Sustainable financial inclusion: integrating sustainability principles into financial inclusion strategies

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Abstract

In a world where banked customers are increasingly aware of social and environmental issues, agents of financial inclusion need to adopt sustainable practices to remain relevant. This brings us to the issue of sustainable financial inclusion which is quite different from the mainstream financial inclusion concept. Sustainable financial inclusion is a concept used to describe the integration of sustainability principles into financial inclusion strategies. This paper provides an in-depth discussion of sustainable financial inclusion. Using the discourse analysis method, the paper provides several definitions of sustainable financial inclusion, and show the importance and benefits of sustainable financial inclusion. The paper also highlights the strategies to achieve sustainable financial inclusion and some challenges that may be experienced in the pursuit of sustainable financial inclusion. The implication of sustainable financial inclusion is that there will be increasing demand for agents of financial inclusion to not only seek profits but to also seek the preservation of society and the environment in their efforts to increase financial inclusion in rural and urban areas. The sustainable financial inclusion agenda will give banked adults an opportunity to pressure agents of financial inclusion to be sustainability oriented. This is a privilege that is non-existent in the mainstream financial inclusion agenda. This calls for a shift from the 'mainstream financial inclusion' agenda to a 'sustainable financial inclusion' agenda.

Keywords: financial inclusion, sustainable financial inclusion, sustainability, sustainable development, sustainable development goals, SDGs.

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1. Introduction

Financial inclusion refers to access and use of affordable financial services (Fungáčová and Weill, 2015; Hendriks, 2019; Ozili, 2018; Dahiya and Kumar, 2020). Proponents of financial inclusion argue that financial inclusion will give everyone access to affordable financial services which they can use to improve their economic welfare (Demirgüç-Kunt and Singer, 2017; Ozili, 2020). Development economists consider financial inclusion to be an important strategy for achieving the sustainable development goals (see, for example, Chibba, 2009; Allen et al, 2014; Niaz, 2022; Valencia et al, 2021; Ozili, 2023a&b), because they believe that financial inclusion gives everyone access to essential financial services and will enable them to financially contribute to ongoing sustainability effort towards achieving the United Nations sustainable development goals (SDG) by 2030.

Most financial inclusion objectives are achieved using agents of financial inclusion (AFI) which may include commercial banks, microfinance institutions, Fintech companies, Bigtech companies and bank agents. Most agents of financial inclusion help to accelerate financial inclusion in exchange for a fee (Ozili, 2018; Wyman, 2017). These agents of financial inclusion (AFIs) need to do more than bring unbanked adults into the formal financial system in exchange for a fee (see, for example, Ozili, 2023a). They need to take into account environmental, social and governance (ESG) considerations in their financial inclusion efforts or strategies (Chitimira and Warikandwa, 2023; Arner, Buckley, Zetzsche and Veidt, 2020; Ozili, 2023b)[1]. This brings us to the issue of sustainable financial inclusion which calls for aligning financial inclusion with sustainability principles.

The demand for sustainability in financial inclusion is increasing among banked customers. Many banked adults are communicating how important it is for their financial institutions to support sustainability. Their demand for sustainability is shaping their choice of financial services provider, it influences which financial services they choose to patronize, it influences who they invest in services with, and it impacts their overall

[1] There is also the view that financial regulators, depositors, shareholders, and employees can pressure agents of financial inclusion to show strong commitment to environmental, social and governance (ESG) priorities in their efforts to increase financial inclusion.

choices on where to access financial services. Because sustainability is valued by many banked adults, banked adults expect agents of financial inclusion (AFIs) to do better when it comes to protecting the environment. Therefore, it is important to incorporate sustainability principles in financial inclusion strategies. This paper discusses the concept of sustainable financial inclusion – a concept that integrates sustainability principles into financial inclusion strategies.

This study contributes to the sustainability literature (see, for example, Ozturk and Ullah, 2022; Kumar, Sharma, Rao, Lim and Mangla, 2022; Ozili, 2022; Setyowati, 2023; Sharma, Shrivastava, Rohatgi and Mishra, 2023). The study contributes to this literature by identifying an area of development that need to adopt the principles of sustainability. A notable area of development in this regard is financial inclusion. The study also contributes to the financial inclusion literature. Notable studies in this literature include Ozili (2018), Kara, Zhou and Zhou (2021), Ozili (2021), Kuada (2019), Koomson, Villano and Hadley (2020), Sahay et al (2020) and Feghali, Mora and Nassif (2021). The study contributes to the financial inclusion literature by examining the modifications that should be introduced into mainstream financial inclusion strategies. One of such modifications is to align financial inclusion with sustainability principles.

The rest of the paper is structured in the following way. Section 2 presents the literature review. Section 3 presents the discussion about sustainable financial inclusion. Section 4 presents the conclusion of the paper.

