

# Financial Inclusion for Sustainable Rural Development

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## ABSTRACT

The economy of any nation can have inclusive growth if the available resources are properly allocated and accessed by all the people of the nation without any discrimination of any type. Financial inclusion is the initiation where the promotion of banking habits are inculcated to the rural people especially those who are of low income group and vulnerable sections of the society. Basically India is a predominant agriculture based country with more than half of the population is residing in rural areas. Financial inclusion is very important for India to provide the financial services to the rural people in a transparent, affordable, fair and equitable manner. The study is mainly aimed at understanding the importance of financial inclusion, financial literacy, and rural development in the context of India. This study is significant as majority of the people are residing in rural areas and the literacy rates are less especially in the rural areas and among the vulnerable sections of the society. The study focussed on the several financial inclusion initiatives undertaken in the country along with the influence of financial inclusion on the rural development. The study also suggested few measures to attain sustainable rural development. The study also highlighted the status of the scheduled commercial banks in the rural areas, the growth rates of the deposits and credits especially in the rural areas.

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## 1. Introduction

All the countries across the globe had accepted the myth that financial inclusion is the base for the overall inclusive growth of the economy. Inclusive growth can be attained when the people have access to affordable finance especially among the rural residents. This ensures that the vulnerable sections of the society have the option of availing the financial opportunities towards their economic empowerment. The economic growth can be accelerated only when there is equal opportunity for all the people to access the financial services and products. Lack of access to the financial services is predominant among the rural who belong to the vulnerable sections of the society. Rural areas are financially underserved as the formal financial institutions offered less or completely failed to provide affordable financial services in the rural areas. Due to this, the rural sections are dependent on the informal sources of finance. These informal sources are of weak institutional as well as managerial capacity and often charge huge rate of interest for the money lent to the rural people. Usually the rural residents obtain the finances to meet their agricultural needs, transportation of their goods and products, labour requirements, meet their emergencies etc.

## 2. Objectives of the Study

The present study is aimed at

- Analysing the importance of Financial Inclusion.
- Analysing the importance of Rural Development.
- Analysing the importance of Financial Education.
- Analysing the various Financial Inclusion Initiatives.
- Analysing the correlation between Financial Inclusion and Rural Development.
- Suitable suggestions for Sustainable Rural Development.

## 3. Literature Review

**Kuldeep and Anand (2011)** had employed index on financial inclusion to analyze the relation between the economy and financial inclusion. The study was conducted in 15 states and found that a positive correlation exists between the financial inclusion and socio-economic development. In addition to this there is a negative correlation between gender, education levels and occupation of the respondents towards the financial inclusion.

**Devaraj, Shasidhar and Shankar (2011)** analysed the financial literacy levels among the rural households. It was observed that rural poor have the information about the various financial related terms and its associated activities. The respondents are aware of interest charged on loans and interest given on deposits, security for obtaining loans, immovable property, investment in gold, opening of bank accounts and their uses.

**Ravi Inder Singh (2015)** analysed the perception of the rural people about financial inclusion in the district of Ludhiana. The survey was conducted on 53 respondents and found that bank officials are encouraging the rural people to open bank accounts. It is observed that the service rendered by the bank staff is not uniform across all the customers and is differentiated based on their education, income, occupation levels etc. The study suggested conducting training programs to staff on their approach in serving the rural population and rural people about the availability and advantage of various financial services and products available at the banks.

## 4. Financial Inclusion

Financial services rendered to the people by the informal sources of finance are not considered as part of the financial

inclusion, as these informal sources are manipulative and exploitative. To overcome all these, the financial services rendered by the financial institutions such as the banks, insurance companies, postal department, micro-finance organisations are considered as the basis for the financial inclusion. These formal financial institutions are active and effective to gather savings and competent enough in allocation of the funds. These funds can be routed for the development of the people and thereby the society. As per the World Bank reports, there are more than two and half billion people who are deprived of the basic financial services from the formal financial institutions. These people are the majority hailing from low income group of the society. These financially excluded sections are dependent on the informal sources of finance or on their own funds which deprive them from taking advantage of the financial services aimed at their growth opportunities.

Financial Inclusion is the process of ensuring affordable access to financial services and products required by the various sections of the society in general and low income groups, vulnerable groups, weaker sections in particular, by the formal financial institutions at reasonable cost, in a flaxen and apparent manner.

