ECONSPEAK: A Journal of Advances in Management IT & Social Sciences,
Vol. 14, Issue 03, March 2024 Impact Factor 8.232 ISSN: (2231-4571)
www.skirec.org Email Id: skirec.org@gmail.com

Impact of Financial Inclusion Policy in Rural India

Pragya Mishra, Research Scholar, Department of Humanities and Social Science, Indian Institute of Technology Kharagpur,

isidpragya18@gmail.com

Abstract

This study explores the progression and impact of financial inclusion initiatives in India, particularly targeting rural and low-income populations. Financial inclusion, defined as providing affordable access to banking, insurance, and equity products, has seen significant advancements, as evidenced by the Reserve Bank of India's (RBI) Financial Inclusion (FI) Index increase from 56.4 in March 2020 to 60.1 in March 2023. The FI-Index assesses various aspects, including the usage, access, and quality of financial services.Key government and RBI initiatives such as No-Frills Accounts, Kisan Credit Cards, Pradhan Mantri Jan Dhan Yojana (PMJDY), and digitalization efforts like the Jan Dhan-Aadhaar-Mobile (JAM) trinity have been pivotal in enhancing financial inclusion. These schemes aim to cultivate a savings culture, protect vulnerable populations from financial exploitation, and foster entrepreneurship by providing formal credit access.

Introduction

Financial inclusion involves ensuring that vulnerable and low-income groups have access to necessary financial services and products at an affordable cost. These services include banking, insurance, and equity products.According to the Reserve Bank of India (RBI), financial inclusion, as measured by the FI-Index value for March 2023 is 60.1, compared to 56.4 in March 2020. The FI-Index evaluates banking, postal services, investments, pensions, and insurance, with the highest weight given to the use of services (45%), followed by access (35%) and quality (20%).

Several initiatives by the government and RBI aim to address financial inclusion in rural areas, such as No-Frills Accounts (NFAs), Kisan Credit Cards (KCCs), General Purpose Credit Cards (GCC), savings accounts with overdraft facilities, the Self Help Group-Bank Linkage Program (SLBP), Business Facilitators (BFs)/Business Correspondents (BCs), simplified KYC norms, simplified bank account opening procedures, kiosk/ATM-based banking, mobile banking, branchless banking, Aadhaar-enabled payment services, and Financial Literacy and Credit Counselling Centres. Despite these schemes, rural areas continue to face significant financial exclusion, hindering their development

The government aims to cultivate a culture of savings and investments among the rural population through financial inclusion, which can boost the economy. Incorporating vulnerable sections into the formal financial system helps protect their financial resources during emergencies and mitigates their risk of exploitation by usurious lenders. Access to formal credit also encourages entrepreneurship among lower-income groups, reducing their reliance on informal loans from family, friends, and moneylenders.Financial inclusion lowers dependency on costly informal sources, reduces vulnerability to economic shocks, and generates employment.

The formal banking sector often lacks specialized knowledge about the needs of the rural poor, whereas informal providers succeed due to their familiarity with local communities (Patnaik et al., 2016). Lending in rural areas involves higher costs due to small loan sizes, frequent transactions, a wide geographical spread, borrower heterogeneity, and widespread illiteracy (Basu, 2006). Most commercial banks, listed on the stock exchange, focus on short-term profitability, which may discourage them from engaging in business that creates a "visibility gap" where the cost of providing services exceeds the short-term benefits due to high initial fixed costs (Patnaik et al., 2016). Large formal financial institutions historically prefer entering markets developed by smaller companies or informal sector players (Ananth and Oncu, 2013).Banks also face challenges due to government-announced agricultural debt waivers, which have led to a mindset where borrowers expect future waivers, thereby discouraging good repayment behaviour (Patnaik et al., 2016).

Causes of Financial Exclusion

India's vast and diverse landscape results in disparities in income and education levels, leading to varied exposure to financial services. Lack of awareness, surplus income, high transaction costs, required documents, and remoteness contribute to financial exclusion, according to the National Strategy for Financial Inclusion 2019-24.

