FINANCIAL INCLUSION: A KEY PILLAR OF SUSTAINABLE DEVELOPMENT

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Abstract

This article aims to analyze the role of financial inclusion as a foundation in achieving sustainable development, analyze the opportunities and challenges faced and identify policies and measures needed to accelerate financial inclusion as an internal part of global development... Financial inclusion is a condition where every community has access to a variety of safe, quality formal services at an affordable cost according to the needs and abilities of the community in order to improve people's welfare. This article uses a qualitative approach, data collection techniques from this article are taken from literature studies and literature studies which are certainly related to inclusion and sustainable development. The data analysis technique uses descriptive analysis. Based on the results of the research conducted, it shows that financial inclusion is key in promoting sustainable development, especially by providing access to formal and affordable financial services for all people including those with low income, this Islamic financial inclusion must also be in accordance with Islamic principles which prohibit maysir, usury and gharar.

Keyword: *Inclusion; Development; Sharia*

A. INTRODUCTION

This research is motivated by financial inclusion which has now become a major topic in global discussions related to economic and social development, especially in this modern era which is characterized by rapid technological and policy changes. access to formal financial services, such as savings, credit, insurance, and payment systems is certainly one of the important elements which allows individuals and businesses, especially in the micro and small segments, to participate in economic activities. Financial inclusion focuses on expanding access to affordable and quality financial services for all levels of society, especially for those who have not been reached by the formal financial system. It is considered crucial in creating more equitable welfare and increasing opportunities for vulnerable groups to engage in global economic flows. Financial inclusion is also recognized as a key pillar in achieving sustainable development. By providing access to formal financial services, people can reduce reliance on informal sources of finance that are considered too high and can better manage financial risks. In addition, financial inclusion also helps to reduce socio-economic disparities and improve long-term financial stability.

B. LITERATURE REVIEW

Research on financial inclusion and sustainable development has been conducted by previous researchers as follows: *First*, according to research results of Suryaningrum et al. Shows that financial inclusion has an important role that can encourage economic development in developing countries. The public-private sector plays an important role in this, they play a role in increasing resources and expertise to design and implement successful financial inclusion programs. However, there are several challenges that hinder the progress of financial inclusion, namely limited infrastructure, regulatory barriers, cultural factors and low financial literacy (Suryaningrum et al., 2023).

Secondly, according to research results of Baroto, it shows that Indonesia's financial inclusion relies heavily on financial technology, as it is considered to be more helpful and alleviate those who feel underserved by traditional financial services. Fintech is also considered faster, more effective and easier to access. However, in order to maximize the margins of fintech, issues such as infrastructure, digital literacy, competition with other financial institutions and the possibility of fraud or abuse must be addressed. Financial technology companies must take initiatives to protect against the risks of fraud and abuse. Fintech has the potential to further contribute to Indonesia's sustainable financial inclusion, reduce economic disparities and improve people's welfare (Baroto, 2024).

Third, according to research results of Haqqi, it shows that the development of the concept of development has started since 1983 which was held with the establishment of an institution called the United Nations which has the task of examining environmental issues, as well as regulations related to development planning which are regulated in Law Number 25 of 2004 related to the national development planning system. To achieve the concept of development itself, a fundamental change is needed from the conventional development paradigm to sustainable development and this can be achieved through changing the short-term to long-term perspective and utilization of natural resources (Haqqi, 2022).

Based on the results of several studies that have been conducted related to financial inclusion and sustainable development, but have not been discussed comprehensively. Therefore, this article will discuss financial inclusion: the main pillar of sustainable development, starting from the role of financial inclusion as a foundation in achieving sustainable development, analyzing the opportunities and challenges faced and identifying policies and measures needed to accelerate financial inclusion as an internal part of global development.

C. RESEARCH METHOD

This article uses a qualitative approach, the data collection techniques used in this article are taken from literature studies and literature studies related to financial inclusion and sustainable development. The data analysis technique uses descriptive analysis. The data sources in this article come from literature studies and literature studies taken from several books and several previous research journals.

