

# A study on Financial Inclusion for Rural Development in India with reference to Tourism Sectors

\*Dr. Supriya Singh

Assistant Professor, Dr. C. V. Raman University, Kota, Bilaspur C. G. India

## Abstract

Financial inclusion has been recognized as being a critical means of poverty reduction amongst underprivileged persons living in rural India and a way of providing them with inexpensive and ready access to financial services as well. However, despite a plethora of financial inclusion schemes, the fact is that large numbers of people in rural areas are not benefited by them. The aim of this research was to examine the causes of the failure of financial inclusion schemes in India and to identify what needs to be done to give impetus to financial inclusion initiatives in the country. 100 rural folks were interviewed and the primary data was analysed. It was found that apathetic implementation of schemes, lack of awareness, disbursed funds being used for non – developmental / personal purposes and a lack of adequate distribution of banking facilities are the main reasons for limited success of financial inclusion schemes. The respondents indicated that there is an urgent need to diversify financial product offerings to beyond the current loan-based schemes. Similarly, the distribution networks and the modes of disbursement of financial inclusion schemes need to be urgently broadened. Technology plays a vital role in facilitating financial inclusion and the respondents have indicated several ways in which this may be done. Promoting financial literacy and ensuring safety and security of technology based financial instruments are other ways of facilitating financial inclusion. Perhaps the biggest stimulator of financial inclusion is the promotion of rural tourism as this provides the village people with a continuous and stable source of income in addition to agriculture. Finally, it may be noted that financial inclusion is not just providing village people with a wide range of financial services but providing them with the understanding of what these services are, how these products may be leveraged, with guidance and counselling on money management and awareness of the existence of these schemes and facilities as well.

**Keywords:** Rural, Tourism, Technology, Financial inclusion

## Article Publication

Published Online: 20-Feb-2022

## \*Author's Correspondence


Dr. Supriya Singh

Assistant Professor, Dr. C. V. Raman University, Kota, Bilaspur C. G. India

supriyachouhan3[at]gmail.com

doi [10.31305/rrjm.2022.v07.i02.006](https://doi.org/10.31305/rrjm.2022.v07.i02.006)

© 2022 The Authors. Published by RESEARCH REVIEW International Journal of Multidisciplinary. This is an open access article under the CC BY-

NC-ND license   
(<https://creativecommons.org/licenses/by-nc-nd/4.0/>)

## 1. Introduction

In rural India, where 75 percent of the population lives, financial inclusion is critical to promoting sustainable development (Muzigiti and Schmidt, 2015). Financial inclusion can be characterised as providing financial services at a low or affordable cost to individuals in need, such as destitute farmers, who would otherwise be unable to obtain credit (Kanther and Nagabhushan, 2012). The Indian government has taken many steps to ensure that rural people have access to financial services. Some of these include establishment of regional rural banks or RRBs, credit counselling and financial literacy counselling, customer service centres in villages and of schemes such as no frill account, know your customer, Kisan Credit Card, Aadhar Scheme, Mahatma Gandhi National Rural Employment Guarantee and most recently the Pradhan Mantri Jan Dhan Yojna scheme for providing bank accounts to almost 75 million rural people (Economic Times, 2014). In spite of all of these efforts, there is a perception that financial inclusion has largely not happened in India (Rajashekar, 2015). Chakrabarty (2012) points out that large sections of the rural population do not have access to formal channels of finance and heavily in debt to moneylenders. This article takes a bottom-up approach to explore why financial inclusion has not occurred, what rural people want to improve their access to financial services, and how rural earnings could be augmented by a boost to rural tourism.

## 1.1. Research Question

What new financial inclusion initiatives must be started in rural India?

### 1.1.2 Research Objectives

- To understand the efficacy of existing financial inclusion schemes
- To analyse what new initiatives may be started to provide more number of rural folk with access to finance
- To make recommendations on how to stimulate financial inclusion in rural India

## 2. Review of Literature

- **According to Thorat (2012)** financial inclusion is ensuring weaker sections of society have timely access to adequate banking services at affordable costs.
- **Nagaraja and Pallavi (2013)** point out that financial inclusion means providing universal access to a range of financial services affordably. This means not just banking services but to insurance and equity as well.
- **Dittus and Klein (2011)** defined financial inclusion as a state where all persons of working age have access to loans, to savings and payment facilities from formal financial service providers.
- **Beck et al.,(2011)** state that the ultimate success of financial inclusion schemes is when those persons who were financially excluded start accessing formal channels of finance rather than informal ones.

