

**RURAL INDIAS' ECONOMIC GROWTH THROUGH FINANCIAL INCLUSION**

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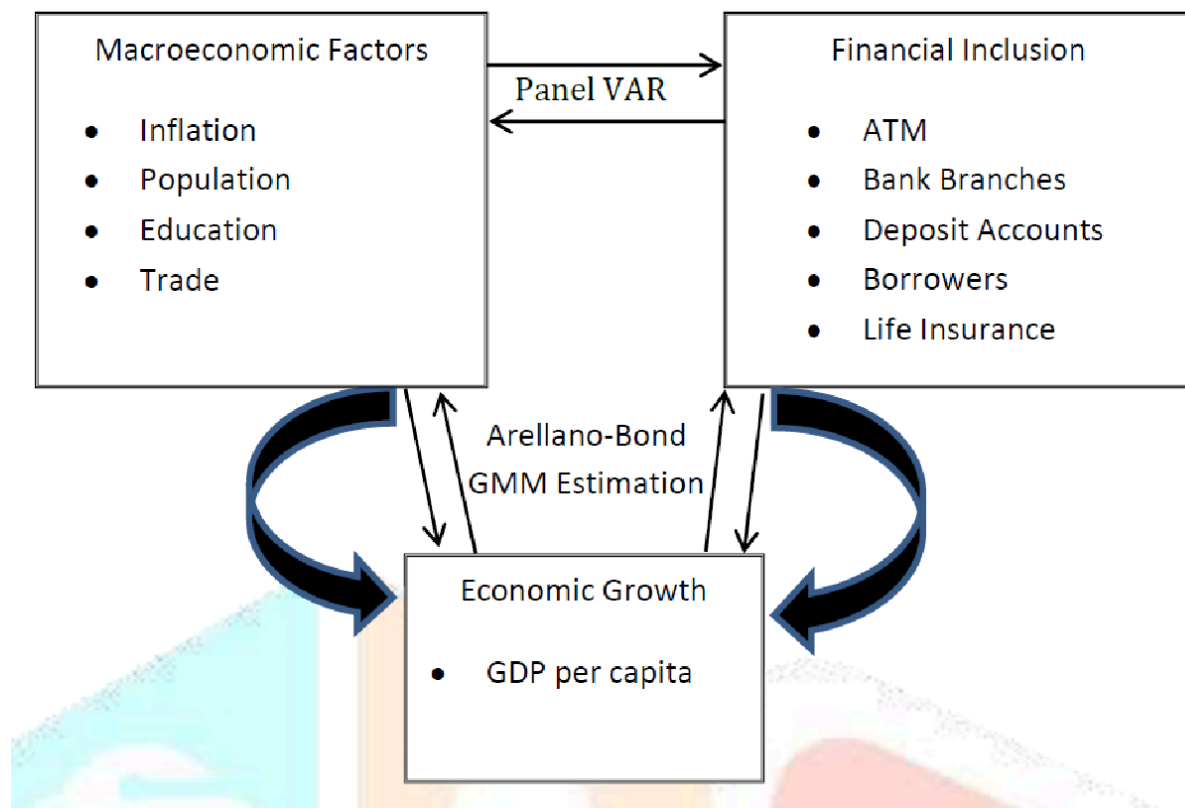
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**Introduction**

According to the 2011 census, India currently has 1.21 billion people, making it the second-largest country in the world after China. This population is separated into two categories based on the type of residents: first, the urban population, and second, the rural population. The majority of people in India—roughly 73% of the overall population—live in rural areas. Thus, we are discovering that rural development is a prerequisite for social, economic, and political development.

Agriculture is the biggest industry in rural India, followed by animal husbandry, handicrafts, handloom, etc. Our legislative assembly faces a number of complex issues when India gained independence from British rule, including the food crisis, child mortality, malnutrition, health, illiteracy, social imbalance, unemployment, and poverty. In order to address all of those issues, the Indian Assembly Council or Cabinet established the Planning Commission on March 15, 1951. In the first five-year plan 1951–56, agriculture development was added to increase the rate of economic growth in India. The government presented a heavy industries development program in the second five-year plan 1956–1961 in order to increase employment and economic development.

