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## FINANCIAL INCLUSION AND FINANCIAL DEVELOPMENT DETERMINE HUMAN DEVELOPMENT IN SELECTED ASIAN COUNTRIES

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### ABSTRACT

The research highlights the crucial role of accessible financial services and robust financial systems in enhancing human development outcomes, offering valuable insights for policy-makers aiming to foster inclusive economic growth. This research makes an effort to highlight that financial inclusion and financial development with other major factors determine human development in some selected Asian economies. The authors make use of panel data from 8 Asian nations for the year 2005 to 2018. The dependent variable is the human development index. However, financial inclusion, financial development, urban population, and general government final consumption expenditure are taken as explanatory factors in this analysis. Fixed effect results show that financial inclusion with financial development, urban population, and general government final consumption expenditures have enhanced the human development of Asian countries. The study findings recommend for maximum financial approach and financial amenities in improving the human development of nations. There is a dire need for more improved quality of education for high living standards and development.

*Keywords: Financial inclusion; Financial development; Human development; Asian countries.*

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### INTRODUCTION

It has been observed that financial marketplaces in urbanized states show considerable difficulty, and a number of researchers recommend a causal influence from monetary advances to growth (Levine et al., 2000; Benston et al., 1998). In a comparable vein, Levine (1999) points out that a perfect gauge of financial development would confine 'the aptitude of the economic structure to delve into industries and recognize lucrative enterprise, put forth business rule, administer jeopardy, assemble investments, and relieve dealings.' Financial inclusion is the multidimensional scheme of an economy's final monetary growth. It makes provision to persons with chances to approach and make sure of the usage of proper financial facilities, with debts, funds, spending, transfer of funds facilities, and assurance, at a reasonably priced cost. This signifies the easiness and provision of diverse monetary goods and services that convene customers' requirements for cash dealings, investments, outgoings, debts, and indemnity (World Bank, 2008). Klapper et al. (2016) cleared financial inclusion as the growth of approach and use of economic forces that may make possible poor nations for achieving socio-economic objectives. Moreover, if formal financial services cannot be certified, persons require additional casual high-cost monetary amenities. Financial exclusion affected negatively the disadvantaged and low-income groups as it made possible the limited ease of use of means for the venture, which eventually resulted in less asset building (Thathsarani et al., 2021). On the other hand, financial inclusion remains a demanding job, chiefly in emerging nations. Certainly, financial inclusion enhances the range of gaining financial possessions, therefore raising the financial abilities of individuals.

A lot of factors such as remittances, trade openness, and population growth have been observed affecting human development in various studies. This study shows how financial development with financial inclusion and other factors enhance the human development of Asian economies.

Filmer and Pritchett (1999) investigated the influence of both community expenditure on health and non-health factors on the child (under-5) and infant mortality. Findings showed that spending influence on health was quite small. Collins et al. (2009) observed that households have utilized different kinds of informal monetary instruments annually. The cash turnover in the course of these instruments was considerable (77–300%), as compared to the final earnings of persons. Findings indicated that persons having lower earnings levels faced hurdles to formal sources of financial services. Rajkumar and Swaroop (2008) examined the effect of governance on development outcomes. It was found that public health spending seemed to decrease child mortality rates more in nations having good governance. Moreover, public spending on primary education seemed very influential in making an increase in primary education achievement in countries with good governance

Beck et al. (2007) used panel data from 57 economies through a survey of bank regulators. The deposit creation and credit accounts were increased as compared to the inhabitants along with increased per capita income. Moreover, credit account balance as compared to income per capita seemed to decrease with earnings. This showed that deprived persons and little ventures made improved usage of accounts innovations having high incomes. Asngu and Nawachukwu (2016) focused on the effect of the interaction of governance in mobile phone penetration in Africa by using data from 2000 to 2012. Regression results indicated that mobile phones enhanced inclusive development. Furthermore, economic governance seemed high as compared to institutional governance. The interactions of mobile phones and governance led to increased human development. Siyakiya (2017) emphasized the influence of institutional quality on financial performance based on data from 1995 to 2014. It was found that institutional quality improved financial presentation more in middle-income economies than in rich nations.

Ababio et al. (2021) have examined the influence of financial inclusion on human development in African economies. The authors have used panel data in this analysis. GMM results pointed out that financial inclusion has increased human development. Abdelghaffar et al. (2023) investigated the link between financial inclusion and human development in various income groups from 2009 to 2019. GMM results found that financial inclusion affected highly human development in lower-income countries. Verma et al. (2023) focused on sustainable human development by collecting data from 2005 in SAARC nations. Findings highlighted that ICT diffusion, globalization, and growth increased human development. The role of finance is to contribute to human development (Gillani et al., 2023) which has a positive and significant impact on growth (Khatoon et al., 2021). Based on panel data, Chowdhury and Chowdhury (2023) also found how financial inclusion affected human development in Asian nations. GMM results found that financial inclusion has increased human development.

The chief goal of financial inclusion is to express the “unbanked” section of the world under the realm of the official financial structure. In the process, they can make their living standards, which finally produces general economic development of countries and their growth. Over the past few decades, the banking industry has exposed wonderful speed onward and matured various concerning complexity and volume.

This research indicates how financial inclusion, financial development, urban population, and domestic general Government consumption expenditures enhance the development of selected Asian economies. This research would provide policy for further developments.

### **Research Question**

1. How do commercial bank branches affect the human development of Asian states?
2. How does the number of ATMs affect economic development?

