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Financial Inclusion and Transformation of Rural India

Dr. Anshu Veenapani, M.Com, M.Ed., Ph.D

Sr. Research Fellow, T.M. Bhagalpur University, Bhagalpur (Bihar)

Abstract: Financial inclusion leads to the inclusive development of rural areas and helps bring their quality of life at par with that of urban populations. It stands for the delivery of appropriate financial services at an affordable cost and on a timely basis to vulnerable groups, such as low-income and weaker sections, who often lack access to even the most basic banking services. A large segment of the population remains excluded from formal financial and banking systems, not only in India but across the world—this exclusion is the concern that financial inclusion seeks to address. The paper attempts to understand the concept of financial inclusion and its critical role in rural transformation in India. Furthermore, it explores how financial literacy, digital infrastructure, and institutional support can bridge the urban-rural financial divide.

Keywords: Inclusion, financial, affordable, transformation, appropriate.

INTRODUCTION

Financial inclusion refers to the process of ensuring access to appropriate financial products and services at an affordable cost and in a convenient manner for vulnerable and low-income groups who are traditionally excluded from the formal banking system (Reserve Bank of India, 2021). It extends beyond merely opening savings accounts; it encompasses the provision of a broad spectrum of financial services such as credit, insurance, remittances, and pension facilities (Demirgüç-Kunt et al., 2018). In contemporary economic discourse, financial inclusion is recognized as a critical driver of inclusive growth and sustainable economic development, particularly in developing economies like India (World Bank, 2020).

Financial inclusion can thus be described as the delivery of affordable financial services, including savings, credit, insurance, and payment systems, by formal financial institutions to the unbanked and underbanked sections of society. It seeks to integrate marginalized communities into the mainstream economy by providing them with the means to manage risks, accumulate assets, and improve living standards (Chakrabarty, 2011). The goal is not limited to access but also involves effective usage and understanding of financial products, which depends heavily on the level of financial literacy among households (OECD, 2018).

Households require financial services for multiple purposes — to create safety nets, finance education and healthcare, ensure retirement security, and safeguard against unforeseen contingencies. Access to credit is equally important for livelihood generation, housing, consumption, and emergency needs (Banerjee & Duflo, 2011). Comprehensive financial inclusion ensures that such services are available, accessible, and affordable, thereby enabling economic resilience and reducing poverty.

The essence of financial inclusion lies in ensuring that every individual has both access to a range of appropriate financial services and the capability to effectively use them. These include small savings accounts, microcredit, micro-insurance, pension schemes, and digital payment systems. For low-income households, such mechanisms support smoother income flows, encourage asset creation, and promote entrepreneurship

(Kumar & Joseph, 2022). Thus, comprehensive financial inclusion represents a holistic financial ecosystem that empowers individuals, supports productive investment, and contributes to equitable economic growth.

OBJECTIVES

The paper tries to highlight the concept of financial inclusion, its advantages and various Government initiatives of financial inclusion for transforming rural India.

METHODOLOGY

The study is analytical and based on reports of RBI, NABARD, Journals and bulletins etc.

BENEFITS OF FINANCIAL INCLUSION

The objective of financial inclusion is to extend financial services to the large hitherto unserved population of the country to unlock its growth potential. In addition, it strives towards a more inclusive growth by making financing available to the poor in particular. Government of India has been actively pursuing the agenda of financial inclusion, with key interventions in four groups, viz. expanding banking infrastructure, offering appropriate financial products, making extensive use of technology and through advocacy and stakeholder participation. Acess to safe, easy and affordable credit and other financial services by the poor and vulnerable groups, disadvantaged areas and lagging sectors is recognized as a pre-condition for accelerating growth and reducing income disparities and poverty. A developing country like India can benefit from financial inclusion in the following ways:

- Acess to a well-functioning financial system-by creating equal opportunities enables economically and socially excluded people to integrate effectively into the economy and contribute to development and protect themselves against economic shocks.
- Availability of external finance to potential entrepreneurs and small firms enables new entrants, leading to increased competition to incumbents. This, in turn, encourages entrepreneurship and productivity.
- Inclusive finance including life savings, appropriately designed loans for poor and low-income households and for micro, small and medium -sized enterprises, and appropriate insurance and payments services can help people to enhance incomes, acquire capital, manage risk and come out of poverty.
- Acess to financial services contributes to higher production and social protection, as the financial sector through stored savings, credit and insurance - serves as a measure of crisis mitigation.
- Financial inclusion can improve the efficiency of the process of intermediation between savings and investments while facilitating change in the composition of the financial system with regard to the transaction take place, the clients that use the various services, the new risks created, and possibility for the institutions that operate in newly created or expanded markets. As the balance sheet of the financial sector grows more diversified and encompasses a broader spectrum of economic agents, its contribution to a more resilient economy is commensurately higher.
- For financial institutions, especially banks, financial inclusion helps provide a more stable retail base of deposits. Financial inclusion enables to finance activities of firms or individuals that are at the margin, thereby promoting their growth inducing predictive activities.
- Financial inclusion facilitates greater participation by different segments of the economy in the formal financial system. As the share of the formal financial sector increases through greater financial inclusion, it yields an important positive externality by making monetary policy transmission more effective.

- To the extent that financial inclusion helps people more from cash economy to bank accounts which can be monitored, it helps facilitate implementation of anti-money laundering and combating the financing of terrorism.
- Financial inclusion can contribute to enhanced financial stability through contributing to the improve health of the household sector of financial businesses and to some extent, that of the corporate sector.
- Financial inclusion can improve the acess to finance and the social quality (including gender equality) and the cost of the service that small businesses receive from banks. These factors are a key to the profitability and prosperity of these businesses and that are the backbones of the growing economy. Therefore, achieving greater financial inclusion and maintaining financial stability are now complementary policy compulsions in India.

MEASURES TAKEN BY RBI FOR FINANCIAL INCLUSION

Given the socio- demographic complexities in India, the policy endeavour of the RBI has been to adopt a multi-institutional and multi-instrument approach to comprehensively address the issue of financial inclusion in its entire dimension, going beyond mere availability of credit to the masses. The term financial inclusion needs to be understood in a broader perspective to man the provision of the full range of affordable financial services, viz. acess to payments and remittance facilities, savings, loans and insurance services by the formal financial system to those who tend to be excluded from these services. The RBI, while recognizing the concerns in regard to the banking practices that tend to exclude rather than attract vast sections of population has been urging the banks to review their existing practices to align them with the objective of achieving greater financial inclusion RBI has taken a number of measures with the objective of attracting the financially excluded population into the formulated financial system. Some of the measures are:

- **No Frills Account**: The *No Frills Account* is a basic banking facility introduced to provide access to the formal financial system for low-income groups who cannot maintain minimum balance requirements (Reserve Bank of India, 2021). These accounts allow individuals to deposit and withdraw small amounts without penalty, promoting savings habits among the poor and ensuring broader financial inclusion.
- **General Credit Card**: The *General Credit Card* scheme aims to provide hassle-free and collateral-free credit to rural and semi-urban households for productive and consumption purposes. It functions like a revolving credit facility with a flexible repayment option, catering particularly to small entrepreneurs, artisans, and farmers (NABARD, 2022).
- **Business Facilitator and Business Corresponded Models**: The *Business Facilitator (BF)* and *Business Correspondent (BC)* models were introduced to extend banking outreach in remote areas where physical branches are not viable. Under these models, banks appoint local agents or institutions to deliver services such as account opening, cash transactions, remittances, and microcredit on behalf of banks, thereby bridging the last-mile service gap (World Bank, 2020).
- **Passbook Facility**: The *Passbook Facility* enables transparency and accountability in financial transactions for rural customers. It records all deposits, withdrawals, interest credits, and loan repayments, ensuring that even illiterate account holders can monitor their financial activities with assistance from local facilitators or family members.
- **Simplified Kye procedure**: To promote financial inclusion, the *Know Your Customer (KYC)* norms have been simplified for small accounts. Individuals can now open basic savings accounts using minimal documentation such as Aadhaar or voter ID, thus reducing bureaucratic hurdles and encouraging more people to join the formal banking system (Reserve Bank of India, 2021).
- **Credit Counselling and Financial Education**: *Credit counselling and financial education* initiatives are designed to build awareness about responsible borrowing, savings, and debt management. They help rural borrowers understand the benefits of formal credit, avoid over-indebtedness, and improve financial literacy, which is essential for sustainable financial inclusion (OECD, 2018).

