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# Integrating System Dynamics for Identifying Role of Financial Inclusion in Rural Development

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## Abstract

*Universal definition of financial inclusion is next to impossible but RBI has defined as a “process of ensuring access to appropriate financial products and services needed by vulnerable groups such as weaker section and low income groups at an affordable cost in a fair and transparent manner by mainstream institutional players”. Financial inclusion covers various stakeholders such as government, micro-finance related institutions, non-government organizations, banks etc. On the other hand, majority of weaker sections resides in the Rural India hence the need of financial inclusion becomes very vital in the development of Rural India simultaneously. Effective implementation of financial inclusion empowers weaker sections socially and economically. It can be stated that there is positive relationship between the financial inclusion and rural development as more emphasize on financial inclusion can empower the weaker sections which encourages and increases the level of rural development positively. Under the wider framework of study in hand, researcher is intended to conduct secondary data analysis from various national and international journals, reports, newspapers etc. Secondary data analysis will be conducted with the help of content analysis technique and system dynamics modelling for understanding, discussing and explaining this study in hand.*

*Keywords: Holistic, financial inclusion, rural development, system dynamics, weaker sections*

## INTRODUCTION

Financial inclusion have been become an important development priority option for global and national policy makers. The committees and organizations like G20, World Bank, IMF etc. have made this topic as one of the pillars of their discussions. Financial inclusion may be defined as the process of ensuring access to financial services and timely and adequate credit were needed by vulnerable groupssuch as weaker section and low income groups at an affordable cost. Financial products and services are identified as basic banking services like depositsaccounts, institutionalloans, access to payment, remittances and also life and non-life insurance services. Policy makers have relied on the fact that access to finance can help poor households to improve their lives and spur economic activities. It may also help them in capture opportunities and reduces vulnerability (World Bank 2013b). Comfortable access to financial access give opportunity to people to build savings, make investment and avail credit.

The term ‘financial inclusion’ first coined in year 2005 in India which helps in improvement and betterment of sustainable socio-economic development of the nation. It supports in the empowering and developing weaker sections such as unemployed, illiterate, poor and women belonging to rural areas of the society with the goal of making them self-dependent and well-connected to the latest information so that they can make efficient financial decisions.

In India 68.84% (Census, 2011) population survives in villages, and while the cities have developed immensely over the last 20 years, whereas rural areas have not seen that kind of development. For making India’s economy to be strong, the rural economy must to be grown. Rural areas are still facing problems like, illiteracy, malnourishment, unemployment and lack of basic infrastructure like schools, colleges, hospitals, sanitation, etc. Therefore there is an urgent need for rural development so that we can use this population as productive capital which may lead nation on the growth path. Rural development comprised structured changes in the socio-economic situation in the rural areas in order that human welfare, which is the primary goal of all development, is secured at the earliest.

Now the question arises whether there is any impact of financial inclusion in rural development? The answer is YES. Financial inclusion allows banks to channelize the savings of the unbanked population of the country and offers new business opportunities for lending to this group. Banks plays a key role in transforming opportunities, the untapped large no. of small deposits in rural areas and facilitates achievement of the aspiration of the population in these areas.

