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Financial Capability and Asset Building in Social and Economic Development: Advancing the Sustainable Development Goals

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The pursuit of economic well-being undergirds most of the United Nations Sustainable Development Goals (SDGs), and any effort to achieve them would benefit from a dedicated focus on economic and financial well-being (Chowa, 2019; Ssewamala et al., 2010). This Perspective discusses the case for leveraging financial capability and asset-building (FCAB) strategies to achieve SDGs in resource-constrained countries. Adopted in 2015, the SDGs provide a blueprint for consolidating gains made under the Millennium Development Goals (the precursor to the SDGs) and propelling future improvements in the well-being of all populations by 2030. Although the 17 SDGs are agreed-upon aspirational targets for all countries, they are particularly essential to social and economic development and agenda setting in emerging economies (Midgley & Pawar, 2018). In this work, we offer an adapted conceptual model illustrating how FCAB can support SDGs and we highlight how financial technology (FinTech) can strengthen this agenda. We conclude with a call to better integrate FCAB and FinTech ideas into long-term development plans for furthering the SDGs.

An Opportunity to Explore an FCAB Agenda in Resource-Constrained Countries

The last three decades have witnessed a marked improvement in financial well-being and a decrease in poverty rates in all regions of the world. A billion fewer people lived in poverty in 2015 than in 1990. Nearly universal gains in financial inclusion have contributed to the sustained reductions in global poverty and financial hardship (Demirgüç-Kunt, Klapper, Singer, Ansar, & Hess, 2018). Mobile phones have increased access to financial services, reshaping how low-income people live, work, and transact business. Sixty-nine percent of adults had a bank account in 2017. The rate, which breaks out to 94% in high-income economies and 63% in developing economies, is up from 51% in 2011 (Demirgüç-Kunt et al., 2018). In other words, the number of unbanked adults shrank from 2.5 billion to 1.7 billion over a span of just 6 years. These changes have created an enabling environment that fosters current and future social and economic development (Nan, Zhu, & Markus, 2020).

Despite these indicators of remarkable progress and the related extension of FinTech to hundreds of millions of people (Demirgüç-Kunt et al., 2018), financial vulnerability persists, especially in resource-constrained countries (Gallup & Healthways, 2014). Financially vulnerable individuals and families have limited control over their day-to-day finances. They typically lack the capacity to weather financial shocks, let alone maintain a level of financial security necessary to set financial goals and make choices that advance the nonfinancial aspects of their well-being. According to the World Bank's 2017 Global Findex report, about half of adults in developing countries cannot raise emergency funds during financial shocks

(Demirgüç-Kunt et al., 2018). A gender-based analysis suggests an even more alarming disparity: Women are 11 percentage points less likely than men to have emergency savings (Demirgüç-Kunt et al., 2018).

Moreover, the marked improvements in efforts to address poverty and financial hardship are undercut by the persistent inequality in economic and financial well-being. That inequality has been documented both within and between countries (World Bank, 2018b). For instance, three countries in sub-Saharan Africa (Nigeria, the Democratic Republic of Congo, and Ethiopia) and two in South Asia (India and Bangladesh) account for half of the 736 million people living in extreme poverty worldwide (World Bank, 2018b). Broad disparities also characterize bank-account ownership rates, with seven countries—Bangladesh, China, India, Indonesia, Mexico, Nigeria, and Pakistan—accounting for half of the world's 1.7 billion unbanked adults (Demirgüç-Kunt et al., 2018). The financial systems in many developing economies continue to exclude large numbers of people, who must rely on informal financial tools because of the limited access to bank accounts and formal financial services.

Now more than ever, we must innovate and expand efforts to address these persistent inequalities in global poverty and financial hardship. These innovations will have to consider a pandemic that has stretched the capacity of governments and communities to care for the poor. The ongoing COVID-19 pandemic is not merely a threat to current efforts to reduce poverty and increase financial security; as countries fall into recession, economic fallout from the pandemic may reverse some of the gains made since the late 1990s (Dabalen & Paci, 2020; World Bank, 2020).

FCAB and the SDGs: A Path to Financial Well-Being

Because the SDGs are particularly relevant in emerging economies, nearly all resource-constrained countries have aligned their development agendas with the goals. This alignment presents an opportunity to promote financial well-being in those economies in a way that benefits all members of a country's population. Moreover, promoting financial well-being has emerged as a key step to achieving seven of the SDGs (Le Blanc, 2015; World Bank, 2018a): no poverty (SDG 1), zero hunger (SDG 2), good health and well-being (SDG 3), quality education (SDG4), gender equality (SDG 5), decent work and economic growth (SDG 8), and reduced inequalities (SDG 10). The 10 other SDGs, also illustrated in Figure 1, may be impacted indirectly in the long term.

