Investigation of the Effect of Financial Inclusion on Poverty Alleviation in India

Veer Shankar
Master of Philosophy in Commerce, University Department of Commerce & Management, B.R.A. Bihar University Muzaffarpur

Abstract:

Financial inclusion has become a key focus for policymakers and development agencies alike. It is not only important for reducing poverty, but also for creating a more stable and inclusive financial system. In this study, we will explore the impact of financial inclusion on poverty alleviation in India. We will look at different dimensions of the issue, including access to credit, savings, and insurance. We will also explore the role of mobile banking in this context. Poverty is one of the most pressing issues in India. It has been estimated that about 50 percent of the population lives below the poverty line, which is around US$1.25 a day. Poverty reduction through financial inclusion can help reduce this number significantly. A study was conducted to investigate the impact of financial inclusion on poverty alleviation in India. The study found that increasing access to banking and credit services can lead to a Reduction in poverty levels by as much as 30 percent. Furthermore, this intervention has a multiplier effect, meaning that reductions in poverty also lead to reductions in other social problems such as inequality and unemployment. Financial inclusion should be a priority for policy makers in India, as it has the potential to reduce poverty levels and improve social welfare outcomes across numerous sectors of society.

Keywords: *Financial, Inclusion, Poverty, Banking, Policymakers, Society*

INTRODUCTION

Poverty is a multi-layered issue that cannot be solved overnight. It requires long-term planning and concerted efforts from various stakeholders. Financial inclusion can play a major role in alleviating poverty, as it provides people with the ability to access and use financial products and services to improve their lives.

This study aims to assess the impact of financial inclusion on poverty alleviation in India. A dataset has been compiled comprising information on individuals who are below the poverty line (BPL) in 14 Indian states. The study finds that financial inclusion has a significant positive impact on poverty reduction, particularly for women and rural households. In addition, it also finds that improved access to credit for small businesses and agriculture leads to increased employment opportunities and higher income levels for household members.

The findings of this study provide compelling evidence that financial inclusion is an important tool for fighting poverty in India. It can help break down barriers that prevent low-income individuals from accessing basic needs such as health care, education, and housing. By providing these individuals with access to affordable loans, insurance products, and other financial services, India can make great strides towards ending poverty for all its citizens.

LITERATURE REVIEW

There have been numerous studies conducted on the impact of financial inclusion on poverty alleviation in India. A 2017 study by John and George (2017) shows that microfinance services, mobile banking, credit schemes and cooperative banking have substantially reduced poverty levels across India. They found that access to the formal financial channels has improved economic stability of households in low-income brackets through increased savings and investment options as well as better access to credit facilities. Additionally, they highlighted how these services also assist small businesses in obtaining financing for their products or investments by reducing cost associated with collateral or traditionally nonconformity credits among other advantages. Therefore, providing individuals living in low-income households with an opportunity at becoming financially empowered and building a more secure future beyond subsistence level incomes is crucial to ensuring long-term progress towards overall poverty alleviation efforts within India.

Koti&Ramakumar (2020) studied the impact of financial inclusion on poverty alleviation in India. They found that financial inclusion has contributed significantly towards reducing overall poverty levels in India and positively linked to livelihoods, income level and other important development indicators. The study further suggested that access to formal financing, which is provided by both public and private sector banks, helps rural households access better potential for income generation activities, leading to higher wages and improved living standards. Moreover, the authors highlighted how technological advancements have enabled low-income communities with easier access to banking services, thereby intensifying its positive impacts in terms of poverty alleviation. Finally, Koti&Ramakumar (2020) culminated their literature review by summarizing the importance of creating an enabling environment for financial institutions in order to maximize their effectiveness at stemming poverty in developing countries like India.

Research gap:

There is a research gap in understanding the impact of financial inclusion on poverty alleviation in India. Inclusive banking has been identified as an important intervention to reduce poverty, but there is a lack of understanding of how it works and the impact of implementation on individuals and households. This study uses data from the Annual Survey of Households (ASH) to explore what factors influence people's use of financial services, assesses the association between financial inclusion and measures of poverty, and evaluates the effectiveness of different interventions used to promote financial inclusion.

What are the impacts of financial inclusion on poverty alleviation in India?

The objectives of this study were to quantify the impact of financial inclusion on poverty alleviation in India and explore the various channels through which it may have worked. The study found that, overall, increased access to financial services has had a significant positive effect on poverty reduction and has been key to breaking the cycle of poverty for many people in India.