Give the thirteenth five-year plan 2018–22 a substantial financial allocation for rural residents' economic development. Lately, financial inclusion has become increasingly important for the growth of rural business owners. By keeping an eye on RBIs, numerous nationalized, private, rural, and cooperative banks have recently begun operations in rural areas.



When financial exclusion was discovered to be directly linked to poverty in the early 2000s, the phrase "financial inclusion" was born. "The plain reality is that the majority of the world's poor still do not have access to sustainable financial services, whether it be savings, credit, or insurance," stated former UN chief Kofi Annan in December 2003. In collaboration with the National Bank for Agriculture and Rural Development, the UN seeks to expand the financial inclusion of the impoverished by creating suitable financial solutions for them. The UN is promoting financial literacy, especially among women, by raising awareness of the financial services that are accessible.

*The United Nations defines the goal of financial inclusion as follows:*

- (i) All households should have affordable access to a comprehensive range of financial services, such as credit, insurance, payment and transfer services, and savings or deposit services.
- (ii) A stable and secure organization subject to well-defined regulations and industry performance benchmarks.
- (iii) Institutional and financial sustainability, which guarantees investment continuity and certainty.
- (iv) Competition to give customers options and affordability.

Financial exclusion as assessed by bank branch and ATM destiny, bank credit to GDP, and bank deposit to GDP is rather low when compared to the majority of developing nations worldwide, according to World Bank survey data released in 2023.

**Table 1: Select Indicators of Financial Inclusion, 2023 by World Bank**

S.No	Country	Number of Bank Branches	Number of ATMs	Number of Bank Branches	Number of ATMs	Bank Deposits	Bank Credit
		Per 1000 km		0.1 million		As % to GDP	
1	India	30.43	25.43	10.64	8.09	68.43	51.75
2	China	1428.98	2975.05	23.81	49.56	433.96	287.89
3	Brazil	7.93	20.55	46.15	119.63	53.26	40.28
4	Indonesia	8.23	15.91	8.52	16.47	43.36	34.25
5	Korea	79.07		18.8		80.82	90.65
6	Mauritius	104.93	210.84	21.29	42.78	170.7	77.82
7	Sri Lanka	41.81	35.72	16.73	14.29	45.72	42.64
8	UK	52.87	260.97	24.87	122.77	406.54	445.86
9	USA	9.58		34.43		57.78	46.83
10	France	40.22	106.22	41.58	109.08	34.77	42.85

Source: Financial Access Survey, IMF

### Objective of the Study

- ☐ To research the Indian financial inclusion system and how it affects the country's economy.
- ☐ To research how financial inclusion can support rural development.
- ☐ To comprehend the obstacles to financial inclusion in India's rural areas.

### Scope and Methodology of the Study

The study examines how economic growth, macroeconomic factors, and financial inclusion relate to per capita income under various conditions in India and how these factors affect the country's rural economy. The exploratory research design methodology was used in the investigation. Data Sources: Magazines, journals, financial reports, government websites, news items, and reports are the main sources of secondary data used in this study.

### Financial Inclusion in India

The phrase "financial inclusion" was first used in India in April 2005 during a presentation of the Reserve Bank of India's Annual Policy Statement by Y. Venugopal Reddy, who was the bank's governor at the time. After a while, this idea gained widespread acceptance both domestically and internationally. Banks were encouraged to reassess their current procedures in order to bring them into line with financial inclusion after it was

