risks associated with credit services are determined by the conditions under which the services are offered. In that sense, the following three considerations seem pertinent. Firstly, the worst autonomy-undermining consequences of microfinance have often resulted from irresponsible lending. In countries such as Mexico and India, for example, lenders have been accused of using coercive collection tactics and charging usurious interest rates (Hulme and Maitrot, 2014). Secondly, in order to fight these malpractices and, more generally, to provide credit services that foster individual autonomy, it is crucial to implement client protection programmes that include, inter alia, principles for transparent and reasonable pricing, adequate collection mechanisms, and financial education. These feature prominently among the Client Protection Principles promoted by the SMART Campaign, which serves as an umbrella for industry-wide efforts on client protection and represents established standards from industry leaders in microfinance. Thirdly, financial providers should be obliged to carefully evaluate the repayment capacity of the loan applicants in order to avoid situations of over-indebtedness. Responsible lending requires limiting or denying credit to individuals that have difficulties fending for themselves (e.g. the elderly or the severely disabled), precisely for the sake of protecting their limited autonomy. These three considerations point in the same direction. The autonomy-enhancing capacity of credit – its non-instrumental value – depends on the existence of a regulatory framework that creates stringent obligations for financial providers. FI policies are an essential part of this framework.

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The free market argument

Many FI policies are likely to be criticized by free market supporters on the grounds that they would distort the adequate functioning of financial markets. When poor people are excluded from these markets because they cannot afford the price at which financial institutions are willing to offer them services, there is a bargaining problem. Obliging financial institutions to enter into market transactions they would otherwise refuse or publicly subsidizing financial services for the poor will create serious inefficiencies that will hurt the society as a whole – not just the poor. To the extent that denying access to financial services on grounds of race, sex, religion, ethnicity, or other morally irrelevant factors produces inefficient results, policies aimed at making financial markets less discriminatory are justified; but the role of FI should not go beyond that. Hence, including it only as a target in the whole Agenda is probably enough. This is the *free market argument.*

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The main problem of this argument is that it assumes a highly idealized picture of the financial markets. As we all know, under certain conditions, markets allocate goods and services inefficiently; that is, they produce distributions that could be improved in Pareto-optimal ways. Financial markets are not an exception. We shall be using the following three common financial market failures that play a major role in creating financial exclusion to further explain this.

Firstly, in financial markets there are information asymmetries that make it difficult for financial providers to choose credit/insurance-worthy clients *ex ante* or monitor client behaviour *ex post*. These asymmetries create incentives for them to ration supply and increase prices. Providers typically try to mitigate these asymmetries by using other available sources of information (e.g. credit histories, administrative and health records, etc.) and asking for collateral or guarantee requirements. However, in contexts where financial exclusion is most prevalent, information constraints are more severe because the poor tend to operate informally – without traceable

means of payment, accounting books, etc. – and lack assets that can be used as collateral (Armendáriz and Morduch, 2010).

Secondly, since poor customers demand services on a smaller scale and/or are located in areas in which it is more costly to operate, most traditional financial service providers have less incentive to serve them given the high fixed costs of administration (Barr et al., 2007: 143–71). Bank charges and fees charged by POS operators in recent times are good intimidating examples that can easily exclude the poor financially. High transaction costs contribute to financial exclusion of the poor from all types of financial services and products. They are arguably market failures because there are interventions that would reduce them, allowing these excluded markets to be (profitably) served. Examples of such interventions are innovations in product and service delivery, and improving provision of or allowing alternative identification and legal documentation necessary to access services.

Thirdly, in developing countries, competition among financial providers is more likely to be imperfect, with market power concentrated with a single or few providers. This gives providers incentives to restrict output below a level that is socially optimal and maintain higher prices to maximize profits (Ledgerwood et al., 2013). This situation prices poor customers out of financial markets altogether or leaves them exposed to abusive informal providers (Staschen, 2010).

Government policies and regulation play important roles in mitigating (or exacerbating) financial market failures. Although this is not the place for a comprehensive analysis of specific actions, we would like to note that some FI measures are specifically targeted at addressing these failures. For example, policies which help promote information sharing between financial institutions (e.g. creating credit bureaus, revising bank secrecy laws, facilitating access to public records, etc.) can greatly reduce information asymmetries and transaction costs (Miller, 2003).