2. Related literature on financial inclusion and sustainability

Existing studies in the literature have examined the link between financial inclusion and some aspects of sustainable development, but these studies have not examined the concept of 'sustainable financial inclusion.' Kara, Zhou and Zhou (2021) conducted a systematic review of the financial inclusion literature from 2000 to 2020 and found that having more education and/or being more financially literate increases households' and entrepreneurs' access to credit. They also found that access to credit could have a direct effect on achieving United Nations (UN) sustainable development goals (SDGs) in ending poverty, improving health and education, and reducing inequality. Kuada (2019) suggested that financial inclusion is one of many instruments that can be used for poverty eradication, and it can enhance poor families' ability to minimize financial shocks, undertake human capital investments in health and education and/or engage in modest asset accumulation to take advantage of investment opportunities in their economies. Ma’ruf and Aryani (2019) analyzed the relationship between financial inclusion and achieving the Sustainable Development Goals (SDGs) especially for poverty alleviation in ASEAN countries. They found that financial inclusion has a significant negative relationship with the achievement of sustainable development goals (SGDs) in the aspect of poverty alleviation in ASEAN countries. Queralt, Fu, and Romano (2017) argued that the 2030 agenda for sustainable development takes an unambitious approach to financial inclusion, and criticizes the sustainable development agenda for not including financial inclusion as one of the sustainable development goals. Ozili (2023a) examined how financial inclusion is related to sustainability and the level of sustainable development. The author showed that granting access to basic formal financial services contributes to greater sustainable development by ensuring that access to finance is guaranteed in a sustainable way and based on sustainability principles in order to yield lasting impact for sustainable development. The author also argued that financial inclusion increases the level of sustainable development because financial inclusion increases the economic opportunities and social welfare of banked adults while it only provides limited benefits for the environment. Chitimira and Warikandwa (2023) considered financial inclusion to be a crucial enabler of the United Nations sustainable development goals (SDGs) and a key driver of poverty reduction, gender equality and shared global economic success.

Ozili (2022) analysed the correlation between financial inclusion and sustainable development using global data. The author found that elevated levels of financial inclusion is significantly correlated with greater sustainable development through higher electricity production from renewable sources, higher industry productivity, higher adult literacy rate and higher renewable electricity output, and low combustible renewables and waste. Arner, Buckley, Zetzsche and Veidt (2020) argued that financial technology (Fintech) is a key driver of financial inclusion, and it leads to sustainable balanced development, as embodied in the UN sustainable development goals (SDGs). They further argued that the full potential of Fintech to support the SDGs may be realized with a progressive approach to Fintech development. Ozili (2023b) analyzed the association between financial inclusion and environmental sustainability using Pearson correlation analysis. The author found that financial inclusion is positively associated with environmental sustainability particularly among non-EU countries, while there is a significant negative association between environmental policy stringency and environmentally adjusted multifactor productivity growth particularly among EU member-countries and European countries. While the above studies focus on the link between financial inclusion and some aspects of sustainable development, existing studies have not examined the concept of 'sustainable financial inclusion'. This paper examines into the concept of 'sustainable financial inclusion' in the next section.

3. Understanding sustainable financial inclusion

This section presents some definitions of sustainable financial inclusion. It also highlights the importance of sustainable financial inclusion. It further highlights the benefits of sustainable financial inclusion. Thereafter, some strategies to achieve sustainable financial inclusion are suggested. Finally, the challenges of sustainable financial inclusion are highlighted.

3.1. Defining sustainable financial inclusion

Existing studies do not provide a clear-cut definition of sustainable financial inclusion. Therefore, I provide definitions that can improve our understanding of the sustainable financial inclusion concept.

- Sustainable financial inclusion refers to progress in financial inclusion in a way that protect the environment, benefit society, and ensure a sustainable use of formal financial services.

- Sustainable financial inclusion refers to financial inclusion strategies that bring people into the formal financial system, while prioritizing social responsibility and/or environmental sustainability.

- Sustainable financial inclusion is a “triple bottom line” approach to financial inclusion that contextualizes the relationships between access and use of financial services, social equity and environmental accountability.

- Sustainable financial inclusion involves planning and executing financial inclusion strategies while taking into consideration the environmental, social and governance (ESG) impact of the strategies.

- Sustainable financial inclusion is an approach to financial inclusion that promote greater access and use of essential financial services while preserving the quality of the environment for future generations.

- Sustainable financial inclusion involves promoting financial inclusion in a way that is positive for the environment and society.

