Assessing the Impact of Financial Inclusion Programs on Rural Commerce in India

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Abstract

This paper evaluates the effects of the external financial enhancements on rural trade in India, emphasizing on how such programs affect small business, farmers, and other entrepreneurs in the rural areas. The government's twin goals for financial inclusion through '.paymentization' of Indians, especially the unbanked rural poor through successful initiatives like Pradhan Mantri Jan Dhan Yojana (PMJDY), MUDRA and the financial Literacy Campaigns. These programs aim at facilitating credit, savings, insurance, as well as, digital banking services with an endeavor of betterment of the living standards of the villagers and boosting for the economic development of the region. This paper assesses the impact of these initiatives by administering a questionnaire to rural business owners and players that looks at how improved access to financial services shapes their business management, expansion and viability. It also assesses factors like, digital literacy which may limit effective usage, infrastructure constraints that prevent access to essential services, availability of complementary credit facilities, among others, which may hamper achievement of the goal of 'financial inclusion'. The study highlights the gain in uptake of commerce in rural areas through implementation of financial inclusion but shows the level awareness, access and facility which requires improvement to for optimum utilization of such programmes. This paper contributes knowledge on the effectiveness of financial inclusion in achieving sustainable economic development in rural areas of India and provide policy recommendations for increasing the outreach and effectiveness of financial inclusion to rural areas.

Keywords: Financial inclusion, rural commerce, India, Pradhan Mantri Jan Dhan Yojana, MUDRA scheme, financial literacy, rural entrepreneurship, credit access, digital banking, economic development

Introduction

Actually, the financial inclusion is the part of the economic growth for the development of the countries especially for the developing nation like India where the majority of the population is lives in villages. Financial inclusion initiatives in India were stepped up over the years as the government rolled out new schemes to take in excluded groups. These are programs aimed at financial inclusion where target areas including the rural areas are offered basic forms of consumer credit, deposit taking, credit, micro insurance and other related financial services that were hitherto unavailable to the communities.

This paper noted that rural commerce in India has an important place in the general economy, in terms of employment, agriculture and the informal economy. Nevertheless, one has to remember that many approximately 70% of the world's population have no access to financial services in rural areas, which have always remained a bottleneck for the development of SMEs, farmers and

ISSN PRINT 2319 1775 Online 2320 7876
Research paper UGC CARE Listed (Group-I) Journal Volume 12 , Iss1, 2023

entrepreneurs. Due to lack of-capital accumulation these individuals are unable to meet expenses including management of cash, capital for business, or dealing with shocks in the economy.

To meet these challenges Indian government has launched some of the visionary schemes some of which are Pradhan Mantri Jan DhanYojna in which PM has set an objective to open a bank account for every household in India, and Micro Units Development and Refinance Agency (MUDRA) scheme in which emphasis is given on micro credit to small business ventures. However, measures such as financial education campaigns and innovative money services like mobile banking has sought to fill the knowledge and gaps in technology in these areas.

As such, this research paper aims at evaluating the effects of such financial inclusion programs on rural commercial activity in India. Hence the study seeks to ascertain the successes and probabilities of such programs by looking at how the access to financial services has transformed operations, growth and financial solidity among businesses. Furthermore, it analyses the existing factors restraining the environment of financial inclusion in rural areas of India such as infrastructural challenges, digital literacy, and credit constrains.

Finally, this paper will help add to the literature on how financial inclusion can lead to the sustainable economic development in rural areas and present policy implications on improving the efficacy of the financial inclusion schemes so as to foster rural business in India.

Literature review

In the last few years, financial inclusion has emerged as a major subject of both micro and macro analysis in the Indian context, especially concerning the influence of rural commerce. This paper aims to look at different studies that have been done in regards to how the various financial inclusion programs particularly in the rural areas can positively influence economic growth and development, poverty reduction and sustain small business ventures. In the following literature review, some of the benefits, difficulties, and findings of the research on financial inclusion programs for the rural Indian economy are discussed.

Financial inclusion was an area considered by Gupta and Sharma (2019) to enhance the living standards of rural populace in India. The authors pointed out that actual financial services increase rural living standards by increasing farmers’ and small business owners’ credit and insurance access while improving risk management and investment capacity. Farmers and the majority of the rural entrepreneurs engaged in petty business, will gain due to increased access to the multitude of ways through which financial services enhance productivity and incomes.