Likewise, the development of legal and regulatory frameworks that facilitate the adoption of business models adapted to poor customers (particularly new technology-driven innovations in

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mobile and branchless banking) can reduce these costs further and promote market competition. To the extent that these policies allow financial providers to serve the poor in profitable ways, they will lead to efficiency improvements that the standard economic approach to the market should support.

The free market critic might concede our point but still claim that, even if it were possible to correct the market failures just described, some financial services would still probably be too expensive for the poorest customers. Thus, using the idea of market failure to justify FI has limits. It cannot support stronger forms of government financial intervention such as state-owned banks or government mandated and/or subsidized delivery of financial services.

In reply to this, we concede that, in order to justify FI policies that go beyond what is required to correct market imperfections, we must abandon the standard economic approach that takes economic efficiency as the sole market morality.

Instead, we should rely on richer accounts of the market that see it as an instrument to achieve other values such as, for example, social equality or distributive justice. These alternative accounts, to which we can refer as political, allow us to say that efficient markets can have failures if they produce results that are detrimental to those other values (Satz, 2010). Even though a full defense of FI based on a political account of financial markets requires a separate paper, we would like to suggest a possible line of justification that highlights two egalitarian aspects of inclusive financial markets.

Firstly, lack of access to finance leaves poor people vulnerable to loan sharks and informal moneylenders that can abuse their position and subject them to exploitation and coercion. Secondly, financial exclusion is a form of social exclusion that can undermine individual self-respect. The judgment that someone is *not* creditworthy or bankable expresses distrust regarding their likeliness to be able to repay the loan by their own means. It is, thus, a negative assessment of their capacities as fully functioning participants in the economic sphere and, as such, it can

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have a negative impact on the way they are perceived by themselves and others. So, to sum up this last point, a political approach to the market can support stronger forms of intervention in financial markets on the grounds that making them more inclusive helps improve the economic opportunities of the poor and avoid important threats to equality in social relationships.

The veil argument

The third argument we want to examine is one that says we should not include FI among the SDGs because it can operate as a mask which hides and exacerbates the real problem we should care about, namely, poverty itself. What is really troublesome is not that some people are unbanked, but the fact that most of them lack access to financial services *because* they are too poor to afford them. We should worry less about adapting current financial markets to poor customers and more about making these customers economically better off, which will automatically make them more bankable. Establishing FI as a development priority can make us lose sight of the fact that financial exclusion is a consequence rather than a cause of poverty. Moreover, the focus on access to financial services wrongly puts the individual centre stage in the provision of certain basic goods, like health care or basic education, which should be secured by the state as a matter of human rights.

Governments of developing countries that have problems securing these goods can use FI to transfer responsibility to private individuals and withdraw from their duties towards them; for example, debt-subsidized education can substitute for public education, micro-insurance services can substitute for public health care, etc. (Bateman, 2010). This is the *veil argument*.

This argument contains two claims. The first says that our main goal should be to improve the material well-being of the poor. Focusing on FI – instead of poverty itself – is to put the cart before the horse. The second claim concerns the potential negative effects on the implementation of human rights of pursuing universal access to financial services in extremely non-ideal circumstances. Let us address each of these claims in turn.

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Regarding the claim about priorities, we would like to make two remarks. Firstly, it should be noted that something might be an outcome of poverty *and* a means to fight it. A good example is education. Poor countries have poor education systems that should necessarily be improved in order to take people out of poverty. The same can be said about FI. Even though access to finance (or the lack thereof) is highly dependent on development, it can be, at the same time, a means to spur it. Thus, like education policies, measures to universalize financial access put the cart and the horse where they belong.

Secondly, as we already said, FI should not be defended as a silver-bullet solution to poverty – or other forms of injustice. Access to financial services might be rather useless for people whose immediate survival is at stake – the victims of a famine need food and other in-kind goods, not bank accounts. Beyond that level, however, FI must be considered an integral part of an effective development strategy that sees poverty as a complex phenomenon. One major problem with the veil argument is that it seems to confine the definition of poverty to its economic component.