3.2. The importance of sustainable financial inclusion

Achieving financial inclusion, the traditional way (i.e., using Fintech, Bigtech and banks), ignores the far-reaching implications of Fintech, Bigtech and banks’ activities on the environment and society, and could cost global markets an estimated $25 trillion by 2030. However, if it possible to compel agents of financial inclusion to pursue their financial inclusion objectives and adopt ESG considerations, they will be able to achieve a level of financial inclusion that is sustainable. More importantly, as climate change and social justice issues increase in popularity around the world, development enthusiasts are beginning to see the need for sustainable financial inclusion, and banked adults expect banks and other AFIs to offer services that align with sustainability principles and with great transparency. The transparency that sustainable financial inclusion brings will empower banked adults and AFIs to change the world around them along sustainability principles, and their desire to make meaningful sustainable decisions will increase.

3.3. Benefits of sustainable financial inclusion

Sustainable financial inclusion can offer many benefits. These include:

1. Agents of financial inclusion that incorporate sustainability principles into their financial inclusion efforts will have first-mover advantage in the race to achieve the SDGs while accelerating financial inclusion.

2. In the long-term, sustainable financial inclusion will help to create the perception of a responsible financial inclusion agenda and create new business opportunities for agents of financial inclusion.

3. Agents of financial inclusion that demonstrate commitment and act on internal and external sustainability initiatives will ultimately have competitive advantage in the industry.

4. Sustainable financial inclusion will promote access and use of financial services in ways that benefit the environment and society.

5. Sustainable financial inclusion will attract eco-conscious investors to invest in financial inclusion projects.

6. A sustainable financial inclusion agenda will align with the net-zero transition goal and will attract financing from government agencies, international development agencies and eco-conscious investors.

7. Sustainable financial inclusion will make banked adults conscious of social and environmental sustainability principles.

8. Sustainable financial inclusion can reduce the incentive to access and use basic financial services for activities that are destructive to the environment and society.

9. Promoting the sustainable financial inclusion agenda will make agents of financial inclusion become more responsible and accountable.

10. Sustainable financial inclusion will enable banked adults to support socially beneficial initiatives.

3.4. Strategies for achieving sustainable financial inclusion

Below are some strategies that may be used to achieve sustainable financial inclusion.

1. Policymakers should develop a common framework for achieving sustainable financial inclusion. Policymakers also need to collaborate with relevant local and international organisations and offer policy and technical support to agents of financial inclusion to enable them to understand sustainable financial inclusion.

2. Policymakers should engage industry and other relevant stakeholders to jointly set tangible deliverables for promoting sustainable financial inclusion.

3. After setting the tangible deliverables or targets, there is a need for a third-party or external party to monitor and evaluate AFI's progress in achieving sustainable financial inclusion.

4. Agents of financial inclusion should offer basic green financial products and services. This will involve developing a range of green financial products and services for banked and unbanked adults.

5. Agents of financial inclusion should constantly engage with banked customers on the need for green. They should constantly engage with banked adults to provide them with the expertise, services, resources and finance they need to engage in activities that protect the environment and benefit society. This will motivate them to use financial services in ways that align with sustainability principles.

6. Agents of financial inclusion should offer customers transparent information about how their basic financial products and services align with sustainability principles.

7. Agents of financial inclusion should offer account-opening services, loans and investment schemes for green projects that support the realization of the sustainable development goals.

8. Internally, agents of financial inclusion should incorporate sustainable financial inclusion practices in their operations, human resources, and management of physical assets.

9. Agents of financial inclusion need to conduct a thorough impact analysis of all their financial inclusion strategies to understand the greatest positive and negative impacts they are having on society and the environment. The impact analysis can help agents of financial inclusion to identify where they can realize the greatest positive impact and reduce significant negative impact. It can also help them prioritise the most significant impact areas by engaging with internal and external stakeholders.

10. The agents of financial inclusion should set firm-level specific targets that address the most significant impacts they have identified, and the targets should be ambitious enough to motivate them to align their financial inclusion strategies with the United Nation's Sustainable Development Goals and the Paris Climate Agreement.

11. The agents of financial inclusion should report publicly on an annual basis on how they are implementing sustainability principles in their financial inclusion strategies. They should report the targets they have set, and the progress made.

12. As a last resort, agents of financial inclusion should off-board, disengage or dissociate themselves from banked customers that constantly access and use available financial services to finance activities that destroy the environment and society.

3.5. Challenges of sustainable financial inclusion

Achieving sustainable financial inclusion will not be easy or straight-forward for several reasons. Some challenges to expect are presented below.

1. There is the risk that banked adults who use formal financial services may not care deeply about the environment. This could manifest in the form of an intention-action gap which occurs when many banked customers say they are willing to support environmental sustainability but do not show actions that validate their claim.

2. There may be more demand for mainstream/traditional financial inclusion than the demand for sustainable financial inclusion.