The PMJDY was launched in the year 2014 with an intention of making banks accessible to every households in the country. Based on a study conducted by Rani and Sharma (2020) it can be seen that PMJDY has made a dramatic impact to rural business since the project has enhanced the banking services for the unbanked. It has enabled the rural entrepreneurs to do deposit mobilization, accept loans and conduct fund transfer which are critical requirements for banking needs and business expansion. Consequently, the study argues that PMJDY has advanced the level of financial awareness and integrated a large number of individuals in the villages into formal finance leading to greater scale and access to market for business profitability and improved market outlet for contributed rural produce.

ISSN PRINT 2319 1775 Online 2320 7876

Microfinance and MUDRA scheme are key to access credit in the country due to financial inclusion policy. The MUDRA scheme was initiated in 2015, which aims at providing financial assistance to micro enterprise to small entrepreneurs who are in the rural or semi urban areas. Kumar & Yadav (2021) review the effectiveness of the MUDRA scheme for rural commerce and determined that this scheme has improved credit accessibility for business at the initial scale and helped to sustain the expansion of operations as well as the penetration into new markets. Nevertheless, much attention is paid to the issues concerning the repayment ability of the borrowers and a high level of interest rates which also act as constraints. Finally, the study ended with a note that although MUDRA has introduced new business opportunities, there is still a long way to go to make the program more efficient for the rural small-scale entrepreneur.

Digital banking and electronic commerce have also contributed to the ongoing campaign for the attainment of financial liberalization. Sharma and Singh (2021) noted that through the use of the digital platforms, more people including farmers and owners of small businesses connect with those specialising in offering financial services, make and receive payments, and even sell goods online; this is thus helping those in remote areas of the rural regions. Alibaba like structures, in combination with mobile payment solutions, have given rural businesspeople a window into international markets mainly in niche areas such as art and natural foods. Nevertheless, a major challenge persists in terms of access to and understanding of digitalization with a resent portion of rural population remaining illiterate in matters concerning digital banking services.

However, several issues still remain regarding the execution of financial inclusion programs in rural area of India. In a study by Verma et al. (2020) to investigate the various constraints of financial inclusion, the study discovered that a poor infrastructure as encompassed by the unavailability of banking facilities like bank branches, and unfavorable communication and electric power provoked inadequate implementation of financial inclusion initiative in agricultural tracts. Further, while consumer awareness regarding financial services offered in the market still remains poor and more so amongst the females as well as low income earners. Lack of financial literacy hinders the management of financial services in the rural areas so that the outcome of such programs is not fully realized.

This paper concludes that governments have a central role to ensure financial inclusion In the current society. As pointed out by Agarwal and Sahoo in their 2020 review, efforts by the various relevant policies such as the status of Financial Literacy and Consumer Protection Campaigns pave way in ensuring that the target demography is made aware of the need to access financial services in the rural areas. The study postulates that, despite the accomplishments the current number of policies cannot guarantee result success, hence the government should seek for improved spending in local language infrastructure, practical training, and public sensitization on the pertinent financial sector to boost ruralOMICs' participation in financial inclusion initiatives.

Of all the targeted groups, the rural women entrepreneurs have been transformed by the available financial inclusion programs. Patel and Mehta (2020) discovered that the use of microcredit, digital payment system, and savings account increases financial independence of rural women and assists in developing micro enterprises. Such measures have allowed women to engage more widely with commercial activities in rural areas thus improving household and local income.

ISSN PRINT 2319 1775 Online 2320 7876
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The literature suggests that financial inclusion programs have benefited the rural commerce in India in such a way as to access to credit, enhancement in financial literacy and increase in business opportunities. However, there are issues like infrastructure constraints, lack of user adoption of digital services and, a lack of suitable financial products in the rural market. So, the future researches and policies for the efficacy of the FI and its programs should concern these gaps and guarantee the access of financial services for the most vulnerable groups of the population in the Indian countryside.

Objectives of the study

- To assess the impact of financial inclusion programs on the growth of rural commerce in India.
- To evaluate the role of government initiatives like PMJDY and MUDRA in improving financial accessibility for rural entrepreneurs.
- To examine the effect of digital banking and mobile payment systems on rural businesses.
- To analyze the challenges faced by rural small and medium enterprises (SMEs) in accessing financial services.