D. RESULT AND DISCUSSION

Financial inclusion is a concept that refers to the easy access of everyone, especially those with low income, to formal and affordable financial services such as savings, credit, insurance and payment systems. This means that anyone including those with a lot of money can access financial services to fulfill their needs (Febriaty et al., 2022). In the context of Sharia, financial inclusion involves more than just providing access to formal banking, but also ensuring these services comply with Sharia principles, which prohibit practices like usury (charging interest), uncertainty (gharar), and gambling (maysir). The following are some of the things that show that financial inclusion is a major part of the pillars of sustainable development, including the following:

1. **Financial Inclusion as a Foundation in Achieving Sustainable Development**

   Financial inclusion has now been recognized as one of the key elements in achieving sustainable development (Siswa & Agustin, 2020). Financial inclusion, by offering wider and fairer access to financial services, helps reduce poverty, lower social inequality, and promote inclusive economic growth. Globally, it is seen as a key foundation for supporting the United Nations' Sustainable Development Goals (SDGs). (Irhamsyah, 2019).

2. **Financial Inclusion and Sustainable Development Goals**

   Sustainable development seeks to meet current needs while ensuring future generations can meet theirs, requiring a balanced approach to economic, social, and environmental factors. Financial inclusion is a key pillar in the economic and social aspects, as it provides opportunities for all levels of society to participate in the formal economic system, increase income and manage financial risks.

a. **Poverty Alleviation (SDG1)**

   One Overcoming economic problems, especially poverty is the main target in sustainable development, and financial inclusion play an important role in overcoming this problem, which will help people to more easily access financial services. Access to financial services also enables people to cope with emergency situations such as natural disasters or job loss that can plunge them into economic hardship.

b. **Reducing Inequality (SDG 10)**

   Financial inclusion helps narrow inequality, both within and between countries. By opening up access to financial services, previously marginalized groups such as rural dwellers, low-income earners can become involved in economic activities. As they gain access to various financial services, they can set up businesses to increase their income and gradually improve their living standards. This in turn reduces economic as well as social inequality (Siregar et al., 2024).

c. **Supporting Inclusive Economic Growth (SDG 8)**

Inclusive economic growth is growth that benefits all segments of society, not just a few. Financial inclusion promotes this growth by expanding access to financial services, which in turn can increase the economic participation of groups that have been less involved in the formal economy. Greater access to finance, as well as digital financial platforms, certainly provide opportunities for small and medium enterprises (MSMEs) to continue to grow and develop.

d. Promoting Prosperity and Gender Equality (SDG 5)

Financial inclusion also plays an important role in strengthening gender equality. In many countries, women often have limited access to financial services compared to men. With financial inclusion, women can gain access to the financial services they need to start a business or expand their existing small and medium enterprises (Ummah et al., 2015). This not only improves their economic well-being, but also empowers them socially, allowing them to have more control over their lives and finances.

3. **Financial Inclusion and the Role of Technology**

As we know that currently technology is a major factor that facilitates the achievement of financial inclusion, especially in developing countries(Widyandri & Laila, 2022). Fintech and the digitization of financial services have expanded access to financial services, particularly for people in rural or remote areas, by reducing dependence on costly and limited physical banking infrastructure.

a. **Banking and Digital Payments**

The advent of mobile banking and digital payments is changing the way people access and use financial services. People living in areas without access to traditional banks can now make transactions using only their mobile phones (Sastiono & Nuryakin, 2019). Digital payments have also opened up opportunities for UMKM to grow as they can receive payments from customers more easily and safely.

b. Islamic Fintech and Islamic Financial Inclusion

Islamic financial inclusion, which follows Islamic financial principles, has also certainly received a major boost through technological innovation. Islamic fintech provides sharia-compliant financial solutions such as usury-free financing and has facilitated financial inclusion for previously marginalized communities including those living in areas with limited infrastructure. Through technology, Islamic fintech can reach more people and facilitate access to various financing products or financial products that are fair and inclusive.

