GAPS IN FINANCIAL INCLUSION IN SOUTH ASIA: AN ANALYSIS

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Abstract

Financial inclusion is both an enabler as well as an effect of economic development of a country. Therefore, policymakers in developing countries are working towards increasing financial inclusion in their countries. South Asia is no different. Financial literacy followed by providing financial services is important for financial inclusion but unless these lead to increased usage of these financial services, financial inclusion is incomplete and meaningless. The study, therefore, does a gap analysis between access and usage of financial services in selected countries of South Asia and finds that even countries like India and Sri Lanka, who have done impressively when it comes to providing access to financial services fall short when it comes to the usage of these services by their citizens. The reasons range from lack of adequate digital spread of financial services to low income, unemployment, among others with all the countries showing similarities in some respects and dissimilarities in others.

Keywords

Financial inclusion, South Asia, Digitisation, Access, Usage

Introduction

Financial inclusion is defined as the delivery of banking services be it savings, credit, insurance, etc. at affordable prices to the disadvantaged sections of the society. Financial inclusion is being championed by all developing countries as it is one of the enablers of development. Several emerging and developing countries have committed on various fora to make financial inclusion a mission for them as they understand its importance in taking their countries to the next stage of development. Countries in South Asia have also made similar commitments be it in the Maya Declaration, the G-20 or the World Bank. South Asian countries as a regional bloc share several characteristics be it geographical, historical, cultural which makes it amenable to study as a bloc (Kaur, 2018). They are also close to each other on the Human Development Index ranking, making a comparative study reasonable and logical. There could also be scope for peer learning if any of the countries have done better than the others with respect to any of the dimensions of financial inclusion. The importance of financial inclusion for the select South Asian countries cannot be overstated because all the countries belong to middle-income countries with some like Sri Lanka and India on the verge of transitioning to high income countries. Given its close link with economic growth,

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greater financial inclusion can propel these countries to the high income bracket much faster.

Literature Review

There is a close linkage between financial inclusion and economic growth and development (Dua et al., 2025). Financial inclusion in terms of number of bank branches and number of ATMs per 100,000 adults as well as increase in access to bank credit is known to have had a positive impact on economic development, as measured by their performance in the Human Development Index, in countries of Asia (Van & Lihn, 2019).

There are three aspects to financial inclusion: access, usage and quality. Access to financial services can be looked at a supply-side phenomenon, whereas usage, a demand-side. Quality refers to efforts taken to create awareness about financial services and removing barriers to using financial services. Our paper focuses on the gap between access and usage i.e. the gap between demand and supply. The gap between the two can often explain the reasons for limited financial inclusion in a country. The gap also gives a clue in terms of which of the sub-variables within access or usage must be targeted to close the gap. Access to financial services, beginning with the ownership of a bank account, is a primary requirement of financial inclusion. As per the Global Findex Report of 2025, 79 per cent of adults aged 15 and above had access to a bank account, a significant improvement over 2021, when it was 74 per cent. Mobile connectivity is significant access variable because the growth of the mobile ecosystem is known to be accelerating financial inclusion in South Asia (Kabir, 2022).

Given that supply side factors i.e. access to financial services is an important pre-requisite of financial inclusion, what are the determinants of access to financial services. Various studies (Dua et al., 2025, Van & Lihn, 2019, Valera et al., 2025) have shown that age, income, educational attainment, being employed and mobile phone ownership are important determinants of access to financial inclusion. If person is educated, male, older in age (between 30 and 45 years) and with a regular job, he has a higher chance of having access to financial services in South Asia (Badar et al., 2020), with income from a regular job being the primary determinant. The study reiterates the role of ownership of a mobile phone with connectivity being linked with higher rates of financial inclusion in Bangladesh, India and Pakistan.

Literature has documented the salubrious role of internal conflict settlement on financial inclusion. These conflicts have hampered financial inclusion in the countries and their resolution is known to have increased financial inclusion (Murshed et al., 2023).

Valera et al. (2025) studied the factors affecting access to financial services in Southeast Asia. While most of the factors remain constant such as income, educational attainment, ownership of mobile phones, etc. additional factors which affect access is age. Individuals, in the age group of 25-35 years, having higher likelihood of owning a formal bank account. Other factors mentioned are costs of opening a bank account, proximity of a bank, lack of trust in financial institutions and individual’s ability to complete documentation formalities.

In the middle-income countries, it is found that age, tertiary education and employment are the factors which determine formal financial inclusion as against gender, secondary education and income in low-income countries and only income in high-income countries (Khanh, 2018). Gender is not found to play an important role in determining financial inclusion in the middle-income countries, in contrast to countries in South Asia where gender plays an important role in determining who has access to finance (Dua et al., 2025).