The implications arising out of these views on financial inclusion mean that it refers to not just access to financial services, but their fair and transparent provision and to knowledge about these services as well amongst underprivileged persons. It refers to access to multiple financial products and services including banking and saving facilities, to insurance and means of making remittances and payments. All of these services are provided by formal financial service providers and they are provided in an inexpensive, easy to access/use and transparent manner.

- **Assibey (2009)** states that financial inclusion is very important for poor countries, where formal financial institutions do not lend to the poor.
- **Handoo (2012)** points out that financial inclusive schemes help in reducing poverty and stimulate rural economies. This paper will examine to see if all these concepts are contained in financial inclusion schemes in India.

## 3. Research Methodology

The researcher used secondary data to identify the main concepts of financial inclusion. Primary data was collected through interviews done by the researchers amongst 100 farmers in the Hubli region of Karnataka. The data was coded and analysed using graphical and descriptive formats. The main aim of the analysis was to deduce, what in the farmers' opinion would be the best way of stimulating financial inclusion amongst rural folk in India.

## 4. Analysis

### 4.1 Reasons for the failure of financial inclusion:

Figure 1 list the reasons for the failure of financial inclusion schemes in India.

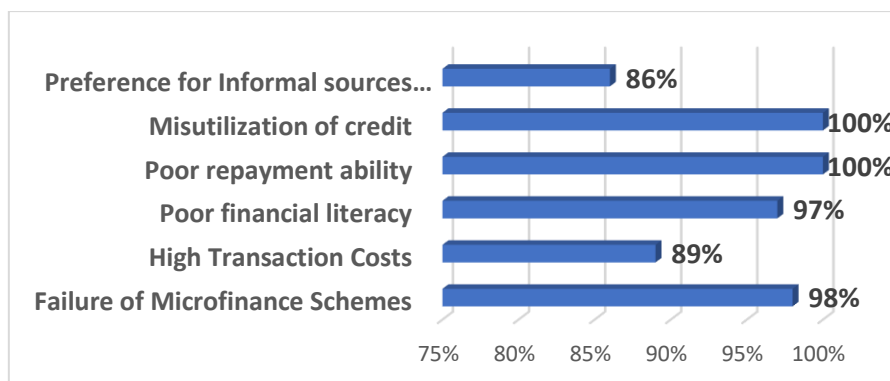


Figure 1. Failure of Financial Inclusion Schemes

Most of the respondents indicated that rural people still prefer borrowing from informal sources such as local pawnbrokers or moneylenders, irrespective of high interest rates, simply because of the immediacy of the transaction. This is in contrast to access to formal sources of credit which is time consuming, providing documents and adequate collateral. Most people in the villages are still uneducated and do not have knowledge of various financial schemes implemented by the government. The concept of micro-credit and micro-finance has largely failed in India because of the inability of the farmers to clear their loans. Respondents indicate how farmers squander monies provided by banks for developmental works on marriages, liquor, and purchase of consumer goods and on festivals.

A combination of these factors ensures that even with financial inclusion schemes by the government a vast majority of India’s rural population continues to be ignorance, poor, illiterate and suffer from poor standard of living, high living costs and are vulnerable to unethical practices by moneylenders operating in the unregulated financial services sector.

The respondents were then asked as to what in their view needed to be done to stimulate financial inclusion in India’s villages. Their responses may be summarized in terms of increasing diversity of financial products, leveraging technology and promoting rural tourism.