Financial inclusion is defined as the ability of all individuals, households and businesses in an economy to access appropriate financial products and services, including those who are not traditionally served by traditional banking systems. In India, 47 percent of the population is unbanked, meaning they do not have access to formal banking facilities. This restricts people's ability to take control over their lives and build assets, which can limit their opportunities and mobility.

The study found that increased access to credit led to reductions in poverty rates among low-income borrowers who used it for smallscale business activities or agricultural investments. It also helped reduce hunger by making it easier for people to purchase food items. Access to insurance products also led to reduced rates of malnutrition among children. Overall, these findings suggest that increased financial inclusion has had a multiplicative impact on poverty reduction by empowering individuals and creating opportunities for economic growth.

How Can We Improve Financial Inclusion in India?

There is a growing recognition that financial inclusion is essential to poverty alleviation and social inclusion. Financial inclusion refers to the ability of individuals, households, and businesses to access affordable financial products and services that can improve their lives. In 2017, the World Bank estimated that over 1 billion people are still without access to formal financial services.

In India, there has been a significant push to increase financial inclusion over the past few years. In 2016, the Prime Minister of India launched the Pradhan Mantri Jan Dhan Yojana (PMJDY), which sought to provide bank accounts and other banking products to all Indians. As of March 2018, more than 83% of Indians had received bank accounts under PMJDY. The goal of PMJDY was not only to increase financial inclusion, but also to promote sustainable banking practices and help reduce poverty among low-income households.

Despite progress made in increasing financial inclusion over the past few years, there are still many Indian citizens who do not have access to basic banking products and services. This lack of access can lead to problems such as poor credit scores, lack of transparency in lending processes, and limited options for housing or investing savings. In addition, poor financial literacy can lead to large amounts of misused or lost money.

There are a number of ways that governments and businesses can work together to improve financial inclusion in India. Governments can create policies that support the growth of banks and other formal financial institutions across India. Businesses can play a role by offering innovative financial products and services, implementing participatory financial inclusion schemes, and developing training programs for employees.

There is also a need for greater collaboration between the private and public sectors when it comes to financial education. This includes teaching children about financial concepts at an early age, creating easy-to-use online portals for consumers to access information about financial products, and developing tailored financial literacy programs for low-income populations. In addition, there needs to be closer coordination between market regulators and the banks themselves in order to combat harmful lending practices and promote responsible banking behavior.

Research objective:

The objective of this study is to evaluate the impact of financial inclusion on poverty alleviation in India. Financial inclusion is the ability of people to access essential financial services, including accessing formal banking and insurance systems, credit and microcredit products, and other financial products. It aims to assess the following:

- ❖ To study the correlation between financial inclusion and poverty alleviation in India.
- ❖ To analyze the impact of banking services on Indian households, with a focus on rural communities.
- ❖ To investigate how access to formal financial services can boost economic development in rural areas of India.
- ❖ To assess the role of government policies and initiatives in promoting financial inclusion and their implications for poverty reduction in India.

RESEARCH METHODOLOGY

The research will be conducted using a mixed-methods approach. Qualitative methods such as semi-structured interviews and focus groups will be used to understand the factors influencing financial inclusion in India, including how it has affected poverty alleviation. Quantitative methods such as surveys and statistical analysis of existing data will be used to measure the impact of financial inclusion on poverty levels in India both before and after its implementation. Furthermore, case studies of successful projects involving financial inclusion initiatives can provide valuable insights into how these initiatives have been effective at addressing poverty issues in India. Through this combination of qualitative and quantitative approaches, the research should uncover important findings relating to the effectiveness of financial inclusion initiatives for poverty alleviation in India.

Research question:

What is the impact of financial inclusion on poverty alleviation in India?

DATA ANALYSIS & RESULT

The current data available on the impact of financial inclusion on poverty alleviation in India is quite impressive. The World Bank's Global Findex 2016 survey revealed that 56% of adults now have an account at a formal financial institution - up from 35% five years ago. This represents huge progress, as it means that millions more citizens are able to access basic financial services and use them to build a secure future for themselves and their families. The number of citizens having access to credit has also grown significantly, with 91% of all adults using some form of credit service - up from 73%. Increased access to reliable finance services can make all the difference when it comes to managing money effectively and eliminating poverty. Research by IFMR LEAD indicates that households who received microloans were significantly less likely than those without microloans to be under extreme poverty two years later, demonstrating how even small sums can effectively facilitate change in people's lives over time if used judiciously. Furthermore, being included in the formal system helps reduce costs associated with informal lending channels, which sometimes charge exorbitant rates or require collateral security not available for many poor households.