realized that the country's banking operations were drawing in large segments of the population. Governor Y. Venugopal Reddy's declaration in the Annual Policy Statement for 2005-06 served as a catalyst for the Khan Committee's July 2005 Report to Examine Internal Group Uses Concerning Rural Credit and Microfinance. In the Khan Committee report, he voiced his profound concern about the exclusion of large segments of the population from the formal financial system. The RBIs recommended that the bank offer a basic "no-frill" banking account in order to promote greater financial inclusion. Later in 2005, Indian Bank chairman K. C. Chakrabarty used the term "financial inclusion" once more. The first hamlet in India to give banking services to every family was Manglam Pudducherry. The rules were relaxed to make it easier for those who wanted to open accounts with yearly deposits under Rs. 50,000. The primary goal of general credit cards (GCCs) is to give low-income and underprivileged individuals easy access to credit. In January 2006, the Reserve Bank of India allowed all commercial banks to utilize microfinance institutions, nongovernmental organizations (NGOs/SHGs), and other civil society groups as middlemen to provide banking and financial services. The bank requested that commercial banks in various areas launch a pilot program for 100% financial inclusion. States or union territories like Puducherry, Himachal Pradesh, and Kerla declared 100% financial inclusion in all of their districts as a result of the campaign. The RBI's goal for 2020 is to open accounts for around 600 new consumers and use information technology to service them through a range of channels. Inadequate legal and financial structures, unemployment, illiteracy, low income, savings, ignorance of banking services, and a lack of branches in rural regions continue to be obstacles to financial inclusion in many states today.

### *Progress in Financial Inclusion;*

Banks are making strides in areas including opening banking branches, deploying BCs, opening BSBD accounts, and granting credit through KCCs and GCCs, according to an analysis of India's financial inclusion progress. The number of banks increased from 68,681 in March 2016 to 1,02,303 in March 2023, dispersed over the entire nation, thanks to the work of RBIs since 2005. Between March 2016 and March 2023, the number of branches in rural areas increased from 30,572 to 37,953. The number of branches in semi-urban areas grew more quickly than in rural areas.

### Number of Banking Outlets in Villages with Population;

Since March 2010, the number of banking establishments in both villages with a population of 2000 or fewer has been steadily growing. The primary goal of the government is to use these banking branches to offer beneficiaries programs and subsidized amounts.

### Kisan Credit Card (KCC) Issued:

The Kisan Credit Card (KCC) program was launched in 1998 with the goal of issuing Kisan Credit Cards to farmers based on their holdings for uniform bank adoption. This allows farmers to easily buy agricultural inputs like seeds, fertilizer, pesticides, and other supplies, as well as withdraw cash for their production needs. In 2004, the program was expanded to cover farmers' investment loan needs for non-farm and related businesses. A working group led by Shri T. M. Bhasin, CMD of Indian Bank, further reviewed the plan in 2022 with the goal of streamlining it and making it easier to issue Electronic Kisan Credit Cards. The program gives banks general instructions on how to operationalize the KCC program. In accordance with RBI regulations, banks are recommended to provide KCCs to small farmers in order to fulfill their credit needs. Up till March 2023, 33.79 million KCCs have been issued to farmers, with a total of Rs. 2622.98 billion in outstanding loans.

### General Credit Card (GCC) Issued:

It has been recommended that banks open general credit card accounts up to Rs. 25,000 at their branches in rural and semi-urban areas. Up to March 2013, banks had lent money to 3.63 million GCC accounts totaling Rs. 76.34 billion. Currently, banks offer credit cards under several names, such as Visa, Master, Rupay, and others. According to RBI data published in December 2017, the total amount of credit card debt increased by 39%, from Rs. 43,200 crore at the end of September 2016 to Rs. 59,300 crore in September 2017. The overall increase is a staggering 77.4% when compared to the amazing two years earlier. As a result of the post-demonetization cash constraint, people began using digital technology to make payments. The quantity of credit cards has increased along with the revenue in the amount owed on them. By the end of August 2023, there were 32.65 million credit cards, compared to 26.39 million at the end of August 2022.

### Pradhan Mantri Jan Dhan Yojna:

The Government of India's Pradhan Mantri Jan Dhan Yojana (PMJDY) is a financial inclusion initiative that seeks to increase and lower the cost of access to financial services such bank accounts, remittances, loans, insurance, and pensions. On August 15, 2014, Indian Prime Minister Narendra Modi began a drive to promote financial inclusion. On August 15,



2014, Prime Minister Narendra Modi introduced this program under the catchphrase "Mera Khata, Bhagya Vidhata." On the day of the inauguration, 1.5 crore (15 million) bank accounts were opened under the program, which is administered by the Ministry of Finance's Department of Financial Services. The Guinness Book of World Records acknowledges this accomplishment. From August 23 to August 29, 2014, the Government of India opened 18,096,130 bank accounts in a single week as part of the financial inclusion drive. Over 31 crore (318 million) bank accounts had been opened by June 27, 2018, and over 792 billion had been deposited through the program.