While all studies underline the importance of age, gender, educational attainment, employment as important variables affecting financial inclusion, emerging studies are noting the role of internet and mobile connectivity in increasing financial inclusion in developing countries (Damayanthi, 2022). Thus, efforts towards greater financial inclusion in South Asia has to include increase in digital finance.

During the literature review, the author found that limited attention paid to access-usage gap analysis for South Asia. Therefore, this study fills that gap by doing a access-usage gap analysis for select South Asian countries post-COVID. Moreover, while inter-country comparison among some South Asian countries have been done, no study has done a benchmarking with the middle-income countries to know how much South Asia has achieved or yet to achieve with respect to their peers in the middle income countries group. This paper also fills that research gap.

Objectives

The objectives of the study are to look at the progress of financial inclusion both from the access and usage aspects in South Asia as per the latest data as well as an inter-country comparative analysis within South Asia to find the similarities and differences among the various countries and what each can learn from the other. The countries were chosen based on data availability. Another objective of the study is to benchmark the progress of the South Asian countries against that of the Lower-Middle Income countries (defined by the World Bank as those countries with per capita income ranging between $1,146 and $4,515). The comparison with lower-middle income countries is done for both the access and usage variables. Of the countries in South Asia being analysed for the study, Nepal and Pakistan had almost similar per capita incomes in 2024 at $1,340 and $1,560, respectively. Bangladesh and India were in the similar bracket at $2,820 and $2,390, respectively and Sri Lanka having the highest per capita income in the region at $3,610 almost bordering on Upper Middle Income country classification.

Data and Methodology

The analysis of cross-sectional data for the year 2024 for the countries in South Asia is done using descriptive data analysis approach which essentially uses data in its raw form for comparison and visual data charting in the form of graphs to draw inferences. As the data on financial inclusion of various countries is available with very lower frequency and lack of uniformity, the descriptive data analysis approach found to be more feasible rather than statistical analysis. The latest data has been used to analyse financial inclusion in South Asia as given in the The Little Data Book on Financial Inclusion 2025, Global Findex Database, 2025 and Human Development Report, 2025. The focus of the study being cross-sectional analysis in the post-COVID period with the latest data, no time series data of more years have been taken.

Discussion

Financial Inclusion: Access in South Asia

The countries from South Asia chosen for the study because of the availability of data in the Global Findex Database, 2025. The region was chosen because the constituent countries are very close to each other in terms of various economic and development indicators (Table 1). Despite belonging to the lower-middle income group of countries, among the South Asian countries, Sri Lanka stands out as an outlier in its Human Development Index (HDI) rank (with HDI rank 89) as well as per capita income ($3,610), standing much taller than its counterparts in South Asia, thanks to the various developmental policies adopted by the country. India, on the other hand, stands out in terms of access to financial services thanks to concerted efforts by the country in the last 20 years to increase financial inclusion of its population. For instance, opening of no-frills bank account with zero or very low minimum balance, streamlined and simplified Know Your Customer (KYC) requirements for people in low-income households to open their bank accounts, employed business correspondents to provide basic financial services, are some of the initiatives taken by India to provide greater financial access to its people. The various schemes such as the Pradhan Mantri Jan Dhan Yojana which included a debit card along with a bank account to all low-income account openers, insurance availability through the Pradhan Mantri Suraksha Bima Yojana, Atal Pension Yojana for workers in the unorganised sector, among others, have helped India achieve impressive financial inclusion metrics for financial access i.e. the supply side.

After India, Sri Lanka has made rapid strides in achieving financial inclusion on the access side (81.2%). Sri Lanka has been able to achieve the impressive numbers because of the drive and initiatives of the Government. Its National Financial Inclusion Strategy (NFIS) aims to provide accessible and affordable financial services to every individual and enterprise through a long-term, comprehensive, standardized and well-coordinated approach.

Table 1: A Snapshot View of the South Asian Countries

Country	HDI Rank (2023)	Gross National Income Per Capita (2024) in $	Percentage of Adults with Bank Accounts (2024)
Bangladesh	130	2,820	32.9
India	130	2,390	88.7
Nepal	145	1,340	57.5
Pakistan	168	1,560	18.3
Sri Lanka	89	3,610	81.2

Source: Human Development Report, 2025, Global Findex Database, 2025, World Bank Group and The Little Data Book on Financial Inclusion, World Bank, 2025.

If we look at South Asia, India and Sri Lanka compare favourably with the global average in terms of adults having access to bank accounts (Table 2) and both countries have done better than the other lower-middle income countries on most of the indicators of access to financial services. The other countries of South Asia are laggard on all indicators except mobile connectivity in which Bangladesh and Nepal outperform their other South Asian peers.