- **Use of Technology**: The *use of technology*—including mobile banking, ATMs, biometric authentication, and digital payment platforms—has revolutionized rural banking. It reduces transaction costs, enhances accessibility, and ensures real-time connectivity between rural clients and financial institutions (NPCI, 2022).
- **Simplified Branch Authorization**: The *Simplified Branch Authorization* policy allows banks to open new branches or banking outlets in underbanked and unbanked regions without prior approval from the Reserve Bank of India. This regulatory relaxation promotes geographic expansion of banking services in rural and remote areas (RBI, 2021).
- **Banking Services in unbanked villages**: Ensuring *banking services in unbanked villages* is a major thrust area under India's financial inclusion policy. Through initiatives like the *Pradhan Mantri Jan Dhan Yojana (PMJDY)*, banks have been mandated to provide at least one banking outlet—either a branch, BC, or digital kiosk—in every unbanked village, thus promoting universal access to formal financial systems (Government of India, 2022).

FINANCIAL INNCLUSION MEASURES BY NABARD

Established in 1982, the National Bank for Agriculture and Rural Development (NABARD) serves as the apex development financial institution responsible for policy formulation, planning, and implementation of credit and development programs in India's rural economy (NABARD, 2022). It plays a pivotal role in advancing financial inclusion by providing sustainable and equitable access to credit, particularly for agriculture, microenterprises, and allied rural sectors. NABARD's operations are directed towards improving the livelihoods of rural communities through financial intermediation, institution-building, and capacity development.

NABARD has been instrumental in fostering macro-finance and microfinance linkages by partnering with banks, cooperatives, non-governmental organizations (NGOs), and self-help groups (SHGs). Through its Self-Help Group–Bank Linkage Programme (SHG-BLP), initiated in the early 1990s, NABARD has successfully integrated informal community-based savings groups with the formal banking system, creating one of the largest microfinance movements in the world (Rao & Sharma, 2021). This initiative not only enhances access to credit for the poor but also promotes savings, entrepreneurship, and women's empowerment in rural areas.

Furthermore, NABARD encourages voluntary organizations, socially motivated individuals, and government functionaries to facilitate and nurture community-based financial institutions. It provides refinance support to commercial banks, regional rural banks (RRBs), and cooperatives for financing rural infrastructure, small enterprises, and agricultural activities (Reserve Bank of India, 2021).

Microfinance, as promoted by NABARD, is not confined to microcredit alone but encompasses a comprehensive range of financial services, including savings, insurance, remittances, and fund transfers. Its overarching objective is to create a world where poor and near-poor households have permanent access to quality and affordable financial services (Ledgerwood, 2013). Such access enables rural households to stabilize consumption, manage risks, accumulate assets, and escape poverty.

Through its continued emphasis on financial inclusion, NABARD contributes significantly to economic development, employment generation, and rural entrepreneurship by empowering micro-entrepreneurs and small business owners. Its multifaceted approach—integrating policy support, capacity building, and institutional collaboration—has made NABARD a cornerstone in India's journey toward inclusive and sustainable rural development.

SELF-HELP GROUPS (SHGs)

Microfinance has emerged as a pivotal instrument in advancing financial inclusion across developing economies. Its core objective is to provide access to affordable financial products and services to lowerincome and marginalized groups, thereby enabling them to undertake entrepreneurial activities, generate sustainable livelihoods, and gradually escape the cycle of poverty (Ledgerwood, 2013). Within this framework, Self-Help Groups (SHGs) have become a cornerstone of community-based financial intermediation in India.

A Self-Help Group is a small, voluntary association typically comprising 10 to 20 individuals from similar socio-economic backgrounds who come together to collectively address shared challenges through self-help and mutual cooperation (NABARD, 2022). These groups pool savings on a regular basis, create a common fund, and extend small loans to members for income-generating and emergency purposes. Over time, well-functioning SHGs are linked with formal financial institutions, enabling access to institutional credit under the Self-Help Group–Bank Linkage Programme (SHG-BLP) initiated by NABARD in the 1990s.

SHGs play a multidimensional role that extends beyond financial intermediation. They are recognized as instruments of social and economic empowerment, particularly for women in rural areas. By fostering collective decision-making, leadership development, and financial discipline, SHGs enhance self-confidence and bargaining power among women (Karmakar, 2019). Empirical evidence suggests that women's participation in SHGs contributes to higher school enrolment rates, improved nutrition, better healthcare awareness, and greater adoption of family planning practices (UNDP, 2021).

