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IMPACT OF FINANCIAL INCLUSION ON RURAL DEVELOPMENT

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ABSTRACT

Financial inclusion is concluded to be the critical factor for inclusive growth and ultimately ensuring sustainable overall growth in the country. The importance of an inclusive financial system is widely recognized in the policy circle and recently financial inclusion has become a policy priority in many countries. A developed financial system brings poor people into the mainstream of the economy and allows them to contribute more actively to economic development both individually and collectively.

INTRODUCTION

Financial inclusion refers to a process that ensures the ease of access, availability and usage of the formal financial system for all members of an economy. An inclusive financial system has several merits. It facilitates efficient allocation of productive resources and thus can potentially reduce the cost of capital. In addition, access to appropriate financial services can significantly improve the day-to-day management of finances. An inclusive financial system can help in reducing the growth of informal sources of credit (such as money lenders), which are often found to be exploitative.
The broader concept of financial inclusion is the delivery of banking services at an affordable cost to the vast sections of disadvantaged and low income groups.
A developed financial system brings poor people into the mainstream of the economy and allows them to contribute more actively to economic development both individually and collectively. This is the essence of "financial inclusion", a new paradigm in the economics of growth and development. Financial inclusion as a corollary of social intermediation has both regional (global and local) and human perspectives. Therefore, it has emerged as a significant strategy of "growth with equity" in the emerging economies like India.

The Reserve Bank of India promulgated a drive for financial inclusion, wherein banks take the lead in providing all unbanked households in a district, with savings accounts and gradually they access other financial services and products through this channel thereby enabling them to reduce

poverty and inequality. Having the proof of the data that is conditioned about the levels and trends of financial inclusion and its impact on the socio-economic status of rural
And urban households is a critical step towards this aspect. 'Accessibility' to financial resources is found to be the key parameter in this regard. The purpose of this paper therefore, is to evolve a research methodology to measure the impact of access to financial services by the poor and marginalized sections of the society.

Pre-requisites for the Success of Financial Inclusion

Major three aspects of financial inclusion make people to

- Access financial markets
- Access credit markets
- Learn financial matters(financial education)

Finance is the lubricant, which oils the wheels of development. All economies rely upon the intermediary function of finance to transfer resources from savers to investors. In market economies, this function is performed by commercial banks, financial institutions and capital markets. Extending the reach of financial services to the poor through new technologies and simplified branch regulations hold promise. Bringing financial services to rural clients is the biggest challenge in the quest for broad-based financial inclusion. Often the main barrier to financial inclusion in rural areas is the great distances that rural residents must travel to reach a bank branch.

Financial Inclusion helps access to financial products and services like-No frill Bank accounts – check in account, Micro Credit ,Savings products, Remittances & Payment services , Insurance – Healthcare, Mortgage, Financial advisory services, Entrepreneurial credit, Pension for old age, Business correspondence & self-help group, Branchless banking ,Micro finance , micro credit facility etc. The major initiatives taken by RBI include the following:-

(i) Encouraged the SHG-Bank Linkage Model, one of the largest micro finance models in the world,
(ii) Mandated Commercial Banks including Regional Rural Banks to migrate to the Core Banking Platform.
(iii) Substantially relaxed the Know Your Customer (KYC) documentation requirements for opening bank accounts for small customers.
(iv) Encouraged Electronic Benefit Transfer for routing social security payments through the banking channel.

The financially excluded sections largely comprise: Marginal farmers, Landless laborers, Oral lessees, self-employed and unorganized sector enterprises etc., the exclusion may have cost for individuals/entities in terms of loss of opportunities to grow in the absence of access to finance or credit. From the societal or the national perspective, exclusion may lead to aggregate loss of output or welfare and the country may not realize its growth potential.

However, illiteracy and low income savings and lack of bank branches in rural areas continue to be a rod block to financial inclusion in many states. Apart from this there are certain in current model which is followed. There is inadequate legal and financial structure. India, being a mostly agrarian economy, hardly has schemes which lend for agriculture. Along with Micro finance we need to focus on Micro insurance too.