Table 2: Access to Financial Services in South Asia (2024) in Percentage

Access Variable (in %)	India	Bangladesh	Pakistan	Nepal	Sri Lanka	Lower-Middle Income countries
Adults with accounts	89	43.3	27.3	60.0	81.7	70.4
Adults with accounts at a bank/financial institution	88.7	32.9	18.3	57.5	81.2	65
Adults with a mobile money account	23.1	20.8	18.4	10.6	3	24.4
Adults with a digitally enabled financial account	31.1	22.8	19.8	17.6	34.4	36.8
Women with accounts	89.2	33.3	11.9	59.8	80.2	67.6
Adults in the poorest 40% of households with a financial account	86.3	35.5	13.6	53.0	80.2	63.4
Adults not participating in the labour force with a financial account	85.4	33.5	13.2	55	76.6	59.9

Rural adults with a financial account	89.9	44.5	21.1	59.6	82.8	71.1
Adults with mobile connectivity (having personal mobile phone)	66.5	82.4	62.9	78.4	76.6	75.1
Women having personal mobile phone	54.3	73.7	30.1	46.9	72.3	66.6

Source: The Little Data Book on Financial Inclusion, World Bank, 2025.

Note: Adults = age 15+

It is noteworthy that both India and Sri Lanka have done quite well in terms of giving bank accounts to adults in the poorest 40% of the households as well as adults out of labour force (Table 2) because it makes it easier to transfer welfare funds in times of economic distress, thereby keeping people from slipping below the poverty line. Poverty alleviation is one of the objectives as well as effects of financial inclusion in developing countries.

Bangladesh has been focussing on promoting a Digital Bangladesh through increase in uptake of mobile money and other digital money platforms. Thus, Bangladesh fares much better than countries such as India and Sri Lanka when it comes to mobile connectivity and mobile connectivity among women (Table 2). Nepal too has been promoting financial inclusion using technology through its Digital Nepal Framework (2019) which shows up in a good mobile connectivity for the country as well as its women at 76.6 per cent and 72.3 per cent, respectively (Table 2). However, it has a long way to go in providing comprehensive access to financial services to all Nepalese adults. Pakistan fares the poorest among its peers in South Asia with only 27.3 per cent of all adults in Pakistan having a bank account. However, Pakistan has been accelerating financial inclusion through digital means after 2021 through Raast, its first instant payment system launched in 2021. Raast offers free and instant digital payment facility to all its users both individuals and businesses and is known to have accelerated digital transactions in Pakistan since its launch (Ali. S. & Ali, M., 2025).

However, despite better mobile connectivity, accessibility of mobile accounts is limited in India (66.5%) and Sri Lanka, relative to its peers under study. Notably, India and Sri Lanka exhibit lower levels of mobile money usage and digitally enabled accounts, compared to their lower middle-income counterparts. Therefore, if the South Asian countries want to expedite as well as increase the extent of financial inclusion, they have to work on enhancing the mobile banking ecosystem in their countries as it holds the key to rapid financial inclusion as most people prefer accessing their financial services through their mobile phones rather than internet banking as the latter requires lot more financial literacy as well as other paraphernalia.

Financial Inclusion: Usage in South Asia

As mentioned, there are three aspects of financial inclusion which are important: access or supply of financial services, usage or demand for financial services and quality i.e. awareness about financial services. Merely having a bank account does not financially empower a person unless the account is used for receiving money, making payments, savings, taking a loan, etc. Therefore, we analyse usage of financial services in South Asia.

Table 3: Usage of Financial Services by Adults in 2024

Country	Digital Usage (%)	Saving (formally and informally) (%)	Borrowing formally (%)	Financial Resilience (%)
Bangladesh	33.9	20.4	13.1	35.8
India	48.5	38.6	15.1	30.1

Nepal	28.1	37.4	16.4	51.5
Pakistan	24.6	26.8	8.0	33.2
Sri Lanka	47.3	36	18.4	37.9
Lower-Middle Income Countries	47.3	42.9	14.1	40.6

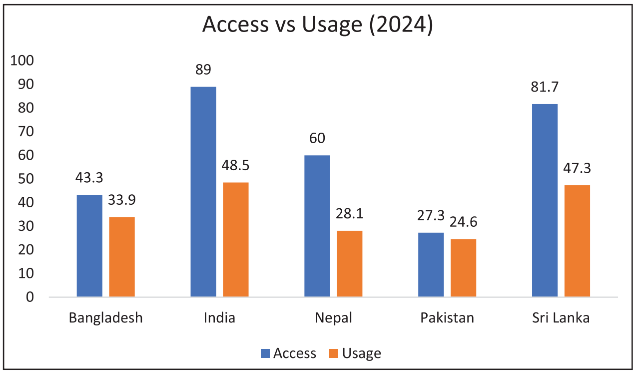
Source: The Little Data Book on Financial Inclusion, World Bank, 2025

