

Developing a Strategy for Financial Inclusion in Sri Lanka

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An inclusive financial system is able to reduce poverty, boost shared prosperity and support inclusive and sustainable development. Given the importance of finance for growth, countries are pursuing active strategies to develop financial institutions and markets as well as enhance financial inclusion. Financial inclusion can be broadly defined as the access to appropriate financial products and services at an affordable cost by all sections of society in general and to low income groups in particular who are underserved or have been excluded from formal financial services. Financial inclusion aims to, broaden the reach of financial services to those who do not currently have access, to deepen financial services for those who have minimal access and to increase financial literacy and consumer protection so that those who are offered financial products can make an informed choice. Based on general measures of financial inclusion such as account penetration, which measures the ownership of accounts at financial institutions, the level of financial inclusion in Sri Lanka is very high for a country categorised as a lower middle income country. However, in relation to other measures such as access to credit, the use of electronic forms of payment and the use of insurance products for health care and agriculture, there is still much room for improvement. The penetration of banking services into rural areas has helped promote banking habits among the people. Developments on the technological front and the adoption of electronic banking systems have also helped expand the reach of financial services in the country. The widespread coverage of the mobile phone network in the country provides an opportunity to further expand access to financial services in the remotest parts of the country through the use of electronic retail payment methods such as payment cards and mobile phone based payment mechanisms. Using a probit model, we examine the determinants of financial inclusion in Sri Lanka as access to credit may be affected by socio economic factors such as gender, household income, education, earnings, ownership of land and houses as well as access to infrastructure facilities. Given the important role that financial inclusion can play in achieving sustainable development, reducing poverty and boosting shared prosperity, it is necessary to develop a formal strategy of financial inclusion including developing the financial infrastructure, strengthening the regulatory framework and maximising the use of technology in the country.

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