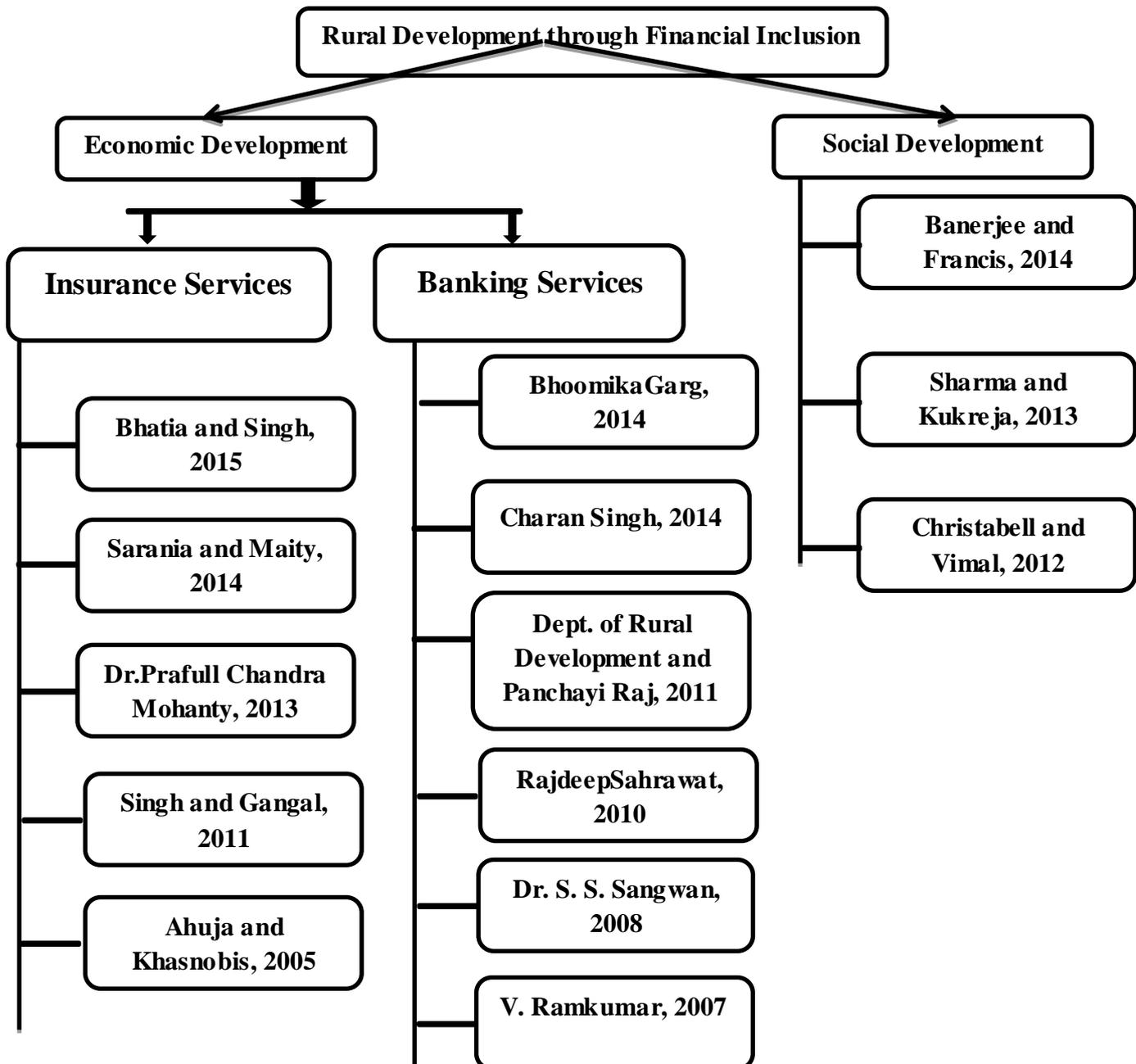
In the present paper researchers are trying to show the efforts made by banks and insurance companies under financial inclusion for the development of rural India.

**Need of the Study**

In India, about 68.84% population lives in rural areas, among them 26% lives below poverty line. RBI and Government of India have taken so many initiatives since independence for improving the condition of rural residents. But after 2005 these initiatives has been taken through the introduction of financial inclusion policy in India .This is an idea through which government wants to include unbanked population in the banking stream so that they can easily uplift themselves and also can protect themselves against the financial shocks and other vulnerabilities they face in their life.

Inclusive financing is very important for rural development as well as economic growth of the nation. Inclusive financing system, appropriately designed loans for weaker section of society and low-income households, for micro, small and medium sized enterprises,including safe savings, appropriate insurance and payment services can help people to change income acquire capital, manage risk and finally helps to eradication of poverty. It is suggested by many of literature that development of the financial sector may accelerate economic growth along with reduction in poverty to achieve the goal of rural development.

