

Review of Literature on Study on financial inclusion for sustainable rural development¹Rudradip Ghosh and ²Dr Abadhesh Singh Bhadoriya¹Research Scholar, Department of Management, SunRise University, Alwar, Rajasthan (India)²Supervisor, Department of Management, SunRise University, Alwar, Rajasthan (India)

Abstract: The financial sector is considered a crucial factor in facilitating economic growth directly through widening access to finance and indirectly contributing to financial inclusion. The concept of financial inclusion is being constantly developed in academic discourse and EU policy though there is no global definition of financial inclusion. Existing literature on financial inclusion uses varying definitions. Many studies define the concept in terms of financial exclusion, which relates to the broader context of social inclusion while others define financial inclusion. Financial inclusion (FI) stands out as a prominent issue, involving the active participation of the Reserve Bank of India and scholars. India is diligently embracing optimal approaches to bolster financial inclusion as a significant portion of rural households continue to face limited access, underscoring the critical significance of addressing this matter in rural India. Odisha is a state in India with a significant proportion of its population living in rural areas. By promoting financial access and literacy, FI can contribute significantly to inclusive development in the state. Financial Inclusion is of paramount importance for Odisha's socio-economic development. Although extensive literature explores the global ramifications of financial inclusion concerning socio-economic development and women's empowerment, there is a noticeable gap in research when it comes to the Indian context, particularly in the state of Odisha. Therefore, the primary objective of this study is to offer a comprehensive understanding of the role of FI in driving rural development within the state of Odisha. The outcomes of this study substantiate the concept that FI encompasses efforts to engage a significant segment of the populace in the trajectory of rural development through the provision of a wide array of financial services.

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Introduction: Financial inclusion has been the most talked-about topic. It can be characterised as a method of making reasonable, timely and adequate financial services available to the most vulnerable members of society since last decade. Financial inclusion has received renewed and greater attention worldwide in the post-2010 period. In India too, the financial inclusion landscape has also changed significantly over the last few years with several initiatives by the government of India and the Reserve Bank of India. The Committee on Financial Inclusion headed by Dr. C Rangarajan, former governor of RBI, was the first to formalize the concept of financial inclusion in India, in 2008. This Committee defined financial inclusion as “the process of ensuring access to financial services, timely and adequate credit for vulnerable groups such as weaker sections and low-income groups at an affordable cost.” In keeping with the growing attention from practitioners, researchers, and academicians, several studies have been undertaken to understand the different sides of financial inclusion. Financial inclusion process is helpful for widening the product and service and spreading the services in different parts of the society. It is treated as a top priority worldwide from underdeveloped to developed nations. This can be appreciated from the fact that almost 60 countries have either

launched their national strategy for financial inclusion or are working to develop a sustainable inclusive strategy. Though developed world already has achieved much progress, financial inclusion remains a challenge for the developing and underdeveloped countries. Most of the India specific studies have approached financial inclusion at the country level. There are limited number of studies that attempted to understand the nuances of financial inclusion at the regional level. Further most of the India specific studies on financial inclusion have focused on the issue of access to financial services. Studies on efficacy of financial inclusion in improving the socio financial-economic status of rural households are limited. Hence, this study is an attempt to understand the impact of financial inclusion on rural poor households addressing specific dimensions of household wellbeing, responsible usage of financial services, and noninstitutional sources of supply. Our research objectives are based on the gaps found from an extensive literature review and considering experts' opinions.

Review of Literature:

Rural development has emerged as a pressing global concern, particularly in countries like India, where a substantial portion of the rural population

faces economic uncertainty (Jayakumari, 2015). The overarching objective of rural development is to enhance the quality of life for rural inhabitants by combating poverty through self-employment and wage employment initiatives. This is achieved by providing essential community infrastructure, including access to clean drinking water, electricity, roads, healthcare facilities, and education. One important aspect that underpins successful rural development is financial inclusion. It acts as a lubricant, facilitating progress and development (Christabell and Vimal, 2012). Through FI, millions of impoverished rural households gain access to vital financial services (Levine, 1997). These services have become the cornerstone of growth and development initiatives. FI refers to the process of ensuring that every individual in an economy has convenient access to and can effectively utilize the official financial system (Sarma, 2008). It is a pivotal instrument for promoting inclusive growth and alleviating poverty (Simatele & Maciko, 2022). In today's economy, access to formal financial services significantly influences an individual's social and economic status, as well as the progress of their organization or country (Anand & Kuldip, 2013). Recent macroeconomic evidence strongly supports the notion that access to financial services, particularly through well-developed financial systems, plays a crucial role in driving socio-economic empowerment and overall economic development (Sharma, 2010).