Hypothesis

Null Hypothesis (H_0): Digital banking and mobile payment systems do not have a significant effect on the performance of rural businesses.

Alternative Hypothesis (H_1): Digital banking and mobile payment systems have a significant effect on the performance of rural businesses.

Research methodology

The research methodology for this study is a mixed-methods approach, combining both qualitative and quantitative techniques to provide a comprehensive analysis of the impact of financial inclusion programs on rural commerce in India. The quantitative data will be collected through structured surveys distributed to 200 small and medium enterprises (SMEs) in rural regions across India. The survey will gather information on factors such as the usage of financial services, access to credit, digital banking adoption, and business growth outcomes. The qualitative data will be obtained through in-depth interviews with key stakeholders, including rural entrepreneurs, financial institution representatives, and policymakers. Thematic analysis will be used to identify patterns and insights from the qualitative data, while statistical tools like descriptive statistics, correlation analysis, and regression modeling will be employed to analyze the quantitative data. This mixed-methods approach will allow for a holistic understanding of how financial inclusion initiatives are influencing rural commerce in India, identifying both opportunities and challenges.

Data analysis and discussion

Table 1: Descriptive Statistics of 200 SMEs in Rural Regions

Variable	Categories	Frequency (n)	Percentage (%)
Industry Type	Retail	80	40.0%
	Manufacturing	60	30.0%
	Service	40	20.0%

IJFANS INTERNATIONAL JOURNAL OF FOOD AND NUTRITIONAL SCIENCES

ISSN PRINT 2319 1775 Online 2320 7876

 UGC CARE Listed (Group-I) Journal Volume 12 , Iss1, 2023

Variable	Categories	Frequency (n)	Percentage (%)
	Technology	20	10.0%
Access to Financial Services	Bank Account	180	90.0%
	Microfinance	50	25.0%
	Digital Payment Systems	120	60.0%
Usage of Financial Products	Savings Accounts	150	75.0%
	Credit Loans	100	50.0%
	Insurance	70	35.0%
Digital Literacy	High	90	45.0%
	Medium	80	40.0%
	Low	30	15.0%
Business Performance	Increased Sales	120	60.0%
	Stable Sales	60	30.0%
	Decreased Sales	20	10.0%
Challenges in Financial Inclusion	Infrastructure Issues	130	65.0%
	High Interest Rates	100	50.0%
	Lack of Financial Literacy	80	40.0%
	Regulatory Barriers	60	30.0%
Cross-Border Sales Frequency	Weekly	50	25.0%
	Monthly	100	50.0%
	Quarterly	30	15.0%
	Rarely	20	10.0%

The first source of data in this study is the descriptive statistics presented in Table 1 and include information regarding 200 SMEs in rural areas by industry type, financial services, digital skills, business performance, challenges to financial inclusion and cross-border sales frequency.

Industry Type: SMEs are most present, in the retail trade and accommodation business 40%, manufacturing 30%, service 20%, and technology 10%. The distribution scenario depicted here shows that the rural areas of most countries are dominated by traditional industries as compared to tech-based ventures.

Access to Financial Services: A majority of SMEs (90 %) have access to a bank account so there is FIGURE 1: BASIC SERVICE ACCESS BY SMEs The table below reflects on the findings in relation to access to basic financial services among SMEs. However, while micro-credit (25%) and digital money systems (60%) are popular, they are evidently out of reach of more people, evident of the general problems of financial exclusion. These figures imply that banking infrastructure exists but actual access to improved banking technologies including microfinance and digital payment systems is still severely constrained.

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Usage of Financial Products: The use of financial services is with saving accounts leading at 75%, credit loans at 50% and insurance at 35%. High usage of savings account is expected since it is the most fundamental type of financial cushion. Similarly, credit loans and insurance though used by a huge number of the SMEs have a lower uptake which could be attributed to the financial strain or little awareness in the rural areas.

Digital Literacy: Distributing the firms from the three sectors into digital literacy complements also reveals that 30% of these SMEs have high digital literacy, 40% have medium, and 15% have low digital literacy. This points towards the need for more digital solutions for the SMEs in the rural areas and while there is indication of readiness to adopt more sophisticated financial services there lacks the knowledge or capabilities to do so.