**4.2 Diversity of Financial Products:**

Figure 2 indicates responses on diversity of financial products

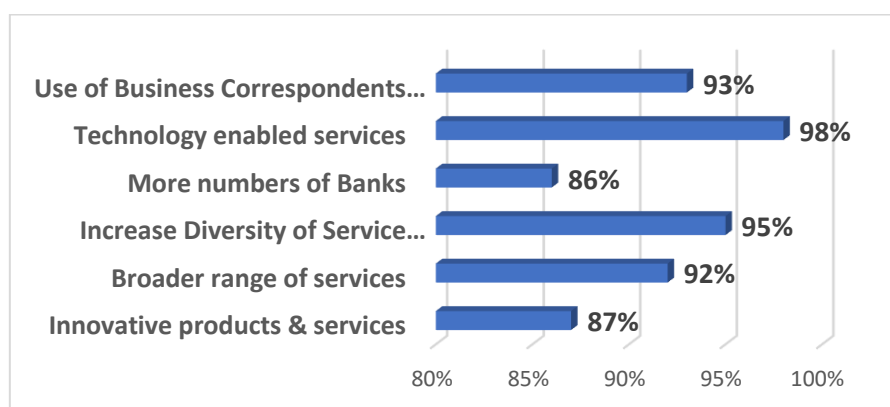


Figure 2. Diversity of Financial Products

Respondents complained that that the only financial service that they have access to under different government schemes was short term loans. While they agree that these schemes have made it easier to access finance, there is a need for financial products specifically for the needs of poor rural people. They recommend specialized schemes made on the basis of different rural occupations or employment. For example, those working for daily wages can

be allowed a special recurring deposit (RD) in banks where they can make small deposits even daily. Other financial schemes include opportunity to invest in businesses, for education, for saving in retirement funds and even in insurance against risk schemes. Rural people must be provided access to such financial services as contingency planning and to wealth creation schemes just like their urban counterparts.

Respondents agree that ignorance of financial services is a big impediment despite several government education schemes. They indicated that to be more effective financial literacy training must include audio / visual media, use of local languages / dialects and such training to be provided at the school level itself. Respondents indicated that there was a need for more physical presence of banks that would discourage people going to local moneylenders. In this regard, they also highlight the use of the business correspondent in last mile delivery of banking products to farmers. The respondents indicated that they would like to leverage other service providers such as post offices and fair price distribution shops as these institutions are well proliferated already in the villages.

#### 4.3 Leveraging Technology:

Figure 3 indicates the respondent's views on how technology may be leveraged to improve financial inclusion.

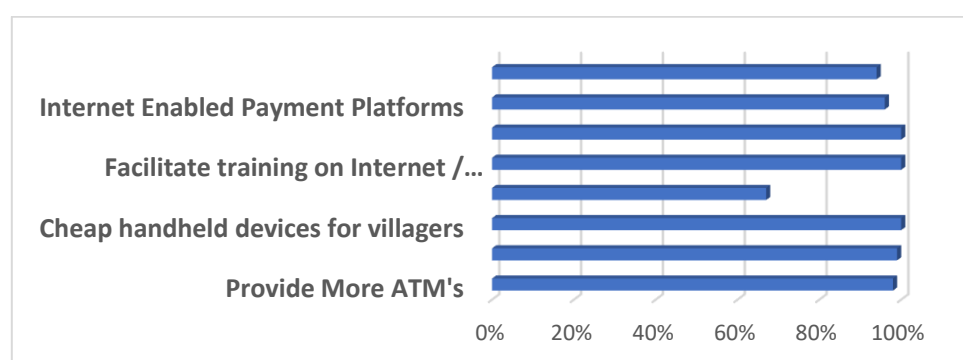


Figure 3. Use of Technology to Promote Financial Inclusion

All the respondents were unanimous that the recent 'Going Cashless' through digital transactions was another step that would aid financial inclusion as it would result in digital financial infrastructure being set up in rural places as well. The respondents indicated the need for setting up more numbers of ATM machines that would help rural people easily draw cash, check account balances and make small transactions. Similarly, there is a requirement for deposit taking machines that would take cash deposits from the farmers and update on deposit status in real time.

Respondents indicated that rural persons be provided with special hand-held devices fitted with cards and biometric identifiers, at reasonable cost, through which online transactions can take place. They also recommended establishing kiosks that can directly be used for such banking transactions as making deposits and withdrawals. They stressed the importance of allowing even rural persons being knowledgeable about such features as internet / mobile banking that would allow them to transfer money from one account to another and to make bill payments. They highlighted the importance of mobile phones as the new age vehicle for promoting financial inclusion and for the development of products specially for rural people. Some of these mobile enabled transactions include inter-bank transfer and receipt of money, disbursement of payments, loans and savings opportunities.

However, the respondents indicated that all of these features would only be beneficial if the local infrastructure provided to virtual financial systems are safe, secure, work properly at all times and are ubiquitous even at the village level in India. They cite the lack of adequate digital penetration and poor maintenance of existing digital infrastructure as the main reasons for the failure to leverage the digital revolution for stimulating financial inclusion through technology at the village level.