GOI (2008) defines Financial inclusion as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost. The meaning of financial inclusion is delivery of financial services to the low income groups especially the excluded sections of the population with the provision of equal opportunities. The main target is the access of financial services for better standard of living and income. Rangarajan (2008) in his report has stated that providing access to 'financial services' to all groups of people, specifically to underserved, underprivileged, disadvantaged and poor to reduce poverty and social cohesion is the main objective of 'financial inclusion'. Providing access to 'financial services' at a nominal price facilitates the empowerment of these groups and therefore, these groups must be considered as an important factor in all the efforts required for promoting inclusion. It is necessary that extending the scope of various activities such as credit, payment, remittance and insurance facilities of the organized financial system in order to involve maximum people having low incomes should be the main aim of 'financial inclusion'. The attempt must be to ensure strong financial inclusive system

by lifting the poor from one level to another for combating poverty through credit.

Beck et al. (2008) asserted that discussion has recently extended to include the idea of 'financial inclusion' as a blockade to the economical growth and there is a requirement to create the environment of inclusive financial systems. Along with banking, companies dealing in insurance would be entailed to target Bottom of the Pyramid (BoP) customers so as to attain the inclusive banking and growth. According to the Planning Commission (2009), Financial inclusion refers to universal access to a wide range of financial services at a reasonable cost. These include not only banking products but also other financial services such as insurance and equity products. The household access to financial services includes access to contingency planning, credit and wealth creation. Access to contingency planning would help for future savings such as retirement savings, buffer savings and insurable contingencies and access to credit includes emergency loans, housing loans and consumption loans. On the other hand, access to wealth creation includes savings and investment based on household's level of financial literacy and risk perception Bhatia and Chatterjee (2010) in their research paper have studied the 'financial inclusion' in the slums of Mumbai. It is identified that although 'financial inclusion' refers to the process of enabling access to useful banking services at a nominal price to underserved, marginalized and below poverty population, it has still a long way to go before becoming a reality in the urban people. It is concluded that opening of regional banks in rural areas, expanding banking network and introducing Lead Bank Scheme are some important measures taken to promote financial inclusion.

Cnaan, Moodithaya & Handy (2012) explained the term of financial inclusion in a simple way that having a bank account in the household is first step for connecting with the banking system. He stated that this can be used effectively as a tool to eradicate poverty and increase economic growth. It was stated that social and personal deprivation are contributing for increasing financial exclusion and becoming a barrier for financial inclusion. It was explained that bank account usage per population is capable to evaluate financial inclusion. This study was undertaken in the rural south India. The gap was found in terms of literacy and advance usage of services even though the accessibility of the account increased. It was added that the scope of 'financial inclusion' should not be restricted to having a bank account rather it must include all banking services. It was suggested that government must direct the banks for improving reachability, providing incentive to the banks, granting approval

for introducing new products and creating favorable environment for inclusion in terms of reducing cost. Memdani and Rajyalakshmi (2013) discussed the evolution and progress achieved in terms of FI. The level of inclusion persist has been compared with the other countries like China, Brazil, UK and Russia. It is concluded that the progress is too less in proportion of the population. It was suggested that there is prerequisite on the part of the banks and financial institutions to harmonize their energies in the direction of financial inclusion because the growth of the economy is determined on the basis of the inclusion's extent in the country. Jangra (2014) in her research paper has studied the status of FI in India. Secondary data has been considered to review the FI status. It has been seen that exclusion's extent in India is higher in comparison of other developed countries in the world. TBI has undertaken various initiatives to improve the progress of inclusion in India. The approach is made on motivating and encouraging the people for accessing the financial services. Since, the level of literacy, lack of bank branches and less income are the barriers for FI in different states of country. It was suggested to put stress on the mechanism of credit delivery to boost the economic growth because for inclusive growth of the economy, the upliftment of the weaker section is very important. Singh and Roy (2015) in their research paper have studied the assessment of concept of financial inclusion. Research is supported by the secondary data. It has been identified that although definitional aspects vary but mostly the literature is focused on the usage of basic services provided by banks such as money deposit, loan facility, micro finance facility, payment services, money transfer and insurance facility. Most of the definitional aspects of financial exclusion hover around lack of access whether voluntarily or involuntarily by some groups of the consumers. It is identified that financial stability of these groups of people could be ensured by providing low cost and safe access of financial services. It is concluded that the reason behind the financial exclusion needs to be understood and removed through better policy initiatives. However, as is the case with several issues in India, financial inclusion has remained a pipe dream with a majority of Indians continuing to lack access to banking services.