**Literature Review (Synthesized Form):**



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### Objectives of the Study:

To make the study systematic, the following specific objectives have been outlined:

1. To identify socio-economic vulnerabilities faced by rural India.
2. To study the importance of banking services for the upliftment of weaker section in rural India.

### Research Methods:

#### Sources of Data:

Researcher has collected data from the secondary sources comprising various reports, articles, research paper published in esteemed national and international journals, books and web references.

#### Research Type:

Qualitative research as this study is aimed at gaining a deep understanding of a specific problem, rather than surface description of a large sample of a population. It aims to provide an explicit rendering of the structure, order, and broad patterns found among a various dimensions of the problem in hand. It generates data about human groups in social settings.

#### Existing Vulnerabilities in Rural India:

Researcher has selected social and economic dimensions to identify the existing vulnerabilities in India with the help of available secondary data analysis, where the details of the existing major socio economic vulnerabilities are described in the explained two dimensions.

#### Social Vulnerabilities in Rural India

Social sources of vulnerability are often more important barriers to sustainable livelihoods and general well-being than economic shocks and stresses (CPRC, 2008). Livelihood and social protection are also impacted by social and political networks, given that different groups may have access to different networks and sources of alleviation. These networks may have different levels of cohesion and resilience in the face of hazards, and may also engage in rivalry and disputes, especially over aid and the recovery process. Social vulnerability is the complex set of characteristics that include a person's

- Initial well-being (nutritional status, physical and mental health, morale)
- Livelihood and resilience (asset pattern and capitals, income and exchange options, qualifications);
- Self-protection (the degree of protection afforded by capability and willingness to build safe home, use safe site)
- Social protection (forms of hazard preparedness provided by society more generally, e.g. building codes, mitigation measures, shelters, preparedness);
- Social and political network institutions (social capital, but also role of institutional environment in setting good conditions for hazard precautions, peoples' right to express needs and of access to preparedness).

*(Source: Cannon, Twigg and Rowell, 2003)*

“Based upon the above explained determinants of social vulnerabilities, in India, social vulnerabilities comprises rapid population growth, poverty and hunger, poor health, low levels of education, gender inequality, fragile and hazardous location, and lack of access to resources and services, including knowledge and technological means, disintegration of social patterns while other causes includes; lack of access to information and knowledge, lack of public awareness, (Aysan, 1993).”

#### Economic Vulnerabilities in Rural India

These vulnerabilities are related to a number of interchanging factors including its importance in the overall national economy, trade and foreign exchange earnings, aid and investments, international prices of commodities and inputs and production and consumption patterns (Philip and Rayhan, 2004).

#### Efforts Made By Banks for Rural Development under Financial Inclusion

In a recent time commercial banks have been started a new journey in the way of rural development. The number of the branches of schedule commercial banks in rural area has increased from 30572 in 2006 to 37953 in 2013. (Table 1)

**Table: 1 Branches of schedule commercial bank**

| Year       | Rural | Semi -urban | Urban | Metropolitan |
|------------|-------|-------------|-------|--------------|
| March 2006 | 30572 | 15274       | 11864 | 10971        |
| March 2007 | 30461 | 16035       | 12649 | 11566        |
| March 2008 | 30732 | 17212       | 13944 | 12438        |
| March 2009 | 31489 | 18764       | 15325 | 13478        |
| March 2010 | 32289 | 20358       | 16653 | 14697        |
| March 2011 | 33325 | 22419       | 17706 | 15660        |
| March 2012 | 35364 | 25076       | 18541 | 17078        |
| March 2013 | 37953 | 27219       | 19327 | 17844        |

(Source: RBI annual report 2013)