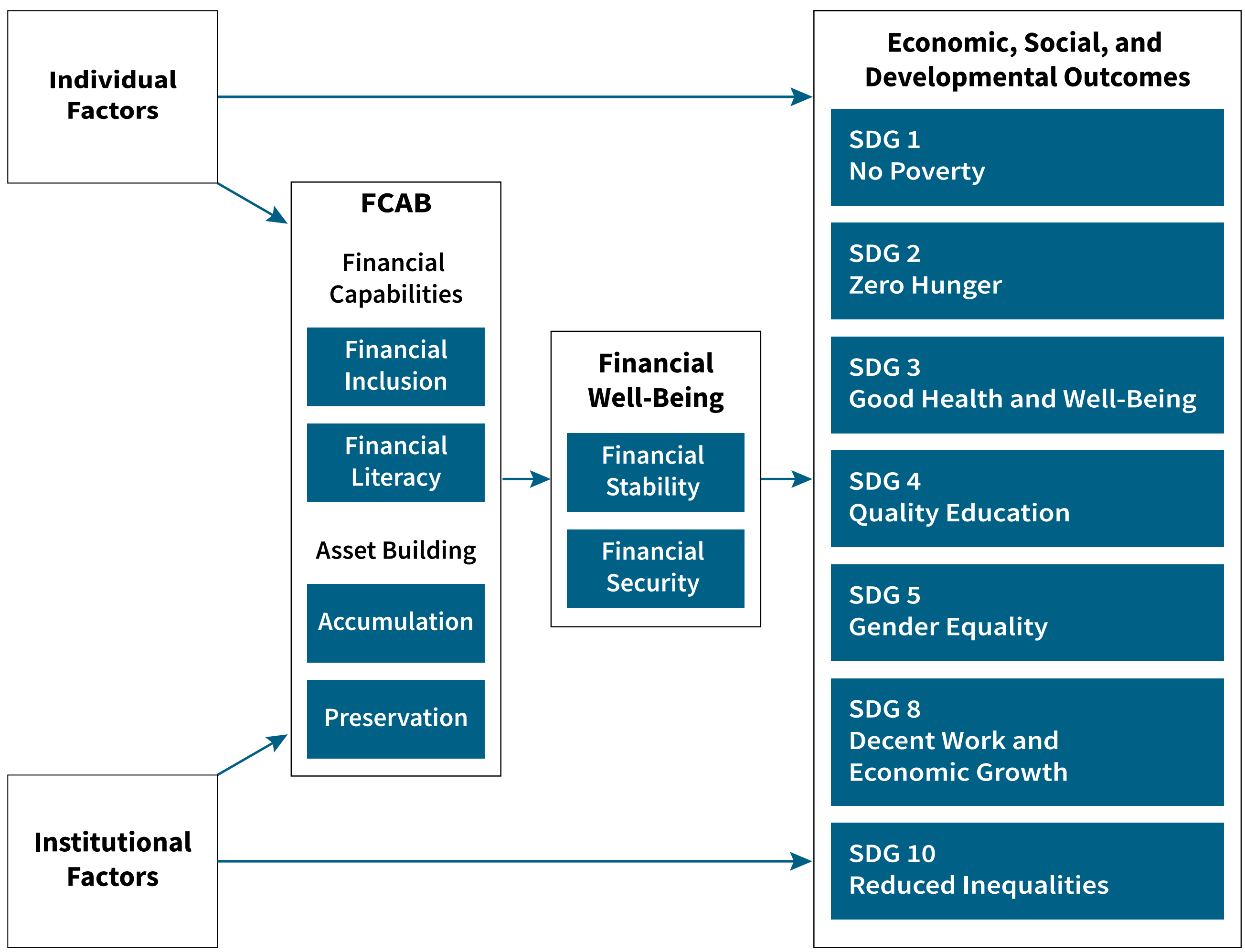
Figure 1. The 17 Sustainable Development Goals, also known as the Global Goals.
From United Nations (n.d.).

Many resource-constrained countries are prioritizing financial inclusion policies by increasing access to financial products and services (Demirgüç-Kunt et al., 2018; Lyons, Kass-Hanna, Liu, Greenlee, & Zeng, 2020). Greater access to and use of formal financial services is vital for helping people to function effectively in adverse financial situations (Chowa & Ansong, 2010; Ssewamala, 2015). The pandemic has made it painfully clear that households in these countries require income-generating and asset-building opportunities if they are to benefit from agendas to ensure greater financial stability, security, and inclusion.

Achieving the well-being outcomes laid out in the SDGs will require a broader conceptualization of financial well-being that encapsulates both financial stability (the present) and security (the future). This conceptualization will help consolidate efforts to increase financial capability and asset building in order to promote financial stability and security (see Figure 2).

