

# **Future of Sustainable Business: Trends, Challenges and Opportunities**

**Editors**

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**Published by**

**Jai Shivaasni Publications**

**Virudhunagar**

**Tamil Nadu**

Title of the Book	<b>Future of Sustainable Business: Trends, Challenges and Opportunities</b>
Editors	<b>Dr.S.Selvanathan</b> <b>A.N.Bhuvanewari</b>
First Impression	<b>July 2025</b>
Pages	<b>193</b>
ISBN	<b>978-93-343-3315-2</b>
Amount	<b>Rs. 650/-</b>
Printed at	Jai Shivaasni Publications Virudhunagar Tamil Nadu Phone: 9843439197
E-Mail	<a href="mailto:bookchapterpublication2025@gmail.com">bookchapterpublication2025@gmail.com</a>

**Publisher:**

Jai Shivaasni Publications, Virudhunagar

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## **CHAPTER 16**

# **THE ROLE OF FINANCIAL INCLUSION IN PROMOTING LONG TERM ECONOMIC EXPANSION**

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### ***Abstract***

*This study seeks to examine how financial inclusion contributes to long-term economic growth by utilizing secondary data obtained from credible sources. A descriptive research approach is adopted, incorporating thematic analysis as the primary method. The discussion is structured around several sub-themes, including the definition of financial inclusion, its core components, and its impact on sustained economic growth. The paper offers valuable insights into the role financial inclusion plays in fostering economic development.*

**Keywords:** *Financial inclusion, Economic Growth, Financial services.*

### **Introduction**

A Country's economic growth is evaluated based on different determinants or elements such as infrastructure development, trade and globalization, capital formation, technological innovation etc. Financial inclusion is also one such element which contributes to a growth in an economy.

Financial inclusion means making all the financial products and services be easily available and accessible to all people without any discrimination. Financial inclusion plays an important role in reducing poverty and inequality, promotes small businesses and innovation, thereby contributing to long term economic development.

This paper aims to analyse how financial inclusion is contributing to the growth of an economy in long-term using secondary data.

### **Review of Literature**

**Hedge, k. P., & Krishna, V. M. U., (2024)** The study aims to analyse the impact of financial inclusion on Indian economic growth. Secondary data have been used in this study and multiple regression analysis have been done. The findings reveal that financial inclusion has a positive impact on GDP growth, and variables such as ATMs, Commercial banks, Credit cards have a significant influence in the development of an economy but the loans provided by commercial banks and outstanding deposits does not show any significant effect on GDP. The study suggests that India could achieve long-term development goal by promoting financial services and financial literacy.

**Musembi, G. R., & Chun, S., (2020)** The purpose of the study is to assess the impact of financial development and financial inclusion on the economic growth of Kenya from the period 2007 to 2018. The study utilised vector-error correction model for investigation of long-run relationships among variables such as GDP, bank claims, broad money and mobile money. The study found that there was a stable long-run relationship and it shows that financial inclusion positively impacts economic growth whereas financial development had a mixed impact (bank claims had positive impact and broad money had negative impact). The suggestions of the study were given for the policymakers to improvise credit access and

promote mobile money services.

**Khan, N., et al., (2022)** The study aims to analyse the impact of financial inclusion on financial efficiency, poverty, sustainability and economic growth in G20 nations. The study utilized data from 15 developed countries and emerging economies and has also employed ARDL and GMM models. The findings reveal that financial inclusion has significant effect on efficiency, sustainability and economic growth.

### **Research Methodology**

#### **Research Approach:**

This study utilises secondary data for analysing how financial inclusion is contributing to economic growth in the long run.

#### **Data Collection**

The secondary data used in this study are collected from various reputable sources, articles and journals.

#### **Data Analysis:**

The collected data are analysed using thematic analysis by categorizing those data into themes such as meaning of financial inclusion, key pillars of financial inclusion, and contribution of financial inclusion in long term economic growth.

### **Thematic Analysis**

#### **Meaning of Financial Inclusion**

Financial inclusion is making all the financial products and services available to any individual and businessmen without seeing any social status or without any discrimination. It is not only the availability of financial products or services that defines financial inclusion but also making it easily accessible to all people. Financial inclusion helps in improving the lifestyle of the people by giving access to all financial products and services. It also contributes to the growth of our country's economy in the long-term.

#### **Key Pillars of Financial Inclusion**

##### **Financial Literacy**

Financial literacy and financial education are one of the main pillars of financial inclusion. It is very important to create awareness about the types of financial services and products that are available to the people. Only when there is sufficient knowledge about availability and usage of those financial products and services people can use it effectively.

##### **Accessible Banking Services**

Making the services provided by banks easily accessible to all people encourages them to take part in formal financial system. Services such as providing no -frill savings account and low-cost transactions accounts results in financial inclusion. These types of offers encourage the people to do savings and also gives them financial security.

##### **Technology Advancements**

Technology advancement in financial system plays a major role in enhancing financial inclusion. Mobile banking, Digital payments, Agent banking, Online lending platforms, Blockchain and Cryptocurrency etc have increased financial inclusion.

##### **Inclusive Credit Scoring**

Inclusive credit scoring is another pillar of financial inclusion as it ensures access to credit in fair and equitable manner. It helps in promoting financial and economic opportunities.

#### **Contribution of Financial Inclusion in Long-Term Economic Growth**

Financial inclusion is one of the factors which contributes to long-term economic growth. The importance of it is given below:

##### **As a Factor Reducing Poverty and Inequality**

Financial inclusion helps in reducing poverty and inequality by giving access of financial services such as savings, credit and insurance to people who earn less income. It empowers

them by providing various financial tools with which they manage their finances and invest in income generating activities leading to building and protection of wealth. When each individual in an economy utilises those services to its best use, they start to increase their standard of living reducing poverty and inequality leading to long-term economic growth as a whole.

#### **As a Factor Promoting Small Business**

Another way by which financial inclusion contributes to long-term economic growth is that by promoting small business. It encourages small-small business to expand its operations by providing numerous financial services such as innovative lending through online platforms, other loans and advances given by banks. It also encourages individuals to start up new business and become as an entrepreneur. Establishment of new business helps not only the individual owners but it generates income for an economy in tax forms, also create a greater number of employment opportunities. Thus, it results in economic growth in the long-term.

#### **As a Factor promoting innovation**

Financial inclusion helps in promoting innovations. When all the financial products and services are accessible to people it encourages them in making new things. Innovations bring development to a country. Financial inclusion also helps in promoting innovations in financial sector as a result new types of products and services will be developed and it can benefit the broader financial eco-systems and brings advancement in financial services in this changing business world.

#### **As a Factor that Foster Digital Inclusion**

Financial inclusion drives the economy to become a digital economy as it includes digital inclusion in financial services. Digitalisation is also considered as an economic development. Based on the above concepts, it is clear that financial inclusion is contributing to the long-term economic growth and it has a positive effect.

#### **Findings**

- ✓ Financial inclusion plays an important role in contributing to the economic growth in the long-term.
- ✓ Financial literacy, accessible banking services, technological advancements and inclusive credit scoring are the key pillars of financial inclusion
- ✓ Financial inclusion has positive impact on economic growth.

#### **Conclusion**

Financial inclusion plays a transformative role in the growth of an economy by reducing poverty, enhancing financial system and fostering entrepreneurship. It helps in encouraging individual and small businesses to actively take part in the financial system by expanding access to banking, credit and other financial services which in turn drives innovation and sustainable development.

In future, with more technological advancements financial inclusion will make new innovations, thereby contributing to a sustainable economic growth.

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