Financial Inclusion Schemes

Indian policymakers have long recognized the importance of financial inclusion for economic growth. The process began in the 1950s with the nationalization of life insurance companies and banks. Subsequent initiatives include the National Strategy for Financial Inclusion (NSFI) launched in June 2017 and supported by the Financial Inclusion Advisory Committee (FIAC). Key schemes include:

ECONSPEAK: A Journal of Advances in Management IT & Social Sciences,
Vol. 14, Issue 03, March 2024 Impact Factor 8.232 ISSN: (2231-4571)
www.skirec.org Email Id: skirec.org@gmail.com

- **Pradhan Mantri Jan Dhan Yojana (PMJDY)**

Launched in 2014, PMJDY aims to ensure financial inclusion for those without a bank account. It offers savings accounts, insurance, pensions, remittances, and credit. Account holders receive a RuPay debit card and other benefits, including accidental insurance and overdraft facilities. As of September 2021, 43.2 crore accounts were opened, with deposits totalling Rs. 144870.1 crore, and 31.3 crore RuPay cards issued.

- **Pradhan Mantri Mudra Yojana (PMMY)**

Launched in 2015, PMMY provides loans to small businesses in manufacturing, trading, and services, including agriculture. Loans are categorized as Shishu, Kishore, and Tarun, with varying amounts. A MUDRA card allows borrowers to access working capital. The scheme has consistently met annual targets, with a target of Rs. 3 lakh crores for 2021-22.

- **Stand-Up India**

Launched in 2016, this scheme promotes entrepreneurship among scheduled castes, tribes, and women by offering loans for setting up enterprises. Loans range from Rs. 10 lakhs to Rs. 1 crore.There are several schemes for rural development like Credit Linked Capital Subsidy Scheme for Technology Upgradation (CLCSS), Prime Minister Employment Generation programme (PMEGP), SAMPADA (Scheme for AgroMarine Processing and Development of Agro Processing Clusters), A Scheme for promoting Innovation and Rural Industry & Entrepreneurship (ASPIRE) etc.

- **Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY)**

Launched in 2015, PMJJBY provides life insurance to the underprivileged with an annual premium of Rs. 330. As of July 2021, 10.6 crore enrolments were recorded.

- **Pradhan Mantri Suraksha Bima Yojana (PMSBY)**

Also launched in 2015, PMSBY offers accidental death-cum-disability cover with an annual premium of Rs. 12. As of July 2021, 24 crore enrolments were recorded.Other schemes include Atal Pension Yojana and Pradhan Mantri Vaya Vandana Yojana.

Digitalisation

- **Jan Dhan-Aadhaar-Mobile (JAM):**

Linking Jan Dhan accounts with Aadhaar and mobile numbers, JAM creates a digital infrastructure for transferring benefits, adopting pension schemes, and promoting digital payments.

- **Aadhaar-based Biometric Authentication and Digital Payments Solutions:**

Linking bank accounts with Aadhaar numbers facilitates online transactions. More than 125 crore digital identities enable cost-effective payment solutions.

- **Jan Dhan Darshak:**

The government intends to assist citizens in locating banking touchpoints—such as ATMs, bank branches, bank mitras, post offices, and common service centres (CSCs)—through the 'Jan Dhan Darshak' mobile application. This service is also employed by authorities to identify unbanked areas or villages lacking any banking touchpoints. The app serves as a guide for finding financial service touchpoints in various locations across the country. According to the government, the app has mapped over 800,000 financial service touchpoints.

- **Future Directions:**

To provide universal financial services, developing digital infrastructure for co-operative banks, payment banks, small finance banks, local government offices, and common service centres (CSCs) is crucial. Customizing products and services, such as using vernacular languages in mobile apps, can enhance service delivery. The government aims to expand the 'Centre for Financial Literacy' program by 2024 and integrate financial literacy into school curriculums under the National Strategy for Financial Education 2020-2025.