The primary objective of SHGs is the upliftment of the poor through microeconomic activities that create employment opportunities, sustainable income, and asset formation. Such initiatives enable members to generate regular and independent sources of income, reducing their reliance on informal moneylenders. In doing so, SHGs have transformed into powerful agents of rural transformation and social change.

An equally important contribution of SHGs lies in their ability to build social capital and confidence among rural communities. Many groups have successfully transitioned into microenterprises, cooperatives, and federations, while others have collaborated with corporate and government entities to market products in remote rural markets. Notably, several SHGs have partnered with domestic and multinational corporations to facilitate last-mile distribution of consumer goods, thus bridging the gap between rural producers and mainstream markets (NABARD, 2022).

Overall, SHGs have evolved from being instruments of microcredit to becoming catalysts for inclusive growth, gender empowerment, and rural entrepreneurship. Their participatory and decentralized structure aligns with the national vision of financial inclusion and self-reliant rural development, making them indispensable to India's socio-economic progress.

RUPAY ATM CUM-DEBIT KISAN CREDIT CARDS (RKCCs)

The Kisan Credit Card (KCC) scheme, launched by the National Bank for Agriculture and Rural Development (NABARD) in August 1998, represents a pioneering innovation in agricultural credit delivery aimed at ensuring timely and adequate financial support to farmers (NABARD, 2022). The KCC initiative sought to provide credit through a single-window system, simplifying the procedures for accessing short-term, medium-term, and long-term loans for agricultural and allied activities. It also included a reasonable component of consumption credit, recognizing the holistic financial needs of farming households (Reserve Bank of India, 2021).

Under the scheme, beneficiaries are issued a credit card and passbook, or a credit card-cum-passbook, which functions both as an identity document and as a record of financial transactions. This simplified documentation and credit management system significantly reduced farmers' dependency on informal moneylenders and strengthened their linkage with the formal banking network. The scheme encourages farmers to adopt progressive agricultural practices, utilize high-value inputs, and invest in modern technology, thereby contributing to productivity enhancement and income stability (Government of India, 2021).

In an effort to modernize the KCC framework, the RuPay Kisan Credit Card (RKCC) was introduced, integrating digital payment technology with agricultural finance. The RuPay-enabled KCC functions as an ATM-cum-debit card, allowing farmers to withdraw cash, make point-of-sale (POS) transactions, and conduct online payments seamlessly through the existing banking infrastructure (National Payments Corporation of India, 2022). This technological integration aligns with India's Digital India Mission, promoting financial inclusion and digital empowerment among rural farming communities.

One of the key objectives of the KCC and its RuPay variant is to provide financial security and insurance coverage to farmers against crop failures due to natural calamities, pests, or diseases. Additionally, it encourages the adoption of sustainable and technology-driven agricultural practices by ensuring timely access to credit for purchasing inputs such as seeds, fertilizers, and equipment. The inclusion of crop insurance and accident coverage within the RKCC framework further enhances its appeal, offering a comprehensive package of financial protection and credit convenience to rural borrowers (Agricultural Insurance Company of India, 2020).

Overall, the RuPay Kisan Credit Card (RKCC) represents a significant step toward digitizing rural credit systems and strengthening the institutional support structure for India's agricultural sector. By combining the benefits of flexible credit access with digital payment capabilities, the RKCC scheme not only improves financial efficiency but also contributes to rural transformation, financial inclusion, and the goal of a self-reliant agricultural economy.

E-SHAKTI FOR DIGITALISATION OF SHGs

In an effort towards degitalisation of Self-Help Groups and bring them under the fold of financial inclusion, NABARD launched project E-Shakti in March 2015. The attributes of E-Shakti are as follows:

- E-book keeping for SHGS
- providing a macro picture of SHG BLP for the policy makers to push forward their developmental agenda.

CONCLUSION

Thus, a large segment of the society in India, particularly in rural areas, has very little acess to financial services, both formal and semi- formal. Despite the rapid spread of banking over the years, a significant segment of the population in rural areas is excluded from the formal financial system. The recent development in banking technology have transformed banking from the traditional brick mortar infrastructure like staffed branches to a system supplemented by other channels like automated teller machines (ATMS), credit/debit cards, internet banking, online money transforms etc. The essence of financial inclusion is in trying to ensure that a range of appropriate financial services is available to every individual enabling them to understand and acess to those services. The aim of financial inclusion is to extend financial services to the large hitherto unserved population of the country to unlock its growth potential.

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