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# Driving Financial Inclusion through Financial and Digital literacy

Issue Brief

**Thematic Area: Capacity Building, Skilling, and Mobility**

## Essential skills for financial inclusion

Financial inclusion, by way of providing affordable financial products to businesses and individuals helps promote economic growth and employment. By ensuring access to the vulnerable groups including women and the poor, financial inclusion is a powerful tool that can effectively reduce poverty, especially in the developing and less developed countries.

However, around 1.4 billion people globally are still without bank accounts<sup>1</sup>. The lack of access to financial resources causes major hurdles to livelihoods which in turn impedes employment and business growth.

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Financial education and skills are therefore critical for protecting and empowering financial consumers and driving the financial inclusion process. With the rapid rise of complex financial products, financial education along with financial reskilling and upskilling can help in shaping financial behaviour and attitudes, while empowering individuals.

<sup>1</sup> <https://www.weforum.org/stories/2024/07/why-financial-inclusion-is-the-key-to-a-thriving-digital-economy/>

At the same time, in an era of rapidly expanding digital financial services and the advent of fintech, digital literacy has become a prerequisite for the effective use of digital financial services. Therefore, access to digital skills, besides financial literacy, is equally important for ensuring equal access to financial products for all.

## **Financial literacy and current gaps**

The OECD defines financial literacy as a set of awareness, knowledge, skills, attitudes and behaviour that enable individuals to make informed and smart financial decisions.

The level of financial literacy is an essential indicator of people's ability to make sound financial decisions and is considered as one of the top core skills for navigating the complex financial landscape in the 21st century.

However, financial knowledge continues to be low globally, across diverse population subgroups and countries at various stages of development.

It has been documented that financial literacy positively impacts access to finance and enhances the competitiveness and performance of micro, small and medium enterprises (MSMEs)<sup>2</sup>. However, MSMEs face significant financing gaps, including inadequate access to formal credit, high cost of credit and limited availability of risk capital. According to the International Finance Cooperation, the MSME finance gap stood at USD 5.7 trillion in 2024, which increases to USD 8 trillion with the inclusion of informal enterprises<sup>3</sup>. The lack of financial literacy and technology skills has been identified as a leading cause that hampers business growth among the MSMEs.

Significant gaps in access to financial literacy also exist between genders across the world, which in turn has adverse implications for women's economic empowerment. It is estimated that globally only 30% of women are financially literate, in contrast to 35% of men<sup>4</sup>. For example, in India, 33% of women have an active bank account while the corresponding figure for men is around 45%<sup>5</sup>.

*While women around the globe are increasingly equipped with financial literacy, it is estimated that globally only 30% of women are financially literate, in contrast to 35%*

Financial literacy has also been found to be low among the youth. According to OECD's PISA 2022 volume IV financial literacy assessment, which assessed the financial skills of 15-year-olds in 14 OECD and 6 partner countries, nearly one out of five students did not achieve baseline

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<sup>2</sup>[https://www.researchgate.net/publication/377365384\\_Financial\\_Literacy\\_and\\_MSME\\_Performance\\_Mediation\\_and\\_Moderation\\_Analysis](https://www.researchgate.net/publication/377365384_Financial_Literacy_and_MSME_Performance_Mediation_and_Moderation_Analysis)

<sup>3</sup> <https://www.ifc.org/content/dam/ifc/doc/2024/msme-s-factsheet-ifc-financial-institutions-group.pdf>

<sup>4</sup> <https://www.weforum.org/stories/2024/05/financial-literacy-education-money-matters/>

<sup>5</sup> <https://ncaer.org/publication/womens-financial-literacy-what-india-can-learn-from-australia-rwanda-japan/#:~:text=Women%20with%20lower%20financial%20literacy,and%20economic%20growth%20are%20significant>

proficiency levels and lacked the skills to make sound financial decisions<sup>6</sup>. Further, the assessment also found that students from socio-economically disadvantaged backgrounds scored lower in financial literacy and had lower access to learning opportunities.

## Digital literacy and current gaps

The financial sector has undergone massive transformation in the last few years with the advent of advanced technologies and increased digitalization. The anticipated AI exposure in the financial services sector is notably higher than the global average according to the World Economic Forum's Future of Jobs 2024 report. This has underscored the importance of digital literacy for enhancing financial inclusion.