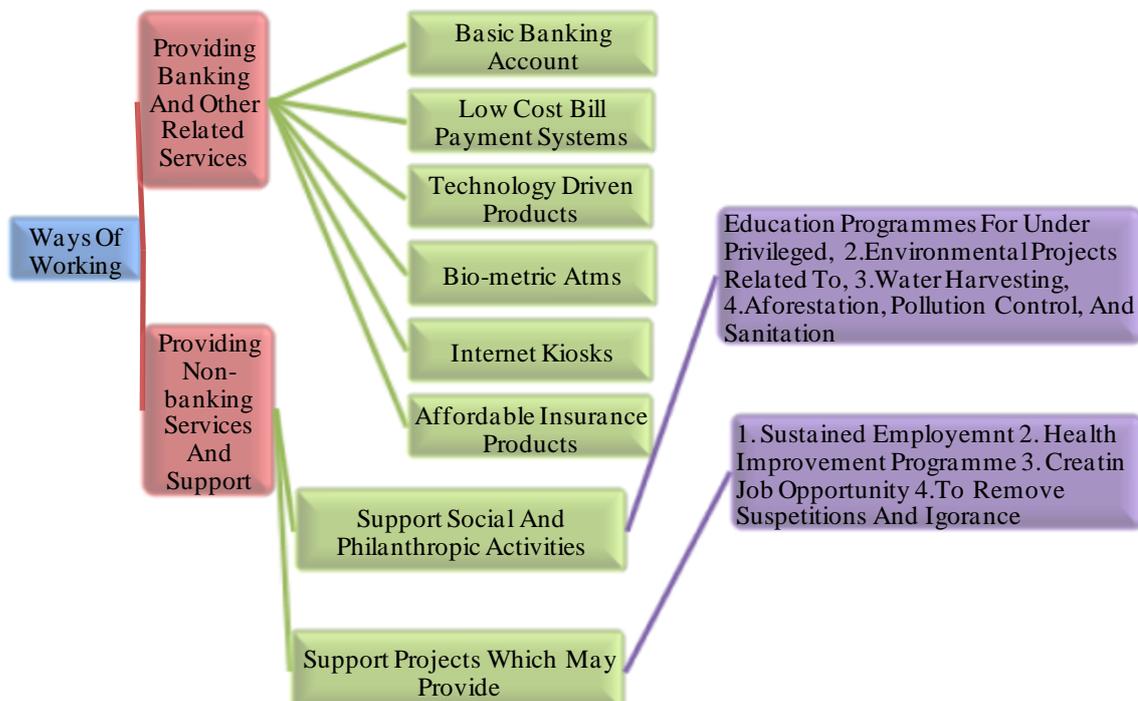
These banks providing short, medium and long term loan to agricultural sector and have also liberalized their lending procedure to bring the larger population within their sphere. They deliver major trust to rural development with a number of schemes like SAA, DIR, LBS, DBT etc. Due to the remarkable efforts made by RBI the number the percentage of the rural people avail with the banking services have been increased from 30.1% in census 2001 to 54.4% in census 2011. (Table 2).

**Table: 2 Position of households availing banking services**

| Households | As per census 2001         |  |      | As per census 2011         |  |       |
|------------|----------------------------|--|------|----------------------------|--|-------|
|            | Total number of Households | Number of households availing banking services | %    | Total number of Households | Number of households availing banking services | %     |
| Rural      | 138271589                  | 41639980                                       | 30.1 | 167826730                  | 91369805                                       | 54.4  |
| Urban      | 53692376                   | 26590693                                       | 49.5 | 78865937                   | 53444983                                       | 67.08 |
| Total      | 91963935                   | 68230642                                       | 35.5 | 246692667                  | 144814788                                      | 58.7  |

(Source: census of India, 2011)

For availing the banking services to unbanked population in rural area commercial banks are doing works in two ways:



Due to the high cost involving opening branch, high costs of operations, limited banking hours, illiteracy, non-availability of alternate channels in rural centres RBI as advised to all schedule commercial banks to provide ATMs, internet kiosks to rural customers. In 2013 the number of ATM's in rural area was 11564 (Table 3), which helps rural people to use banking services easily and effectively.