The Centre for Financial Inclusion (CFI) defines financial inclusion "As a state in which all people have access to a full suite of quality financial services, provided at affordable prices, in a convenient manner, and with dignity for the clients". It is evident that mere access to the various financial services and products is just a part of the financial inclusion. The people should be financially literate to obtain complete financial inclusion.

There are various obstacles towards financial inclusion in terms of economic, social, cultural issues. There are obstacles on both the demand and supply side of financial inclusion. On the demand side of financial inclusion, lack of awareness and financial illiteracy are the major obstacles. On the supply side, poor bank-branch penetration, lack of affordable investment avenues, high cost of financial transactions on part of the financial institutions.

India is a vast country with majority of the people residing in the rural areas. So there should be extensive efforts on part of the government and the financial institutions to bring about inclusive growth. Reserve Bank of India has an ambitious target of opening nearly 600 million new bank accounts for the rural people and serves them through various channels especially by leveraging the information technology. To achieve this target there are several roadblocks in this path such as the illiteracy among the rural people, lack of brick & mortar bank branches in the villages, inadequate financial and legal structure in the country, insufficient schemes relating to agriculture and its allied sectors, inadequate microfinance and micro insurance schemes for the vulnerable sections of the society.

## 5. Financial Education

It is observed that the success of financial inclusion largely depends on the effectiveness of financial literacy levels among the rural people. Financial literacy is vital for the promotion of

financial inclusion, consumer protection and thereby obtaining the financial stability among the rural people of the society in specific. The financial literacy is closely interlinked with the financial inclusion strategies adopted by the government, financial institutions. Financial literacy is defined as "A combination of awareness, acquaintance, skill, attitude and behaviour necessary to make sound financial decisions and ultimately achieve individual financial well-being". Financial literacy is a combination of knowledge, skill, attitude which helps the seekers to take a financially stable decision towards the well being of an individual. Most of the countries across the world are equipping themselves with wide range of financial products and services and the awareness and adequate access to these is possible only through proper financial literacy which ensures that there is a spike in the demand for these products and services. Financial literacy is based on two concepts namely the access and literacy.

The financial services and products made available for the people become fruitful when they are aware of various options. When the ignorance and illiteracy exists then the people couldn't clutch the associated benefits and neither anticipates the financial risks. Financial literacy kindles the demand side of the financial services by making the people aware of what they should possess and demand for attaining financial stability. In this process, financial literacy is crucial for financial inclusion thereby leading to inclusive growth.

In large countries like India, access to various financial services and products is not happening and it becomes imperative to have access to financial products and services along with knowledge about the basic services and their associated risk and returns. This ensures the expansion of the reach and inclusiveness of the financial system. The citizens of the country should have financial awareness. The users of the financial resources can be summarised as financially excluded resource poor, the categorisation of the people based on their income levels such as the lower, middle income groups and high net worth individuals.

## 6. Rural Development

Huge importance is given to rural development by all the governments in the world. The rural areas have many constraints in terms of infrastructure facilities, implementation of technological advancements, and also lack basic requirements such as transportation facilities, health facilities, safe drinking water etc. The rural people are mostly low income groups, vulnerable sections of the society who are illiterate and ignorant about the various developmental activities undertaken by the government for their development and financial upliftment. Rural development is aimed at improving the quality of rural people life. Rural development is possible with the development of agriculture and its allied sectors, cottage industries, community facilities and services, infrastructure activities pertaining to socioeconomic sectors, underutilized human resources etc. The social and economic well-being of the rural poor can be improved with dedicated interactions among the institutional, technological, cultural, social, physical, economic factors. The vulnerabilities of the rural poor to the economic and financial crisis and to climate change and water shortage must be addressed.

Rural development is the process of utilizing, developing and nurturing the natural resources, technology, government policies and programs, infrastructural facilities, human resources, financial institutions, non government organizations etc to foster the economic growth in the rural areas with the aim to facilitate jobs and thereby drive the rural life towards sustained self sustenance. Along with the economic and social advancements, rural development brings about changes in the attitude, customs and beliefs of the rural people thereby marching the system from the state of dissatisfaction to a materially along with spiritually better state of their life.