This notion is over-simplistic because it does not adequately reflect the social concerns attached to the problem of poverty. More sophisticated approaches to poverty alleviation tend to adopt broader definitions of the concept that encompass both economic and social needs, including the need for autonomy. The account that best captures the connection between poverty and autonomy is Amartya Sen's capabilities approach. Sen defines poverty as capability deprivation and characterizes 'capabilities' as combinations of potential beings and doings that reflect 'the person's freedom to lead one type of life or another … to choose from possible livings' (Sen, 1992: 40). According to this view, then, eradicating poverty means increasing people's ability to realize their aims. The capability to access financial services can be considered fundamental for two reasons. One is that, as Sen himself recognizes, financial services can greatly influence the economic entitlements that individuals are able to secure in order to pursue the kind of life they value (Sen, 1999: 39). The other is that, as we argued above, the ability to make financial choices

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is, in itself, a dimension of our autonomy as economic agents. The example of women who are financially discriminated against shows that, from the point of view of autonomy, it is fundamental that we can manage our own economic resources because that allows us to have more control over our circumstances –financial and otherwise. In short, if – as it seems plausible to assume – autonomy is one of the stakes of poverty, then financial exclusion is, in itself, an instance of poverty. Therefore, FI policies do not mask poverty, they alleviate it.

The worry expressed by the second part of the veil argument is a serious one. Could access to finance be used as a substitute for basic guarantees that states are obliged to provide for their citizens? More specifically, is FI a threat to human rights' implementation in the developing world? A first answer to these questions is empirical. Even though the extension of financial services in developing countries is, so far, still modest, the limited evidence we have points exactly in the opposite direction: FI can actually improve the implementation of human rights. A growing number of countries are implementing FI strategies and social welfare assistance in a mutually reinforcing way. For example, Indonesia, Colombia, and Ghana have integrated their existing social assistance programmes with financial inclusion initiatives where they require (or heavily promote) formal savings and deposit accounts with either postal banks or private sector partners in order to disburse funds to beneficiaries. The hope is that this will both improve the efficiency of the cash transfer distribution while also improving beneficiaries' savings habits, build client history, and allow them to bridge to the use of other financial services and products, among others.

On a more theoretical level, it is interesting to observe that giving people access to jobs also allows them to buy private health care, and yet nobody argues against promoting full employment on the grounds that it can be an obstacle to the full realization of the right to health care. Governments should provide access to jobs *and* public healthcare because they are both part of what it means to achieve a decent standard of well-being. If, as we argue, being able to

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make financial choices is an important dimension of our individual autonomy, we have a good reason to consider FI as part of this standard as well. It has to be secured and enjoyed side by side with a variety of other goods and services that states have a human rights obligation to provide – as is the case in most Western countries.

The International Covenant on Economic, Social and Cultural Rights (ECOSOC, 2001) requires states to take appropriate measures to progressively achieve the full realization of economic, social, and cultural rights. If states use FI to withdraw from their obligation to build public schools and hospitals, they will be failing to take appropriate measures to secure the human rights to education and health. And even though the international legal system of human rights does not provide effective sanctions for violations of economic and social rights, individual states can take action. They can, for example, condition foreign aid on the adoption of concrete education and health care policies, or impose economic sanctions.

4.2. Establishing a nexus between financial inclusion and sustainable development through sustainability

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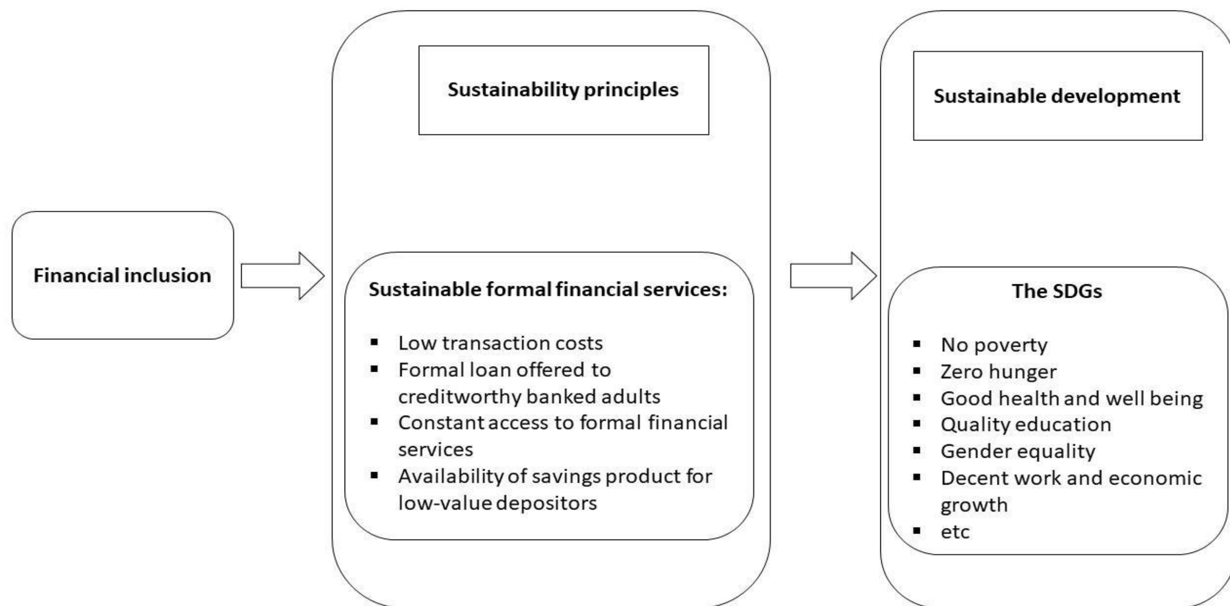
Financial inclusion can always contribute to sustainable development by ensuring that access to basic financial services is guaranteed in a sustainable way; and basic financial services as well are provided in a in similar manner based on sustainability principles. Basic formal financial services that are offered to alleviate poverty, includes formal loans, savings and deposits, can be offered based on sustainability principles. It is noteworthy to mention that sustainability principles entail a situation where formal loans should not only be available to poor banked adults, but rather, such loans should be given mostly to poor banked adults who can repay the loan in the future in order that the lender can use the repaid loan to lend to other banked adults who need such loans, thus ensuring that such lending becomes sustainable in the long run. In similar way, savings products that are beneficial to low-value depositors should be put in place. Such savings products should not be subject to excessive bank charges so as to encourage