4. **Challenges in Realizing Financial Inclusion as a Foundation for Sustainable Development**

Although financial inclusion has many opportunities in promoting sustainable development, there are still several challenges that need to be overcome, including:

a. Limited Digital Infrastructure

In some regions, especially those that are remote and far from cities, access to technology is still very limited. Without adequate infrastructure such as internet, telecommunication networks, and electricity. It is difficult to promote financial inclusion through digital services. The government and private sector also need to collaborate to build digital infrastructure that can reach all levels of society.

b. **Low Financial Literacy**

Many people in various countries, especially developing countries, still do not have an adequate understanding of financial services. Low financial literacy will certainly prevent people from using services effectively, even if access is available (Viana et al., 2021). Therefore, efforts to improve financial literacy are important and must go hand in hand with expanding access.

c. **Supportive Regulations**

Achieving effective financial inclusion requires regulations that support innovation in the financial sector. Regulations should provide safety for consumers and maintain financial system stability, but remain flexible to allow technological innovation to flourish. Governments and financial priorities need to ensure that regulations do not become a barrier to the growth of inclusive financial services.

5. **Financial Identification and Steps Needed to Accelerate Islamic Financial Inclusion as Part of Global Development**

Islamic financial inclusion is an important aspect in promoting inclusive and sustainable economic development at the global level. The Islamic financial system, which is based on the principles of fairness, transparency, and risk sharing, has great potential to cover groups of people who have not been reached by the conventional financial system. Therefore, accelerating Islamic financial inclusion needs to be an internal part of the global development strategy.

To achieve this goal, policies and strategic measures are needed that not only support the development of Islamic finance but also ensure that financial services can be accessed by all communities. The following are the policies and measures needed to accelerate Islamic financial inclusion as part of global development.

1. **Policies that Support Islamic Financial Inclusion**

   Clear and supportive policies must be implemented by the government, financial regulators, and related institutions. The following are some key policies that need to be adopted:

   a. **Development of Regulations that Support Islamic Finance**

      The government and financial authorities need to ensure that there is a regulatory framework that supports the development of the Islamic finance industry. This includes supervision of Islamic financial institutions, compliance with sharia principles and transparency in the products and services offered. Clear and supportive regulations will provide confidence to the public and encourage the growth of the Islamic finance industry.

   b. **Support for Sharia Fintech**

      Technological innovations in the financial sector, such as fintech (financial technology), play an important role in expanding access to financial services, especially in hard-to-reach areas. The government needs to support the development of Islamic fintech by providing flexible regulations, which allow fintech startups to grow while maintaining integrity and compliance with sharia principles (Rangkuti et al., 2019).

   c. **Sharia Financial Education and Literacy**

      Increasing Islamic financial literacy also needs to be part of policies that support financial inclusion. Many people do not understand Islamic banking products such as the difference between Islamic banking and conventional banking or how sharia principles are applied in financial services (Rurkinantia, 2021). The government and financial institutions need to conduct financial literacy programs to increase public understanding of the benefits and ways to access Islamic financial services.

E. CONCLUSSION

Financial inclusion is key in promoting sustainable development, especially by providing access to formal and affordable financial services for all people, including those with low incomes. Islamic financial inclusion must also comply with Islamic principles that prohibit maysir, usury and gharar. Financial inclusion has an important role in sustainable development (SDGs), such as poverty alleviation (SDG1), reducing inequality (SDG 10), supporting inclusive economic growth (SDG 8) and improving gender equality (SDG 5). In addition, technologies such as fintech and digitization of financial services are also increasingly expanding community access, especially in remote areas. However, there are several challenges that need to be overcome such as limited digital infrastructure, low financial literacy and regulations that do not fully support innovation.

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