#### 4.4 Promoting Rural Tourism:

Figure 4 indicates the unanimous opinion amongst respondents that the best way to create financial inclusion is not only through providing easy access to finance but as far as possible to stimulate employment and revenue generation at the village level. This would be in addition to such traditional occupations as farming, agriculture and handicrafts. The respondents all indicated that rural tourism is possibly the best way to stimulate and revive local economies.

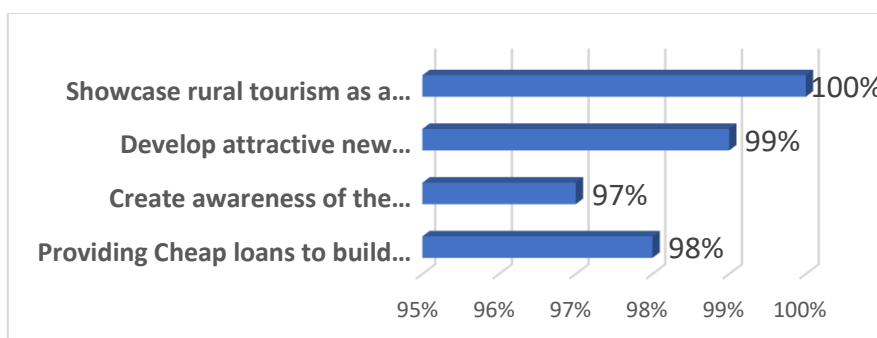


Figure 4. Rural Tourism – A Vital Means of Promoting Financial Inclusion

The respondents indicated that the villages of India have the potential to provide tourists with experiences that are authentically and originally Indian and cannot be duplicated in Indian cities or anywhere else in the world. Hence there is a need for the Ministry of Tourism to highlight rural tourism as one of the niche offerings of India. This would draw more visitor footfalls to rural areas that would also result in some of the benefits of Indian tourism also trickling to the rural areas. This additional income would be one of the best ways of financial inclusion as it would greatly supplement the often-inadequate income derived from agriculture.

However, the respondents indicated that much needs to be done before rural tourism attracts economically significant numbers of visitors. Financial inclusion means providing enterprising farmers to set up tourist infrastructure and facilities such as guesthouses, hotels and lodges. There must be education provided to farmers on how to use their surroundings or unique offerings of their villages to attract tourists. Respondents stated that every region of India has its own unique rural culture and traditions as well as handicrafts, festivals, music, song and dance that can be showcased to create unique, one of a kind cultural experience. All of this would result in more income to the village people, stimulating entrepreneurship and self – employment at the village level itself.

#### 4.5 Stimulating Rural Financial Inclusion in India

Figure 5 captures the ways in which rural financial inclusion may be stimulated.

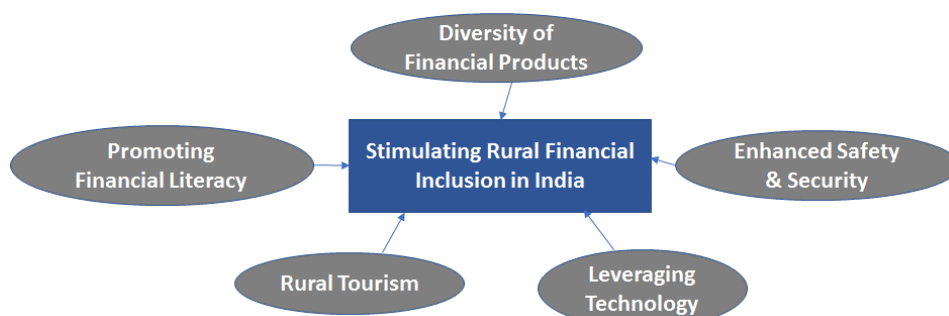


Figure 5. Promoting Financial Inclusion in Rural India

### 5. Conclusion

Financial inclusion programmes are being established all over the world to provide conveniently available and affordable financial resources to those who do not have access to traditional financial channels. However, the government of India's financial inclusion efforts have only had little success. The way financial inclusion

programmes are executed in India needs to be revitalised urgently. The following suggestions may be made in this regard:

- **Proactive Scheme Implementation** – While the Indian government and banks have established a number of rural inclusion schemes, their implementation is hampered by apathy on the part of banks, non-profit organisations, and even villages. There is an urgent need for greater aggressive engagement and implementation of the government's numerous programmes at all levels.
- **Enhanced Distribution**—A lack of distributive infrastructure now limits financial inclusion, which is why village people continue to rely on local moneylenders. At the village level, physical banks are preferred, which implies banks must expand their distribution network to reach a larger number of people. Another option for people who don't want to utilise physical banks is to use the wide network of post offices and fair pricing distribution stores as financial institutions where they can borrow money and deposit money. It is also important to increase the employment of business correspondents who travel from village to village informing locals about official financial channels and enrolling them in financial inclusion programmes.
- **Innovative Products**—Financial inclusion can be achieved not only through the distribution of bank loans, but also through the development of innovative and rural-specific financial products such as special savings schemes, insurance, and loans for entrepreneurship start-ups, as well as educational opportunities for rural people on topics such as contingency planning and wealth creation.
- **Using Modern Digital Technology to Inform, Educate, and Disseminate Financial Products** – Using modern digital technology to inform, educate, and disseminate financial products is perhaps the most important way to facilitate financial inclusion. Provisioning ATMs and Kiosks at the village level, as well as allowing mobile-based financial transactions, are just a few examples of ways to improve villagers' access to financial resources.
- **Education** - The Indian government has established methods for teaching and enlightening villages about financial inclusion programmes. However, these are constrained by poor delivery. One way to dispel ignorance and illiteracy and promote awareness is to use audio/visual equipment to educate villagers, providing them with training on how to use mobile/handheld devices to conduct financial transactions at banks, post offices, and fair price shops, and starting such training early, even at the school level.
- **Rural Tourism** - Promoting rural tourism is highly recommended because it provides people with immediate cash and a consistent source of income. Education, giving communities with the skills and resources to provide tourist facilities, and assistance from the Ministry of Tourism in terms of marketing India's rural areas as a specialty tourist offering in the country can all help to develop rural tourism. As a result, tourism contributes to one of the fundamental goals of financial inclusion, namely, providing greater money to rural people.

### **Acknowledgement**

*I am great full to Dr. Bharti Sharma and Dr. C. Rajesh Kumar for their valuable support and guidance. I also thank the survey participants for their valuable contribution for this research work, I thank my husband Mr. Ashish Singh Chouhan and family members for their constant support during my research.*

### **References**

- Assibey, O. (2009) Financial Exclusion: What Drives Supply and Demand for Basic Financial Services In Ghana?’, *Saving and Development Journal*, Vol.33(3), pp.207-238.
- Beck, T., Demircuc-Kunt, A., Martinez, M. S. (2011) Reaching out: Access to and use of banking services across countries. *Journal of Financial Economics*, Vol. 85(8), pp.234-266.
- Chakrabarty, K.C. (2012) Social Banking and Finance - Opportunities in Inclusion. Reserve Bank of India, Speech delivered at the 2nd FT-YES Bank International Banking Summit at Mumbai.
- Dittus, P., Klein, M. (2011) On Harnessing the potential of financial inclusion. Monetary and Economic Department, Vol. 10, pp. 1-25.

- Eco Times (2014) Prime Minister Narendra Modi to bankers: Journey ahead in Pradhan Mantri Jan-Dhan Yojana bound to be difficult. Available at <<http://economictimes.indiatimes.com/news/politics-and-nation/prime-minister-narendra-modi-to-bankers-journey-ahead-in-pradhan-mantri-jan-dhan-yojana-bound-to-be-difficult/articleshow/44621865.cms?intenttarget=no>>
- Handoo, J. (2012) Beyond Hoopla: Simply Financial Inclusion. *The Journal of Indian Institute of Banking & Finance*, Vol. 3(8), pp.27-34.
- Kanther, P., Nagabhushan, S. (2012) Workshop on Measuring Financial Inclusion from the Demand Side, CAFRAL, pp. 1-12.
- Muzigiti, G., Schmidt, O. (2013) Moving Forward. *Journal of Development and Cooperation*, Vol. 18 (2), pp. 12-32.
- Nagaraja, S., Pallavi, S.K. (2012) Financial Inclusion and Rural Development. *Global Research Analysis*. Vol. 2(7), pp. 8160 – 8160.
- Rajasekhar, D. (2015) *Savings And Credit Systems Of The Poor: Some Non-Governmental Organisation (NGO) Experiences*. Bangalore, NOVIB And HIVOS.
- Thorat, U. (2012) Financial Inclusion and Information Technology', Reserve Bank of India, Speech delivered at 'Vision 2020 - Indian Financial Services Sector' hosted by NDTV at Mumbai.