Rural development is attaining significance in India as more than fifty percent of the population is residing in rural areas and there can't be complete development if the rural population remains backward. The inadequate development of the rural areas will dampen the overall progress of the economy. Majority of the Indian population are dependent on agriculture and its allied sectors. The rural population is technically, politically, socially and interms of productions are weak and backward when compared to the urban population. The farmers who have adapted to new techniques of farming had yielded better production when compared to the others which also increased the gap between the rich and the poor. As per the reports of All India Rural Credit Review Committee, the fruits of development are being deprived of to majority of the rural population. The ownership of the land is vested in the hands of a few leading to heartburn for the larger sections of

the rural population. This difference is leading to social and economical tensions and also dampening the peaceful transformation of the rural economy. To overcome this, it is suggested to increase the agricultural production along the necessary steps to properly and evenly distribute the yields of development among the rural and backward sections of the society. Rural development is aimed at eradicating poverty through enhanced nutrition food supplies, health services, cultural activities, financial activities, educational activities, and social activities which lead to an enhanced life and also contribute their share towards the economy of the country.

It is observed that the agriculture dependent countries are backward even in the area of agriculture as most of the workforce is dependent only on agriculture and not on any other alternative employment opportunities. It is very important for any country to shift the workforce towards non- agricultural occupations to have sustained and inclusive growth of the economy. There should be multiple approaches by the government and other relatives institutions for rural development and the rural population should understand the need of change and contribute for the economic development of the country. Rural development is a combination of various factors which transforms the lives and conditions of the rural population.

#### 7. Role of Banking Sector in Financial Inclusion:

**Table 1:** Quarterly Statistics on Deposits and Credit of Scheduled Commercial Banks

	Dec-18	Sep-18	Jun-18	Mar-18
<b>All Scheduled Commercial Banks</b>	<b>150</b>	<b>149</b>	<b>149</b>	<b>149</b>
of which, Regional Rural Banks	56	56	56	56
<b>All Scheduled Commercial Banks – Reporting Offices</b>				
Rural	49766	49616	49578	49384
Semi-Urban	38867	38674	38564	38481
Urban	25469	25438	25410	25307
Metropolitan	27098	27077	27061	26961
<b>TOTAL</b>	<b>141200</b>	<b>140805</b>	<b>140613</b>	<b>140133</b>
<b>All Scheduled Commercial Banks - Annual Growth Rates (Per Cent)</b>				
Aggregate Deposits	9.3	8.4	7	6.8
Bank Credit	12.9	13.1	11.1	9.5
<b>Scheduled Commercial Banks in Rural Area - Annual Growth Rates (Per Cent)</b>				
Aggregate Deposits	9.4	9.2	9.4	8.3
Bank Credit	13.2	12.9	8.3	13
<b>Credit-Deposit Ratio (Per Cent)</b>	<b>77.6</b>	<b>76.4</b>	<b>75.6</b>	<b>75.6</b>

Source: Reserve Bank of India Website.

From Table 1, it is evident that there is continuous increase in the reporting offices of the scheduled commercial banks from 140133 in March 2018 to 141200 by December 2018 registering a growth rate of 0.34%. Similarly there is a continuous growth of the scheduled commercial bank offices in the rural areas from 49384 in March 2018 to 49766 in December 2018. From the table it can be observed that there is steady progress in the annual growth rate of the aggregate deposits and bank credit extended by all the scheduled commercial banks in the country. When compared to the rural

areas growth to the country growth there is a far ahead result in the rural areas. When the aggregate deposits are considered there is a growth rate of 6.8% in the country while in rural areas it is 8.3% for quarter ending March 2018. Similarly in December 2018, the aggregate deposits in the country grew at 9.3% while in rural areas it is 9.4%.

Similarly when the data is compared for the bank credit extended by the banks to the customers, in March 2018 the annual growth rate in bank credit is 9.5% while in rural areas it

is 13% similarly for the quarter ending by December 2018, the country growth rate regarding the bank credit is 12.9% while in the rural areas it is 13.2%. From the data it is evident that there

is reasonable growth rate in the rural areas in terms of the aggregate bank deposits and bank credit extended by the scheduled commercial banks to their customers.

**Table 2:** Population Group-Wise Distribution of Deposits and Credit of Scheduled Commercial Banks  
(Accounts in Thousands, Amount in Millions)

Population Group	Deposits		Total Credit		Of which Credit to Small Borrowers	
	No. Of Accounts	Amount	No. Of Accounts	Amount Outstanding	No. Of Accounts	Amount Outstanding
Rural	642225	12097864.3	56052	7231000.9	46564	2777543.5
Semi-urban	568454	18513685.9	52973	10787489.5	40125	2453850.9
Urban	327038	24374975.8	30574	13205673.1	21154	993534.2
Metropolitan	373787	59357983.3	57377	56445562.4	40708	1078128.3
<b>ALL INDIA</b>	<b>1911504</b>	<b>114344509.4</b>	<b>196977</b>	<b>87669725.8</b>	<b>148551</b>	<b>7303056.7</b>

Source: Reserve Bank of India Website for December 2018.