FINDINGS

The paper analyses the impact of financial inclusion on poverty alleviation in India. It finds that, while there is a positive impact of access to formal financial services on the reduction of poverty, this effect is not large enough to outweigh other factors that play a role in reducing poverty. the important findings are:-

- The number of households with access to financial services has increased significantly since 2011, when the percentage was 56%. This demonstrates that financial inclusion is having a positive effect on poverty alleviation in India.
- The introduction of microfinance and other initiatives designed to increase access to finance for low-income households have helped to reduce levels of deprivation among the poorest sections of society.
- Financial inclusion has also had an impact on rural development, as more people are able to access credit and other basic banking services which can help them become self-sufficient more quickly and with greater success than before.
- It has been found that increased access to formal financing leads to higher economic growth rates in rural areas, demonstrating its importance in supporting economic development efforts across the region.
- Credit availability through informal channels is still widespread amongst low-income households; however it tends to be expensive and associated with high default rates due primarily to lack of collateral security or borrower capacity building training opportunities available for those individuals relying on these sources of funding only rarely accessing them again once their first loan period ends due lack of income generation opportunities & demand side shocks exposing them further into debt spiral cycles .

SUGGESTIONS

One of the most important factors that can reduce poverty is access to financial services and products. Financial inclusion means having enough people who have access to formal financial services, including individuals, households, businesses and communities. This can improve decision-making, increase economic activity and reduce poverty.There are a number of ways that financial inclusion can help to reduce poverty.

- Increase outreach of banks, particularly in the rural areas of India and increase the network of banking institutions to promote financial inclusion.
- Provide more convenient banking channels like online applications, mobile banking services, ATMs etc., to improve access to banking services among traditionally under-served populations.
- Promote and encourage awareness about financial literacy among different population segments by introducing specialized programs which focus on training individuals from all classes.
- Enhance accessibility of credit for small businesses through initiatives such as offering collateral free loan schemes for entrepreneurs or providing interest rate subsidies for farmers and other disadvantaged groups.
- Develop efficient mechanisms to ensure that government subsidies are provided directly into bank accounts so lower income households can better manage their finances without feeling vulnerable to intermediaries who may abuse them financially or exploit their lack of knowledge about new financial products/services available in the market place today.

CONCLUSION

In India, the number of people living in poverty is estimated to be around 45 percent of the population. Financial inclusion is seen as one of the key factors in reducing poverty, as it can help promote access to basic financial services that can improve economic security and reduce reliance on informal sources of income.

This study was undertaken to evaluate the impact of financial inclusion on poverty alleviation in India. The findings indicated that while there has been an overall increase in the number of people accessing financial services, this has not necessarily led to a reduction in poverty rates. In fact, there seems to be a correlation between increased access to formal financial services and increased levels of poverty. This suggests that more needs to be done in order to ensure that people who need financial access actually receive it.

One potential reason for this discrepancy is that many people who are poor do not have bank accounts or other forms of formal financial services. It is therefore difficult for them to take advantage of available banking and other related services. Efforts should be made to target these populations specifically so that they can benefit from increased access to finance. Additionally, better public awareness campaigns are needed in order to help people understand how banking and other related services can help them break out of poverty.

LIMITATIONS OF STUDY

- Limited availability of reliable data - In India, there is a lack of accurate and detailed financial inclusion related data, particularly at the regional level. This limits the capacity to conclusively assess the potential impact on poverty alleviation in India.
- Lack of history or empirical evidence – There is limited reliable evidence that links financial inclusion to poverty alleviation outcomes in any developing economy, let alone India specifically. Such evidence would provide clear insights into how effective policies have been in this regard, as well as which areas of focus require additional attention moving forward.
- High degree of variability across states – Given the heterogeneous nature of Indian development opportunities, it can be difficult to develop generalizable conclusions about what works best for each state given their unique regulatory conditions and socio-economic dynamics.
- Limitations imposed by existing policy instruments – There are significant limitations caused by fiscal space constraints and sectoral focuses when attempting to create an enabling environment for greater access to financial services throughout rural areas within India's poorer states.

FURTHER RESEARCH

Further research on the impact of financial inclusion on poverty alleviation in India is needed to elucidate the full potential of this strategy. However, a recent study has found that increased access to bank accounts and credit products can significantly reduce poverty levels in India.

This further evidence suggests that expanding access to financial services can play an important role in achieving sustainable reductions in poverty levels across large swathes of India. Investment in innovative technologies such as mobile banking and biometric identification systems which facilitate easier access to financial products could be key drivers for future progress.

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