3. There may be lack of agreement on how agents of financial inclusion (AFIs) should incorporate ESG considerations into their financial inclusion strategies.

4. Another challenge is whether banked customers have the right to demand that AFIs should align with sustainability principles. There will be debates and controversies about whether banked customers have the right to tell agents of financial inclusion what to focus on or what to do in relation to sustainability principles.

5. How do we differentiate between an AFI's sincere but gradual alignment to sustainability principles, and greenwashing? This will be a challenge.

6. More work needs to be done to persuade newly banked adults to be sustainability-orientated, since many of them are joining the formal financial system to access and use formal financial services, and not joining because they want to be sustainability-orientated.

7. There may be insufficient monitoring to ensure that agents of financial inclusion are truly advancing sustainable financial inclusion.

8. There may be unclear targets for achieving sustainable financial inclusion.

9. There may be a lack of clarity on key definitions of sustainable financial inclusion as there is no universally agreed definition of sustainable financial inclusion.

10. There is insufficient data about sustainable financial inclusion. The lack of sufficient data makes it difficult for agents of financial inclusion to identify opportunities, and even if such data exists, it may be difficult to access.

11. Short termism is another challenge because agents of financial inclusion may prefer to use strategies that increase financial inclusion, in exchange for a fee or profit in the short-term. Agents of financial inclusion may not care deeply about the long-term impact of their profit-seeking strategies for advancing financial inclusion.

12. Introducing stringent criteria when implementing sustainable financial inclusion could make agents of financial inclusion unwilling to participate in the sustainable financial inclusion agenda especially if it is costly for them to incorporate ESG considerations into their financial inclusion strategies.

13. Differences in regulation across countries and regions will affect the realization of sustainable financial inclusion. Policymakers may develop different definitions, different targets, different criteria and different monitoring systems, which will make cross-country and regional comparison of progress towards sustainable financial inclusion difficult.

14. Countries may not do enough to accelerate sustainable financial inclusion. This may be a deliberate act or unintentional.

15. The estimated cost associated with making changes toward sustainability may discourage agents of financial inclusion from proceeding with sustainable financial inclusion.

16. There is presently a clear knowledge gap about sustainable financial inclusion especially in developing countries

17. Sustainable financial inclusion may not be a priority on the policy agenda of governments in developing countries.

18. Another challenge in accelerating sustainable financial inclusion is the progress on data disclosures. Existing data may not be reliable and comparable, making it difficult to assess the alignment of financial inclusion strategies with sustainability principles.

4. Conclusion

Sustainability has become a critical issue in the development space. Financial inclusion is also a top development policy in many developing countries. There is a need to consider the prospect of integrating financial inclusion with sustainability principles. In other words, it is important to consider how financial inclusion can align with sustainability principles.

This paper used the discourse analysis method to present a concise discussion of the sustainable financial inclusion concept. It showed that sustainable financial inclusion is a concept used to describe the integration of sustainability principles into financial inclusion strategies. This paper also showed the importance and benefits of sustainable financial inclusion. It also highlighted the strategies that can be taken to achieve sustainable financial inclusion. It further identified some challenges that may be experienced in the pursuit of sustainable financial inclusion.

It was shown that sustainable financial inclusion may be defined as an approach to financial inclusion that benefits society and preserve the quality of the environment for future generations. The benefits of sustainable financial inclusion are that it can accelerate the realization of the sustainable development goals, it can create the perception of a responsible financial inclusion agenda and create new business opportunities for agents of financial inclusion, and it can attract eco-conscious investors to invest in financial inclusion projects, among others. Some challenges are that banked adults who use formal financial services may not care deeply about the environment. Also, there may be more demand for mainstream/traditional financial inclusion than the demand for sustainable financial inclusion. Furthermore, there may be lack of agreement on how agents of financial inclusion (AFIs) should incorporate ESG considerations into their financial inclusion strategies.

An important implication of sustainable financial inclusion is that there will be pressure on agents of financial inclusion to not only seek profits but to also seek the preservation of society and the environment in their effort to increase financial inclusion in rural and urban areas. The sustainable financial inclusion agenda will give banked adults an opportunity to pressure agents of financial inclusion to be sustainability oriented. This is a privilege that is non-existent in the mainstream financial inclusion agenda. Therefore, there is a need to shift from the 'mainstream financial inclusion' agenda to the 'sustainable financial inclusion' agenda.

A major limitation of the study is the lack of data to assess the progress made towards sustainable financial inclusion. This limitation arises because sustainable financial inclusion is a new concept and sustainable financial inclusion data is not available.

Future research on this topic can explore cross-country progress towards sustainable financial inclusion when data becomes available. Future research can also examine whether private-sector agents of financial inclusion are more effective in accelerating the sustainable financial inclusion agenda, compared to public sector agents of financial inclusion.

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