Conclusion

Financial inclusion remains a pivotal goal for India's economic and social development, particularly in rural and underserved areas. Despite the significant progress marked by an increase in the Financial Inclusion Index from 56.4 in March 2020 to 60.1 in March 2023, substantial challenges persist. Government initiatives, such as No-Frills Accounts, the Pradhan Mantri Jan Dhan Yojana, and digitalization efforts like the JAM trinity, have laid a strong foundation for enhancing access to financial services. These schemes have significantly boosted financial literacy, savings, entrepreneurship, and access to credit and insurance among marginalized communities.

However, rural financial exclusion continues to impede broader economic progress. Issues such as high transaction costs, lack of awareness, and infrastructural inadequacies remain barriers. Additionally, the reluctance of commercial banks to invest in rural markets due to higher operational costs and risks highlights the need for more tailored and innovative solutions.

Future strategies must focus on expanding digital infrastructure, improving financial literacy, and customizing financial products to meet the unique needs of rural populations. Integrating financial education into school curriculums and developing local-language mobile applications can further bridge the gap. The annual publication of the RBI’s Financial Inclusion Index will be crucial in tracking progress and addressing gaps. By fostering a culture of savings and formal financial engagement, India can mitigate economic vulnerabilities, promote inclusive growth, and ensure that all citizens have the opportunity to participate fully in the nation's economic prosperity.

Reference:

1. *Dr. Christabell. P. J. 2Vimal Raj. A; "Financial Inclusion in Rural India: The role of Microfinance as a Tool" IOSR Journal of Humanities and Social Science (JHSS) ISSN: 2279-0837, ISBN: 2279-0845. Volume 2, Issue 5 (Sep-Oct. 2012), PP 21-25*
2. *Dr. B.C.M.Patnaik, Dr. IpseetaSatpathy, Mr. ManasRanjanPani; "Financial service providers in rural India- an Overview" Vol.04 Issue-05 (May, 2016) ISSN: 2321-1784 International Journal in Management and Social Science (Impact Factor- 5.276)*
3. *Maumita Choudhury; "Struggles of Rural Micro, Small and Medium Enterprises for Bank Finance: Role of District Industries Centres in India" Trade and Global Market, Vito Bobek, IntechOpen, DOI: 10.5772/intechopen.75681.*
4. *MrunalChetanbhai Joshi and Vikram P. Rajpurohit; "Awareness of Financial Inclusion: An Empirical Study" RESEARCH REVIEW International Journal of Multidisciplinary, ISSN: 2455-3085 (Online)*
5. *Bagli, S. (2012). A Study of Fianncial Inclusion in India. RADIX International Journal of Economics & Business Management*
6. *Chowhan, S. S., &Pande, J. C. (2014). Pradhan Mantri Jan DhanYojana: A Giant Leap Towards. International Journal of Research in Management & Business Studies, 19-22.*
7. *Kaur, H., & Singh, K. N. (2015). Pradhan Mantri Jan DhanYojana (Pmjdy): A Leap towards Financial Inclusion in India. International Journal of Emerging Research in Management & Technology, 4 (1), 25-29.*
8. *Balasubramanian, C. (2015). Predicting Regular Saving Behaviour of the Poor Uing Decision Trees – An Imprtant Input to Financial Incluion in India. Scholedge International Jouranal of Managemnet&Development , 2 (8), 16-30.*
9. *Key Results of Survey on Unincorporated Non-agricultural Enterprises (Excluding Construction) in India; NSS 67TH ROUND*
10. *Report on Trend and Progress of Banking in India for the year ended June 30, 2018 submitted to the Central Government in terms of Section 36(2) of the Banking Regulation Act, 1949*
11. *https://www.ibef.org*
12. *https://www.standupmitra.in/Home/SubsidySchemesForAll*