**Table 2: Pradhan Mantri Jan-Dhan Yojana statistics as on 29 August 2023 (in crores)**

Types of Bank	Number of Accounts				Balance in Accounts	Number of RuPay cards
	Rural	Urban	Total	Female		
Public Sector Banks	14.14	12.12	26.26	13.76	Rs. 65,369.04	19.86
Regional Rural Banks	4.46	0.82	5.28	2.90	Rs. 14,476.20	3.71
Private Sector Banks	0.60	0.40	1.00	0.53	Rs. 2,194.12	0.93
<b>Total</b>	<b>19.20</b>	<b>13.34</b>	<b>32.54</b>	<b>17.19</b>	<b>Rs. 82,039.36 crore</b>	<b>24.50</b>

Source: [www.pmjdy.gov.in](http://www.pmjdy.gov.in)

#### Liquidity Support to Banks for SHG-bank Linkage:

The National Bank has persisted in offering banks 100% refinance assistance for SHG borrowing. The Self Help Group-Bank Linkage Programme (SHG-BLP) has reached numerous milestones in its journey thus far, from connecting a pilot of 500 rural impoverished SHGs twenty years ago to reaching eight million groups a year ago. A few thousand Indian Rupees was the total savings corpus in the early years, but it has now grown to a staggering Rs 27,000 crore. Similarly, bank credit has increased from a few crore to a credit outstanding of Rs 40,000 crore, and disbursements have reached Rs 20,000 crore in 2022–2023. The movement has also grown geographically, reaching even the most remote regions of India, when initially it was primarily an Andhra Pradesh-Karnataka phenomena. The largest microcredit program in the world today includes over 95 million impoverished rural households. Now, the Self Help Group-Bank Linkage Program has been in place for more than 21 years. It started as an Indonesian project supported by GTZ.

To determine whether SHGs exist, NABARD and the APRACA have formed a task team. Beginning as a small pilot program in 1992, the SHG-Bank linkage program has grown into a robust framework, and as of March 31, 2013, there were over 73.18 lakh savings-linked Self Help Groups (SHGs) serving over 9.50 crore impoverished households.

These SHGs had saved a total of Rs. 8,217.25 crore with banks. There were 44.51 lakh credit-linked SHGs participating in the program. During 2022–2023, NABARD spent Rs. 50.44 crore from the Micro Finance Development and Equity Fund and the Women Self Help Group Development Fund on a range of microfinance-related initiatives, including livelihood promotion, documentation and awareness, training and capacity building of stakeholders, and the creation and connection of SHGs through SHPIs.

In order to promote and foster SHGs, NABARD has continued to provide assistance to NGOs, RRBs, CCBs, Farmers Clubs, and Individual Rural Volunteers (IRVs). A grant assistance of Rs. 36.33 crore was approved for these agencies in 2023–2024. For the purpose of promoting 7.46 lakh SHGs, a total of Rs. 262.83 crore in support was approved for different agencies. As of March 31, 2023, a total of Rs. 79.04 crore had been made available for the establishment of 4.99 lakh SHGs. With around 3.79 lakh SHGs, NGOs were the most prevalent SHPI. As of March 31, 2023, a grant assistance of Rs. 76.74 crore had been approved for the promotion of 3.99 lakh JLGs nationwide. Banks disbursed about 1.29 lakh JLGs Rs. 1,392.58 crore in 2022–2023; as of March 31, 2024, the total loan disbursement to 6.58 lakh JLGs was Rs. 6,075.91 crore.