When we look at financial inclusion from the demand side, we find that the usage for all countries in the lower-middle income group is not very high for any of the indicators whether it is making use of the digital mode to receive money or make payment from the account or saving or even financial resilience (Table 3). Also, most of the countries of South Asia perform badly when compared to the lower-middle income countries cohort. When it comes to digital usage of bank accounts, India performs better than its peers in South Asia (with 48.5%). But when it comes to financial resilience (defined as the ability to access extra money in 30 days), India's adults are the least resilient among their South Asian counterparts. Nepalese adults display the highest degree of financial resilience (51.5%). Formal borrowing is quite low when compared to the overall borrowing of the adults (which is more than 60%) in the South Asian countries. Formal borrowing is low even for India and Sri Lanka showing the high dependency of people in these countries on informal sources of borrowing.

Access versus Usage: Gap Analysis

Having looked at the access and usage aspects of financial inclusion, we analyse the gap in the access versus usage i.e. the demand-supply gap in the various countries of South Asia. We use the sub-indicator Digital Usage as a proxy for the usage variable as digital transactions are the most popular form of transactions in low- and middle-income economies (Global Findex Report, 2025) accounting for a large number of transactions in these countries. The Access variable is proxied by percentage of adults with financial accounts. Of the countries, we find the gap to be the lowest in Bangladesh and Pakistan and the highest in India and Sri Lanka (Figure 1). However, while the low gap in Bangladesh is at a relatively higher level of financial inclusion, the low gap in Pakistan occurs at low levels of financial inclusion showing that Pakistan has a long to go to increase the level of financial inclusion in its country. Nepal has performed quite well in terms of the access variable but needs to shore up on its usage variable. India and Sri Lanka have performed very well when it comes to giving access to financial services. However, they have fallen short in the usage metric. What is the reason for such a gap in these countries?

Figure 1: Access versus Usage Gap in Financial Inclusion



Source: The Little Data Book on Financial Inclusion, World Bank, 2025

While Governments and central banks can provide access to financial services, using these accounts, whether it is for savings, borrowing or making a payment, depends on number of factors including but not restricted to income, employment, age, participation in the labour force, etc. Usage is also known to differ as per location, with people in rural areas reporting less usage than in urban areas

(Global Findex Report, 2025). Interestingly, among all regions of the world, South Asia reports the highest number of Government payments (the Government-to-Person (G2P) category) received by people in their accounts. Among the countries of South Asia, in India, Nepal and Sri Lanka, the share of adults receiving G2P payments is reported to have grown by 20 per cent between 2017 and 2024. Most of the payments by Governments, around the world, including South Asia, are now done using digital payment mode. This can also increase the access and usage statistics of financial inclusion in South Asia.

Conclusion

Financial inclusion, while being principally an economic indicator of development, is dependent on number of socio-cultural factors especially in the developing regions of the world such as South Asia, the subject of the analysis of our study. Despite belonging to the same region, there are differences in the level of financial inclusion among the countries with Sri Lanka and India faring much better than Bangladesh, Nepal and Pakistan, especially when it comes to the supply side or access side of financial inclusion because of the deliberate measures taken by the respective Governments and central banks of these countries. More than 80 per cent of adults in both these countries have access to a bank account. Bangladesh and Nepal have been concentrating on providing digital access to financial services, which is the correct strategy to follow as the world is becoming more digital and digitisation is the quickest way to provide as well as use financial services. Pakistan too is focusing on the digital route for financial inclusion but has a lot of catching up to do relative its peers in South Asia.

When it comes to usage of financial services, we find that all these countries have a long way to go including India and Sri Lanka, who otherwise are much ahead of their peers in terms of providing financial access to its adult population. The gap between access to financial services and their usage, the focus of our study, has shown that the gap remains significant in all the countries in South Asia. While Bangladesh, Nepal and Pakistan must work even more intensively in getting more of its adults financially included, India and Sri Lanka have to work on usage side. Digitisation of financial services can be a way to increase the access and usage of financial services. Another way to close the access-usage gap is to work on the development ladder. People will use their accounts only if they have steady income. This study has implications for policymakers that the per capita income of their population is to be improved and more efforts towards digitisation of financial services can be put in, which is going to be the good enablers for financial inclusion in the region.

Limitations of the Study and Future Scope

The limited availability of high frequency data and lack of uniformity of longitudinal time-series data has restricted the use of analytical tools for the study. And while secondary data can show broad trends and highlight some of the macro level progress of the countries with respect to financial inclusion, the various nuances of each countries can be captured only through field level survey and creates a scope for cross-border collaborative studies in the area of financial inclusion.

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