3. How does the urban population affect human development?
4. Do general government final consumption expenditures affect the human development of selected Asian nations?

### **Significance of the Study**

Financial development, unemployment, CO2, and other factors that seem to affecting growth and development in developing countries have been studied. Yet, this research has focused on how financial inclusion, financial development with urban populations, and general government final consumption expenditures affect human development in Asian nations.

### **Research Hypothesis**

The important hypotheses are given as.

H1: The higher the number of commercial bank branches, the higher the human development.

H 2: The financial inclusion index is positively associated with human development.

H 3: The number of ATMs and human development are positively associated.

H 4: The urban population leads to human development.

H5: The domestic general government expenditures lead to the human development index.

### **METHODOLOGY**

For this research, data were taken from 2005 to 2018 from eight selected Asian countries to find the major determinants of human development in Asian states like Bangladesh, India, Indonesia, Iran, Jordan, Malaysia, Pakistan, and the Philippines. The data sources are Development Indicators. For this, the Human Development Index is used as a dependent factor and explanatory factors are financial inclusion (Number of commercial bank branches adult per 100,00), financial development (domestic credit to the private sector as a % of GDP), urban population (% of GDP) and domestic general government expenditures as a % of GDP to find out the determinants of human development. We have used fixed and random effect methods for this study.

The econometric models that are utilized are assumed as;

$$HDI = \beta_0 + \beta_1 DCTPS_{it} + \beta_2 NCMBB_{it} + \beta_3 UPOP_{it} + \beta_4 GGFEX_{it} + u_{it} \quad (1)$$

HDIN= Human Development Index

DCTPS= Domestic credit to the private sector as % of GDP

NCMBB= Number of Commercial Bank Branches adult per 1000.00

UPOP= Urban population (% of GDP)

GGFEX= General Government final consumption expenditures (% of GDP)

$it$  = (time trend)

$u_{it}$  = (error term)

### **RESULTS AND DISCUSSION**

Table 1 shows that on average, the number of commercial bank branches is 13.1509 in selected Asian economies. It is also found that domestic credit to the private sector is 52.3337 percent on average. On average, the urban population across selected Asian states is 53.1271 percent from 2005 to 2018. On

average, the human development index has been observed at 0.6628 percent in concerned nations. Finally, domestic general government consumption expenditures have been observed as 10.8481 percent.

Table 1. Descriptive statistics of major significant factors.

Variables	Observations	Mean	Standard deviation	Minimum	Maximum
HDI	112	0.6628	0.0920	0.486	0.805
DCTPS	112	52.3337	28.6347	15.3861	125.0619
NCMB	112	13.1509	6.9963	5.2732	32.3072
UPOP	112	53.1271	19.9630	26.809	90.99
GGFEX	112	10.8481	3.3760	5.0393	21.2724

**Empirical Estimations**

Table 2 shows major findings by using the fixed effect method. The value of Chi<sup>2</sup> is 18.15 and the probability value is 0.0012 which favors fixed effect result validity. This shows that financial inclusion with other control variables enhances the human development index in some Asian countries.

Table 2. Fixed effect results, dependent variable is human development index.

Variables	Coefficients, Standard Errors and t-values
DCTPS	0.0005* 0.0002 (2.33)
NCMBB	0.0025* 0.0008 (4.08)
UPOP	0.0059* 0.0006 (10.33)
GGFEX	0.0070* 0.0013 (5.55)
Con	0.2107 0.0306 (6.88)
R <sup>2</sup> Within	0.77
R <sup>2</sup> Between	0.76
R <sup>2</sup> Overall	0.74

t-values are in parentheses; \* p<0.1.

It has been observed that financial inclusion determines human development in Asian countries. The number of commercial bank branches often presents more opportunities for businesses which may lead to human development in emerging countries. Results show that a one percent increase in the number of commercial bank branches results in increased human development by 0.0025 percent. Our study results are supported by Chowdhury and Chowdhury (2023).

Countries availing chance for domestic credit to the private sector will offer financial services and amenities and this will lead to human development. The result also shows that a one percent increase in the financial development index will result in increased human development by 0.0005 percent. This can be due that higher access to domestic credit to the private sector increases human development in economies. The findings are in line with Verma et al. (2023).

The urban population also enhances the economic growth and development of Asian countries. Labor is skilled and educated in urban areas. So, this urban labor is also helpful in getting employment and generation income and growth. All this increases economic development. The study finding shows that a one percent increase in urban population tends to improve human development by 0.0059 percent.

Government expenditure also increases economic growth and development. A lot of economic activities increase production and development. It is found that one percent increased general government expenditures increase human development by 0.0070 percent. The result is consistent with Sarwar et al. (2013).

## **CONCLUSIONS**

This research work highlights the important determinants of human development in some selected Asian countries by using fixed and random effect techniques. The study reveals that the provision of better and superior financial development with financial inclusion and other variables such as urban population and government expenditures have affected positively the human development of Asian countries. The banking sector plays a major role in improving human development. The number of commercial bank branches also has a positive influence on human development. Furthermore, Government expenditures have been observed to be increasing the human development of the nations. Urban population also contributes well in boosting up human development of emerging Asian nations. Considering the results, it is suggested that the Government must provide maximum financial access and support for more investments in the concerned nations to increase human development. Much emphasis should be placed on high and better level of financial inclusion in these countries. Furthermore, the Government must focus on more spending and provide more investment chances to the general public for high economic growth and development.

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