### **Economic Growth of Rural India**

India's villages are home to its people. Approximately 73% of the population resides in rural areas, where their primary source of income comes from agriculture and related pursuits. The growth of rural areas and the level of living of its rural population have a significant impact on the nation's overall progress. One of the most crucial contributors to a nation's and its regions' economic development is the rural entrepreneur. The majority of rural business owners deal with unique issues such low literacy, risk aversion, insufficient education and experience, little purchasing power, and competition from metropolitan business owners. According to Mahatma Gandhi, "production by masses, not mass production, is the genuine solution to India's economic crisis." The development of rural entrepreneurs and rural industrialization appear to be the answers to India's economic backwardness, unemployment, and poverty.

### **Main Economy Process and Rural Development Schemes for the Development of Rural Economies:**

#### Agriculture:

The development of India's 700 million-strong rural population is a major factor in the country's rural economy today and the productivity growth that follows. Given that the majority of Indians reside in over 600,000 tiny villages, the country's agricultural economy is designed to meet the demands and requirements of rural areas. About 19% of India's GDP comes from the country's agricultural sector. The majority of Indians living in rural areas work directly or indirectly in agriculture. The primary governing bodies that create and carry out policies pertaining to India's rural economy and its subsequent development for the country's overall economic growth are the Planning Commission of India, the Ministry of Agriculture, the Ministry of Rural Infrastructure, and the Nitti Aayog.

### Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS):

The list of approved projects under MGNREGA has been expanded with an emphasis on creating long-lasting, high-quality assets and enhancing the cooperation between MGNREGA and rural livelihoods, especially agriculture. The activities that are directly related to agricultural activity and are allowed under MGNREGA (Schedule-1 of the MGNREGA Act, 2005). enhancing the productivity of the households' lands listed in Paragraph 5 of Schedule-1 of the MGNREGA Act, 2005, by developing new land and installing appropriate irrigation infrastructure, such as farm ponds, drilled wells, and other water harvesting devices. By providing 100 days of pay employment in a fiscal year to a rural home whose adult members volunteer to perform unskilled manual labor, this initiative seeks to improve the livelihood security of persons living in rural areas.

### National Rural Livelihoods Mission (NRLM):

The National Rural Livelihood Mission's primary goal is to provide effective and efficient institutional platforms for the rural poor that will allow them to better their access to financial services and sustainably strengthen their livelihoods, hence increasing household incomes. Under this plan, the central government works in conjunction with state governments and the public-private partnership (PPP) model. One of the main contributions to rural economy is animal husbandry. It is a cover-up rain fading scheme. when there is water cover and no agricultural work assigned. It aims to reach 70 million rural Indian households that are below the poverty line (BPL).



Integrated Watershed Development Programme (IWDP); The IWDP's primary goals are to aid in the provision of sustainable livelihoods for the local population by restoring ecological balance in a watershed through the utilization, preservation, and development of degraded natural resources such as soil, water, and vegetative cover.

Indira Awaas Yojana (IAY); Through this program, rural BPL households and the surviving family members of military veterans killed in action can get cash incentives to build new homes or upgrade their current, unusable kutchha homes.

National Rural Drinking Water Programme (NRDWP); This program's objective is to sustainably supply enough clean water for household purposes.

Nirmal Bharat Abhiyan (NBA); The Nirmal Bharat Abhiyan, which was formerly known as the Total Sanitation Campaign, helps Gram Panchayats attain complete sanitation coverage.

### Conclusion

This study investigates the potential contribution of financial inclusion to the advancement of financial development. Using a system generalized method of moments (system GMM), we examine the factors that influence financial development in a nation from 2004 to 2017. Researchers conclude that we have made an effort to communicate the evaluation of financial inclusion in the nation in an understandable and seamless manner. The Indian government changed banking regulations through RBIs to promote financial inclusion in accordance with the United Nations General Assembly Secretary's directive. To make it easier for the average person to obtain financial services, new regulations have been put in place. Through the banking-linkages program, numerous programs are launched in rural areas. With the help of banking institutions, the Indian government offers a rural entrepreneur a subsidized sum. The purpose of PMJDY is to assist in providing for rural BPL individuals overseas.

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