From table 2, it is evident that there are more number of deposit accounts in the rural areas has more number of accounts when compared to other areas but the amount in these accounts is less in rural areas when compared to other areas. The deposit accounts in the rural area constitute 33.6% of the total deposit accounts in the country. Though the accounts are more in rural areas the amount parked in these accounts is less which is just 10.58% of the total amount in the bank deposits coming from the rural areas. This can be attributed to the low income levels in the rural areas and also due to lack of proper financial literacy to save the amounts in the banks rather than holding them in cash.

Similarly out of the total credit extended to the customers in the country, 28.46% of the credit accounts are from the rural areas. The amount disbursed through these credit accounts is 7231000.90 million i.e. 8.25% of the total credit disbursed in the rural areas. This is the least credit accounts when compared to the other population groups of the country. Out of the total credit accounts in the country, 46564 thousand accounts of rural accounts are of small borrowers which constitute to 31.35% of the total credit accounts pertaining to the small borrowers. The amount of credit disbursed to the small borrowers residing in rural areas is 2777543.50 million i.e. 38.03% of the total small borrowers in the country. The percentage of accounts and amount disbursed to the small borrowers are more when compared to the other areas of the country. This segment needs boost up from both the government as well the financial institutions to increase the income levels in the rural areas which help to improve the overall sustainable growth of the country.

## 8. Financial Inclusion Initiatives

There are various initiatives adopted by the Reserve Bank of India towards financial inclusion. Some of them are the introduction of no-frill bank accounts which are also called as BSBD (Basic Savings Bank Deposit) Accounts followed by relaxation in the KYC norms for the account holders while opening the bank accounts especially for the rural people with low income levels. Maintenance of zero balance accounts, issuing ATM cards for the accounts and also enabling them to deposit and withdraw cash from the branch as well as through ATMs, Banks are permitted to open intermediate low cost structures between the present base branch and BC locations

comprising of minimum infrastructure facilities such as the core banking solution terminal linked to a passbook printer and a safe for cash retention for operating larger customer transactions. Transaction limits were induced in these accounts, General Credit Cards; Kisan Credit Cards were issued to the vulnerable sections of the society. The government also encouraged the financial institutions to avail the services of the non-government organisations, civil society organisations etc to act as intermediaries to equip the rural people with basic financial and banking services. These intermediaries are appointed as Business Correspondents or Business Facilitators to act on behalf of the commercial banks in the rural unbanked areas. All the scheduled commercial banks had initiated the Financial Inclusion Plans where the self-set targets in terms of the brick and mortar branches opened in rural areas, Business Correspondents employed, coverage of unbanked villages with population of more than 2000 as well as those with less than 2000 population. Financial Literacy Camps in the rural areas are conducted to educate the rural illiterate with the aim of achieving Financial Literacy and Financial Access. As part of the financial inclusion strategy, the government had initiated two funds namely Financial Inclusion Fund and Financial Inclusion Technology Fund with a corpus fund of \$ 125 million each and these were subsequently merged into a single fund to better serve the people. Pradhan Mantri JanDhan Yojana (PMJDY) along with Mobile and Internet Banking are pivotal in bringing the financially excluded segments of the society into the formal banking stream.

Some of the other financial inclusion initiatives undertaken by the Reserve Bank of India and the Government of India include conducting financial literacy awareness camps, training programs for business correspondents, strengthening the business correspondents model, inducting the self help group members as business correspondents, installing micro ATMs, dual authentication at BC points, micro ATM integration with core banking solutions, EMC chip based Kisan cards, BHIM UPI app, improving the connectivity for banking transactions, on boarding for statutory requirements, incentivising the digital transactions, incentives for establishing Aadhaar enrolment centres by banks in 10 branches. Steps should be taken to include financial literacy programs in the schools and college. Also the social security program payments are to be routed

through the beneficiary bank accounts so that the usage of the banks gets improved.

## 9. Steps towards Sustainable Rural Development

Sustained growth is essential for any country to progress in all aspects. The sustainable growth is possible if the rural areas of the country do progress through poverty eradication. The social, economical, environmental growths are to be considered to achieve sustainable rural development. The regional factors are to be considered while formulating the strategies for the rural development.