low-value depositors to save their money with banks. With these two examples, we can infer that basic formal financial services can be offered based on the principles of sustainability and equally yield lasting impact for sustainable development. The above suggest a consistently low and sustainable transaction cost alongside fair bank charges, which are understandable and non-exploitative for banked customers. Constant access to formal finance both in good times and bad times should be guaranteed, saving products should be accessible at all times and there should be no minimum amount that can be saved so that it can benefit poor banked adults who want to save money; formal loans should be offered at low and affordable interest rate and should be given only to poor banked adults who can repay the loan or to those who are credit worthy so that the lender can use the repaid loan to lend to other banked adults, thus making it sustainable in the long run. This approach links financial inclusion to sustainable development through the adoption of sustainability principles in offering basic formal financial services, as shown in figure 1.

Figure1. Linking financial inclusion, sustainability and sustainable development



Source: Adopted from Peterson K. Ozili, 2022 (https://ssrn.com/abstract=4185735)

4.3. Financial Inclusion and Economic (Business) Opportunities

Premising upon the fact that sustainable development is in three aspects, previous writers have pointed out that financial inclusion appears more relevant to the economic and social aspects than for the environmental aspect of sustainable development as shown in figure 2. This is because greater access to finance increases the economic/business opportunities and social welfare of banked adults, thereby contributing to job creation, higher economic growth and social inclusion. Meanwhile, the benefits of financial inclusion for the environmental dimensions are mostly limited to financial instruments that are used to raise funds for environmental activities.

Financial inclusion contributes to the social dimension of sustainable development by ensuring that providers of formal financial services deal with banked adults with care and respect, and treat banked adults fairly through going the extra mile to serve banked customers that have uncommon financial needs. It ensures also that racial discrimination and racial profiling are avoided when serving banked customers and that fair pricing of formal financial products and services are the orders of the day.

Concerning the economic aspect, financial inclusion ensures that providers of formal financial services are duly licensed and authorized to operate under established regulations. It as well ensures that the activities of financial institutions contribute to the economic well-being of individuals and corporations. The economic benefits also extend to bank branch expansion to reach unbanked adults in remote communities, and regulatory interventions to lower the high cost of banking services.

The above shows that financial inclusion improves the economic aspect and social aspect of sustainable development as it allows providers of financial services to put social considerations first before profit when serving banked customers. This can make financial services become more meaningful to members of the society; it can increase social trust in financial institutions and align financial inclusion goals with sustainable development goals.