Devlin (2005) in his research paper has studied the financial exclusion in UK. It has been identified that exclusion from various 'financial services' is affected by various factors such as employment rate, income of households, marital status, age and level of education. It is also shown that ethnicity and social class don't affect the level of financial exclusion. Gender factor had more impact on exclusion whereas influence of region factor was

not clear. Carbó S., Gardener E.P.M., Molyneux P. (2005) explained about the term financial exclusion in his paper. It has been the hot topic for the public as there is a paucity of the empirical data related to this topic. It was discussed in the paper that banks should play an active role for removing exclusion from the society. There is a need to make strong policy for financial exclusion to improve the level of the financial inclusion. Proper actions and policy will help out to cut out the exclusion from the society. Much more work is required if financial exclusion is to be tackled in a sustained way and if banks are to play deliberately a positive and value-enhancing role in this process. Rao (2010) in his research paper has commented that sometimes the shown facts and figures do not describe the actual extent of financial exclusion. Sometimes the banks do not display the correct facts. For example, banks claim that the accounts are opened against the customers but the verification of those accounts claimed that those accounts are dormant. Very few people do the banking transactions and even fewer of them utilizes the credit facility from the banks. Many people are thereby denied the option to exploit their earning capability and hence, are compelled to poverty and marginalization. Pal & Pal (2012) elaborated the inequalities that persist on the basis of income across sub-regions in India. It is found that financial exclusion persist more in poor households and contrary, it prevailed in case of rich households too. It is observed that inequalities were found across urban and rural sectors, but comparatively higher in rural sector. Researcher added that availability of financial services will boost greater inclusion in poor households also. It is concluded that education level, size of household, employment status will affect the usage of financial services in rural as well as urban sector. Internationally, the financial exclusion has been viewed in a much wider perspective. Having a current account/savings account on its own, is not observe as an accurate indicator of financial inclusion. There could be multiple levels of financial inclusion and exclusion. At one extreme, it is possible to identify the 'superincluded', i.e., those customers who are actively and persistently courted by the financial services industry, and who have at their disposal a wide range of financial services and products. At the other extreme, we may have the financially excluded, who are denied access to even the most basic of financial products. In between are those who use the banking services only for deposits and withdrawals of money. But these persons may have only restricted access to the financial system, and may not enjoy the flexibility of access offered to more affluent customers.

Access to financial services plays a crucial role in achieving inclusive growth and development in

rural areas of any country. It is particularly important for enhancing the living conditions of impoverished farmers and other vulnerable sections of the community (Bongomin et al. 2018). Ensuring access to financial services for the poor and other underserved sections, especially those residing in rural areas, remains a significant challenge faced by every country today (Abraham, 2018). An inclusive financial system reduces reliance on exploitative informal credit sources, leading to improved efficiency and overall welfare (Sarma and Pais, 2011). Claessens et al. (2000) revealed that the advancement of financial institutions and the diversification of financing channels are instrumental in alleviating rural poverty, promoting balanced urban and rural development, and fostering economic growth in rural areas. Moreover, their findings align with the assertion made by Davis et al. (1998) that improvements in rural financial systems can positively impact the income of rural people. Mahjabeen (2008) discovered that all-encompassing progress in financial development has the potential to substantially elevate the earnings of various societal groups, with a particular emphasis on individuals residing in rural areas. Access to financial services not only fosters self-confidence and social inclusion but also empowers individuals economically. According to a study conducted by Zins and Weill (2016), individuals who are economically disadvantaged and residing in rural areas face higher chances of exclusion from financial markets. Simatele and Maciko (2022) revealed that transaction costs act as a significant barrier to the utilization of financial services. However, advancements in technology offer a potential solution to reduce these costs, leading to significantly lower expenses associated with providing financial services to consumers in rural areas (Simatele et al., 2021).

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