Digital literacy is a crucial skill for leveraging the positive benefits of the digital economy. Digital financial inclusion involves the deployment of low cost and affordable access to financial channels, particularly for the financially excluded and underserved populations. However, significant gaps in digital literacy exist as equal access of digital tools and skills are not available across regions, communities and societies. The gaps are particularly significant for women, rural households and low-income groups<sup>7</sup>.

It is an established fact that digital literacy and social inequalities are closely related and the lack of access to education, employment, technology and credit markets inhibits people's access to opportunities. Digital inclusion is found to vary across regions globally, with significant disparities existing between low- and high-income countries. At the same time, unequal access to technology has been found to exist between low and income households in upper income as well as less-developed regions<sup>8</sup>.

Digital connectivity is critical for driving financial inclusion. However, it is found that women and girls have lower levels of digital literacy as compared to men and are 25%<sup>9</sup> less likely to use technology platforms in businesses. Significant differences also exist in internet usage patterns as reported by the GSMA Mobile Gender Gap 2024 report, which finds that the gender gap in mobile internet access is 15%<sup>10</sup>. The report also highlights significant gender gaps in mobile access for low- and middle-income economies, including South Asia at 31% and Sub-Saharan Africa at 32%.

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<sup>6</sup> <https://www.oecd.org/en/about/news/press-releases/2024/06/Action-needed-to-address-gaps-in-financial-literacy-among-students.html>

<sup>7</sup> <https://www.adb.org/sites/default/files/publication/843526/adbi-digital-financial-inclusion-and-literacy-g20-perspective.pdf>

<sup>8</sup> <https://onlinelibrary.wiley.com/doi/full/10.1002/poi3.383>

<sup>9</sup> <https://www.womensworldbanking.org/insights/five-insights-to-drive-digital-inclusion-of-women/>

<sup>10</sup> <https://www.gsma.com/solutions-and-impact/connectivity-for-good/mobile-for-development/blog/our-new-data-shows-the-mobile-internet-gender-gap-has-narrowed-slightly-but-there-is-still-much-work-to-be-done/>

*ITU's Measuring digital development: Facts and Figures 2024 finds that internet use continues to be closely associated with developmental levels, with 27% of population estimated to be online in low-income economies in contrast to 93% for high income economies.*

The lack of digital literacy and skills often leads to poor digital adoption among MSMEs. This in turn leads to poor financial management and insufficient digital marketing capabilities, which constrains market access and adversely impacts business growth. A recent study on MSMEs in Indonesia finds that among 64.2 million MSMEs in Indonesia, only 21 million MSMEs are able to utilise digital ecosystems and e-commerce platforms<sup>11</sup>.

ITU's Measuring digital development: Facts and Figures 2024<sup>12</sup> finds that while digital connectivity has significantly expanded around the world, the digital divide continues to persist in low-income countries. It also finds that internet use continues to be closely associated with developmental levels, with 27% of population estimated to be online in low-income economies in contrast to 93% for high income economies. The report also identifies digital gaps across urban and rural households, with 83% of urban dwellers using the internet in 2024 compared to only 48% in rural areas.

## **Way Forward**

Financial and digital literacy are critical enablers for driving inclusive finance. Therefore, identifying and addressing the existing financing and digital gaps across populations is an imperative for fostering greater financial inclusion.

As low financial and digital literacy are key barriers for financial inclusion, initiatives and programmes on raising literacy levels are critical. Targeted interventions that facilitate comprehensive financial education can play an important role. Digital skills development and training programmes along with relevant support teams need to be deployed for different subgroups, focusing on regions where the literacy gaps are higher.

Equipping the vulnerable sections of the workforce with the relevant skills and knowledge and building the adequate capabilities through skills can facilitate the adoption of modern technologies and build business resilience.

Collaborations between the government bodies and financial institutions that offer financial assistance can also improve financial literacy. Government agencies can also partner with universities and technical institutes to implement digital literacy programmes to enhance digital skills and technical capabilities. Special training programmes for MSMEs can be offered for strengthening digital skills and fostering digital adoption.

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<sup>11</sup> <chrome-extension://efaidnbnmnnibpcajpcglclefindmkaj/https://ijcsrr.org/wp-content/uploads/2024/10/14-0410-2024.pdf>

<sup>12</sup> <https://www.itu.int/itu-d/reports/statistics/facts-figures-2024/>

However, deployment of targeted strategies and their effective implementation is a complex process and would require a collaborative approach from all stakeholders including the public and private sectors as well as civil society.

*Deployment of targeted strategies and their effective implementation is a complex process and therefore would require a collaborative approach that requires participation from the public and private sectors as well as civil society.*