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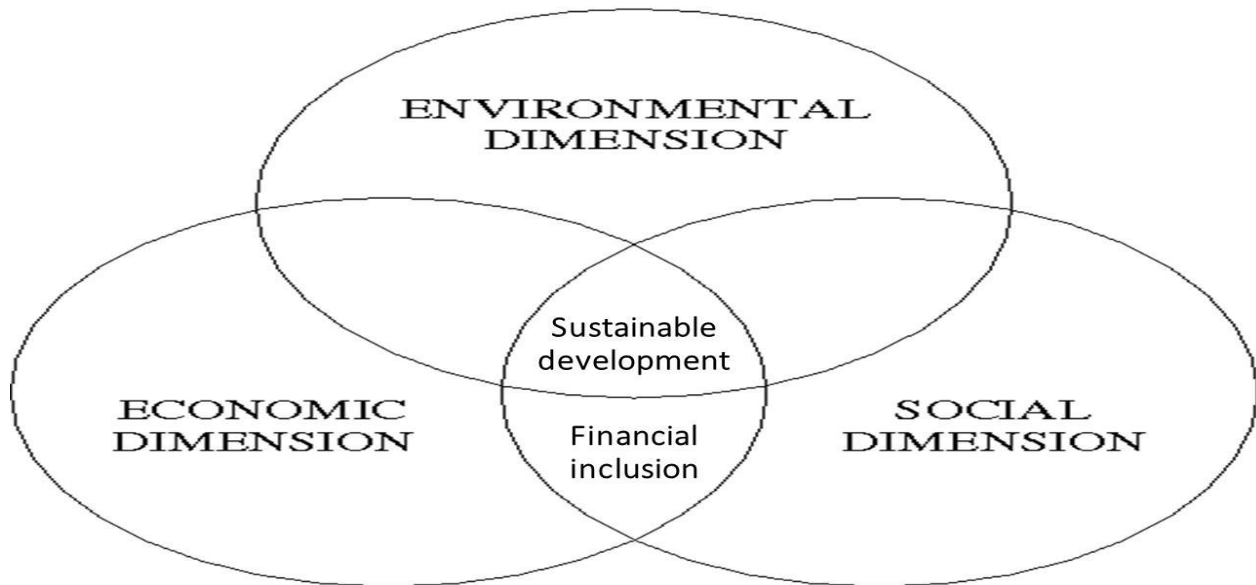
Figure 2: Positioning financial inclusion within the dimensions of sustainable development



***Source**: Adopted from Peterson K. Ozili, 2022* (https://ssrn.com/abstract=4185735)

5. Conclusion and Policy Recommendations

The most important recent political compromise in national and universal development priorities has downplayed the urgency of the financial needs of the poor.

The paper showed how relevant financial inclusion is at enhancing economic and especially the business opportunities and how the working combination of the duo could lead to sustainability and sustainable development. It argued that greater access to finance can contribute to sustainable development by ensuring that access to basic financial services is guaranteed and provided in a sustainable way based on the principles of sustainability so as to result in a lasting impact for sustainable development. In a bid to establish this argument, our observation of the exclusion of FI does among the SDGs was emphasized. This paper thus went ahead to analyze three important arguments supporting this exclusion and argued that none of them withstands scrutiny. The instrumentality argument fails to see the non-instrumental value of FI. The free market argument ignores that, in fact, a significant amount of financial exclusion results from market failures. Furthermore, policies going beyond what is required to correct market

imperfections can be justified if we recognize FI as an instrument to achieve other values such as social equality or distributive justice.

Finally, the veil argument assumes a simplistic notion of poverty and underestimates the mechanisms to monitor and implement human rights. One can accept the reasons given in this paper and still defend the current approach of the 2030 Agenda concerning FI on the grounds that expanding the list of SDGs would have weakened the normative force of these standards. This is a reasonable worry. However, we should recall that the Agenda is not a binding treaty but a voluntary agreement. Interestingly, this has its positive and negative sides. The negative side is that it can make compliance more difficult. The positive side is that it gives states the opportunity to adopt a more ambitious statement of aspirations for this century.

The study as well corroborated the above argument by establishing the existing nexus between financial inclusion and sustainable development through the adoption of sustainability principles in offering basic financial services; and this led to our positing that financial inclusion improves the economic aspect and social aspect of sustainable development more than the environmental aspect of sustainable development.

This translates to the fact that countries while formulating their economic policies should endeavor to integrate financial inclusion into the national sustainable development plan. Policy makers should explore the possibility of integrating financial inclusion as a stand-alone (this time) into the sustainable development goals. The need for a development research agenda which encompasses the consideration of the combined role of financial inclusion and sustainable development in making the world a better place cannot as well be overemphasized. Future research can suggest further ways to integrate financial inclusion into the sustainable development agenda. Further research may also be required towards assessing the factors that would showcase the positive effect of financial inclusion on sustainability and sustainable development.

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