As Figure 2 illustrates, individuals and households become financially capable (a) when they have the knowledge and skills (financial literacy) to act in their financial interests and (b) when their environment offers them opportunities to act via appropriate and accessible financial services, products, and pro-FCAB policies (Johnson & Sherraden, 2007; Sherraden, 2013; Sherraden et al., 2015). In order to meaningfully engage with financial systems and accumulate assets, individuals and households need opportunities to generate income through existing assets, employment, or social protection programs. Therefore, a pragmatic framework for

Figure 2. An expanded conceptual model of financial capability and asset buiding (FCAB).
Adapted from Sherraden (2013). SDG = sustainable development goal.



achieving the SDGs through improved financial well-being should holistically address challenges to income generation (employment and social protection) and financial inclusion (availability, access, and use of financial services and products), improve financial literacy (knowledge and skills), and support asset building (opportunities to accumulate and preserve assets). As conceptualized, financial inclusion is shaped directly by social policy (Sherraden, 2013). However, in the expanded conceptual model (Figure 2), we purposely distinguish between individual (education, employment, and resources) and institutional factors (formal factors, such as policies and regulations, and informal ones such as norms and customs) and how they relate to financial inclusion. We do this to highlight the centrality of institutions in financial well-being discourse and their long-term impact on the SDG outcomes in resource-constrained countries.

Cautiously Leveraging FinTech for an FCAB Agenda

Governments should consider harnessing the growing popularity of FinTech to implement FCAB policies as part of the strategy for achieving the SDGs. FinTech refers to technologically enabled financial innovation with the potential to facilitate financial inclusion by improving the design and delivery of financial services and products (Sy, Maino, Massara, Perez-Saiz, & Sharma, 2019). FinTech includes the use of the internet and mobile phones for financial transactions (e.g., mobile money). It has become a key driver of increased access to financial services, particularly among unbanked individuals in resource-constrained countries (Demirgüç-Kunt et al., 2018). Between 2014 and 2017, over 500 million adults opened a mobile money account, constituting more than half of the global gains in account ownership (Demirgüç-Kunt et al., 2018). FinTech is already actively used in 40 of the 54 countries in sub-Saharan Africa, suggesting its broad penetration and acceptability.

These developments notwithstanding, it is worth acknowledging lessons from FinTech's record in developing economies. FinTech excesses, if left unchecked from a regulatory and financial literacy standpoint, could exacerbate the poor's economic vulnerability (Bull, 2019; Donovan & Park, 2019). The wildly successful mobile-to-mobile money-transfer platforms, such as those in Kenya, offer a sobering and ironic example of how FinTech, through fees, charges, and incessant encouragement of borrowing, could facilitate greater financial inclusion among the poor and yet leave so many in a catastrophic debt spiral (Donovan & Park, 2019). Also, with the increased adoption of FinTech, the risk of online financial fraud grows and populations with limited financial knowledge become increasingly vulnerable (Engels, Kumar, & Philip, 2020). Finally, there is a real threat of excluding people in localities that are not fully digitized. The infrastructural cost of providing digital access to nondigitized economies could place the digital universe beyond the reach of the poor (Bull, 2019). As Swartz (2020) cautions, such digital financial exclusion could have ramifications even beyond the nonmonetary aspects of people's lives, including implications for access to communication and social services.

Notwithstanding the genuine skepticism and caution (Donovan & Park, 2019), FinTech is here to stay (Swartz, 2020). If well paced and managed with the appropriate limits, regulation, and financial education (Engels et al., 2020), it could promote efficiency in existing traditional structures (Johnson et al., 2015; Sy et al., 2019). Several benefits could follow from mainstreaming FinTech as part of an FCAB agenda. Doing so could increase the swiftness and reach of policies and programs aimed at fostering financial capability and at improving the capacity to build assets. Increasing financial capability and asset building could promote financial stability and long-term financial security.

As we see it, FinTech can enhance an FCAB agenda in at least four ways: (a) internet and mobile phone technologies can simplify and democratize access to basic financial services (financial inclusion); (b) digital learning technologies can help people access financial knowledge and skills (financial literacy); (c) digital financial services can offer viable opportunities for individuals to accumulate and preserve assets for future investments (asset building; Panos & Wilson, 2020); and (d) FinTech platforms can serve as low-cost conduits for reaching populations with social policies (e.g., delivery of messages and services on livelihoods, education, and health; Sy et al., 2019). These four ways of adding value to existing structures can act as catalysts for achieving several of the SDGs.

A Call to Action

A sustainable effort to secure individuals' and households' financial well-being, and to enable them to weather financial shocks, requires a concerted long-term agenda, which will need to accomplish the following:

1. Leverage FCAB (e.g., through existing FinTech infrastructure) to deliver social policies and programs to achieve greater impact on seven of the SDGs.
2. Maximize the potential of a properly regulated FinTech to enhance and increase the inclusivity of FCAB, enabling it to reach people of all genders, economic backgrounds, disability statuses, and other marginalized characteristics.

Taken together, these mutually reinforcing parts of a long-term agenda have the potential to drive the efforts of resource-constrained countries to achieve the SDGs.

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