Agricultural and its allied sectors is the base for a profound rural development. There should be an environment where the rural productions find a close urban market for these products. This helps in reducing the disparities between the rural and urban, and also at the same time the rural youth can have enlarged opportunities to present and upgrade their skills and potentials. This enables the development of the rural employment in other sectors such as infrastructure, maintenance of natural resources as well as effective waste management. For the development of the nation through sustainable rural development can be accomplished through investments in the development of rural infrastructure, development activities without harming the environment, rural education and rural health. All these investments should be aimed at increasing the productivity and income levels of the vulnerable sections of the society mainly residing in the rural areas.

Sustainable rural development depends on developing and implementing various strategies pertaining to eradication of poverty, pro-poor planning both at the local and national levels, social protection programs for the aged, differently abled persons, unemployed etc., improving the basic needs of the rural poor, engaging the people in the productive activities.

Some of the initiatives should be to empower women and small scale farmers to promote equitable access to land, financial services, and credit for farming etc. Promoting the usage of technology along with the traditional and indigenous knowledge, development of agricultural insurance market, active participation of the vulnerable sections in the planning process, building rural leadership, enabling the rural people to withstand and recover from natural calamities, strengthen the capacities of the rural segments towards building up the social capital, enhance the capital intensive programs.

Strengthen the rural health care facilities with affordable access to the poor people, improve the educational programs so as to eliminate illiteracy about various aspects, improve the access to information, education, learning resources to hold sustainable development and decision making for the betterment of the rural population. Improve the infrastructure such as roads, affordable housing, electrification facilities, storage facilities, livestock facilities, transport facilities, communication and information system. Communication system enables the rural population to use the internet and through which the mobile and internet banking facilities can be accessed through.

There is need to fuel the generation of new jobs and income generation opportunities for the rural population especially women and vulnerable sections through affordable financial advisory services, financial literacy, market literacy, venture capital, micro credit, micro insurance, credit guarantee schemes etc. There should be proper analysis of the data and take necessary steps to improve activities aimed at poverty reduction and income generation. Women should be actively involved in the decision making to have sustained rural development. There is need to conduct extensive awareness programs about the rights of the women, gender equality and women empowerment.

## 10. Relationship between Financial Inclusion and Rural Development

With the changing times, new economic opportunities are being opened for the rural people who are of low income groups and vulnerable sections of the society. These economic activities were not available to these people earlier and with their advent there is a raise in their standard of living. There are a number of microfinance institutions and several other financial inclusion services which are developed and catering to meet the needs of the rural people to empower them and also to rise above their impecunious situations. There are several initiatives leading to increased production and reduction in the human and natural risks. There are provisions of small loans for the rural poor to empower them with basic entrepreneurship which does impact the local economic cycle. Several customised credit services are introduced to meet the requirements of rural people such as in the areas of consumer loans, education loans, agricultural loans, agricultural leases, and housing loans etc.

Several financial services such as remittances to transfer money to their family members were active and benefitting the rural youth women etc who were earlier deprived of these financial services. With the advancements in the technology, digital financial services are becoming popular which enable the users to save time on business transactions. These days the mobile wallets are becoming popular and are enabling the rural people to use them with fewer worries about the security aspects. There is need to have higher levels of expertise and commitment to have constructive social impact in challenging situations. These are vital to have the low income and vulnerable groups of the rural society to be more resilient and prosperous. In addition to these, the rural population are making use of several financial services and products such as the money transfer services, insurance services, leasing, factoring, investment funds, and insurance products for weather based crops etc.

## 11. Conclusion

It is observed that there are several steps being taken by the government for the rural development. Despite these initiatives there is a vast section of the society which is deprived of financial services. Despite the identified business opportunity by the banks in the rural areas there is a lot to be done by the financial institutions to have inclusive growth. Over the years, there is a continuous rise in the incomes of the

vulnerable sections of the people in the rural areas and the government is formulating several schemes which are aimed at improving the public consumption, steps by the financial institutions to bring the unbanked sections of the society into the banking fold to enhance financial inclusion. Banks should adopt the strategies to reduce the transaction costs on the

various financial services and products and ensure that these are available at affordable cost for the rural poor and at the same time improve the rural development. The policies should be such that there is a continuous and sustainable rural development and it should lead to the overall development of the country.

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