**Table: 3 Number of ATM Networks as on 31 March 2013**

| Banks                    | Rural | Semi - urban | Urban | Metropolitan | Total  |
|--------------------------|-------|--------------|-------|--------------|--------|
| Public sector banks      | 8552  | 18445        | 22518 | 20137        | 69652  |
| Old private sector banks | 768   | 2760         | 2354  | 1684         | 7566   |
| New private sector banks | 2214  | 6484         | 10995 | 15842        | 35535  |
| Foreign sector banks     | 30    | 21           | 244   | 966          | 1261   |
| Total                    | 11564 | 277710       | 36111 | 38629        | 114014 |

(Source: [Financialservices.gov.in/banking/Overviewofefforts](http://Financialservices.gov.in/banking/Overviewofefforts))

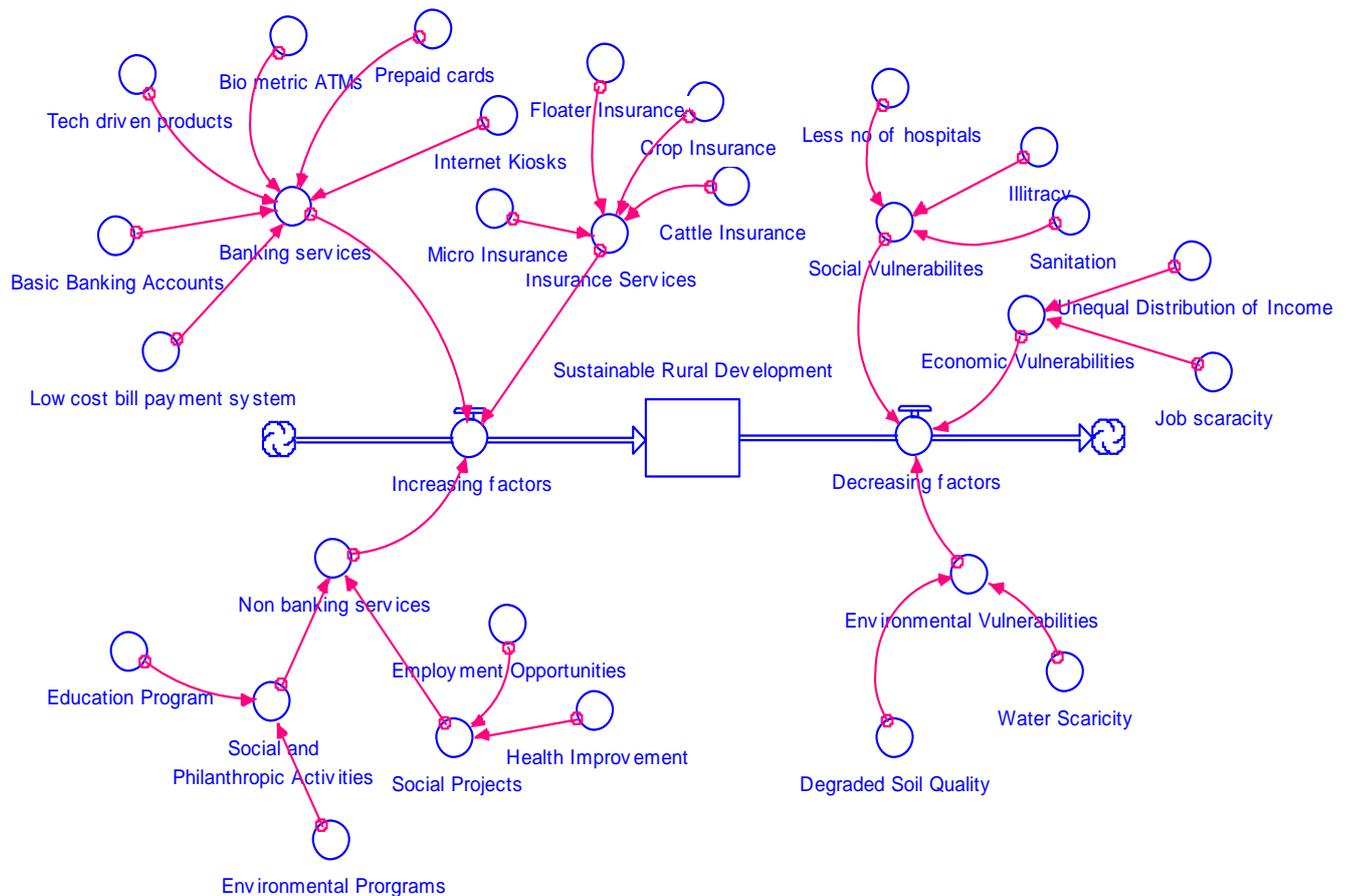
### RBI Initiatives for Financial Inclusion

Following are the initiatives have taken by the RBI for the better inclusion of the excluded people.

- Basic Saving Bank Deposit (BSBD) all banks has instructed to open accounts with minimum common facilities such as no minimum balance, deposit and withdrawal of cash at bank branch and ATMs, receipt/credit of money through electronic payment channels, facility of providing ATM card.
- For easy opening of bank accounts the KYC norms has been simplified mainly for those accounts whose balance is not exceeding rs.50,000 and aggregate credit is not more than one lakh a year.
- For uneven spread of bank branches Simplified branch Authorization policy has been addressed
- Public and private sector banks had been advised to submit board approved three year Financial Inclusion Plan (FIP) starting from April 2010 and now this has been continued from 2013 to 2016.
- Bank has been instructed to set up branches in rural area with the help of urban area branches so that every household has at least one bank account.
- With the objective of guaranteeing greater financial inclusion and increasing the outreach of the banking sector, banks were permitted by RBI in 2006 to use the services of intermediaries in providing financial and banking services through the use of Business Facilitators (BFs) and Business Correspondents (BCs).
- “Swabhiman”-the financial Inclusion Campaign flung in February 2011, banks had availed banking facilities by March 2012 to over 74000 habitations having population in excess of 2000 using various models and technologies including branchless banking through Business Correspondents Agents (BCAs).
- Seeing the need for supervision and mentoring of the Business Correspondent Agents (BCAs) by the respective banks and to ensure that a range of banking services are available to the residents of such villages, Ultra Small Branches (USBs) are being set up in all villages covered through BCAs under Financial Inclusion.
- Government of India has launched the Pradhanmantri Jan Dhan Yojna on 28<sup>th</sup> August 2014 targets the opening of bank account for 7.5 crores families in a year. It is the major step taken by the GOI.

### Dynamic Model to Explore Sustainable Rural Development through Financial Inclusion

- Based upon the studied and identified variables under the broader context of this study, researcher has formed a dynamic model as shown below:



As stated in this dynamic model, sustainable rural development can be measured by considering positive and negative dimensions where positive dimensions, highlighted on the right side, includes all those determinants which contributes to the sustainable development such as banking and non-banking services. On the other hand, factors which has negative impacts are highlighted on the right side of the model, includes existing socio-economic and environmental vulnerabilities. If broader focus can be given to the promotion of increasing factors to the sustainable rural development and efforts can be made to reduce the impact of all vulnerabilities. By this way goal of sustainability can be achieved.

### Conclusion:

We can state that finance is like lubricant, which smoothen the wheel of development. For providing banking and non-banking services, efficient use of technology is essential so that weaker section can avail the benefits of these services. At present, the biggest challenge for the nation is bringing financial services to the rural residents specially the weaker section of the society. Non-banking financial institutions such as institutions related to microfinance assist to fill such gaps. Financial Inclusion has not shown the expected results and there is still a long road ahead but no doubt it is playing a very important role and is working on the positive dimension.

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