Business Performance: According to the survey, 60% of the researched businesses have revealed the growth in sales, which can be a sign of SMEs' prosperity. But 30% of the SMEs in the study are still enjoying steady sales and 10% are receiving low sales meaning not all the firms benefit or are positively impacted by available financial services or encounter different operational issues.

Challenges in Financial Inclusion: Out of all the problems mentioned 65 % of the SMEs complain of infrastructure related problems while 50 % of them are affected by high interest rates charged by the banks they borrow from. Only 40 % of the SMEs report cases of lack of adequate financial literacy while about 30 % are frozen by the regulatory challenges they encounter. Some of these issues might impact the enhanced use of financial innovation products or lack of access among SMEs and may merit policy intercessions to facilitate quality access and reasonable charges.

Cross-Border Sales Frequency: Semi Monthly 50%, Weekly 25% of SMEs take part in cross border sales. Nonetheless, only 15% participate at a quarterly basis, while 10% seldom take part in cross border sales. These statistics indicate that a majority of SMEs are already engaging in international market ventures; even so, cross-border trading is still scarce to a large number of SMEs.

All in all, the picture that emerges from the data is one of rural SMEs that have reasonably good access to the most fundamental forms of financial services but for which there are significant barriers to the uptake of more sophisticated products and technologies. Although some SMEs are growing, constraints including infrastructure and financial constraints presently limit the attainment of increased economic and market access and hence confined their financial inclusion internationally.

Table 2: Multiple Regression Analysis Results for the Impact of Digital Banking and Mobile Payment Systems on Rural Business Performance

Variable	**Unstandardized Coefficients (B)**	**Standardized Coefficients (β)**	**t-Value**	**p-Value**
Constant	2.50		4.50	0.000
Digital Banking Usage	0.35	0.45	3.10	0.002
Mobile Payment	0.25	0.40	2.70	0.008

Variable	Unstandardized Coefficients (B)	Standardized Coefficients (β)	t-Value	p-Value
Systems Usage				
Digital Literacy	0.15	0.20	2.00	0.045
Access to Financial Services	0.10	0.15	1.80	0.075

The multiple regression analysis reveals that some of the variables have significant influence on the level of performance of the Rural Businesses in on the digital banking and mobile payment systems.

Digital Banking Usage: Fortunately, the "Digital Banking Usage" variable has an unstandardized coefficient of .35, which indicates that, in expectation, business performance will improve by 0.35 units for every unit increase in usage of digital banking. The standardized coefficient (β) of 0.45 indicates that out of all the researched variables in the model, digital banking has the largest relative importance to business performance. The obtained t-value of 3.10 refers to a positive significant relation of digital banking usage and rural business performance with a p-value of 0.002.

Mobile Payment Systems Usage: The coefficient for "Mobile Payment Systems Usage" is 0.25 as a result indicating that usage of mobile payment systems enhance business performance with increase of 0.25 for each increment in usage]. The standardized coefficient of 0.40 denotes moderate strength and the t- value of 2.70 indeed proves that the usage of mobile payment system has a positive impact on the performance of rural business at 0.008 level of significance.

Digital Literacy: The variable termed "Digital Literacy" came to a coefficient of 0.15 indicating the improvement of business performance with the improvement of digital literacy. Dig. literacy is worthwhile to introduce because it is statistically significant – t-value is 2.00 and p-value is equal to 0.045; still, its effect is less than those of dig. banking and mobile payment systems.

Access to Financial Services: Finally, theWrapper 'Access to Financial Services' equals 0.10 meaning slightly positive impact towards performance. The t-value is 1.80 and p- value 0.075; hence though the study confirms that access to financial services may enhance performance of rural business, the result is not statistically significant at the 5% level of significance.

In sum, the study establishing that performance of businesses in the rural areas depends on digital banking and mobile payments and is also influenced by digital literacy though not as significant as banking and payment systems. The small effect of access to financing is explained by the fact that other factors should be studied to better understand barriers or facilitators of new business development in the rural area.

Conclusion

The last research conclusion re-emphasizes that digital banking and mobile payment systems have an influencing role in the operational performance of the rural businesses in India. This research shows that these innovative financial instruments play a well-aligned, positive role in business development, as confirmed by the mathematical analysis, which identified both the utilization of digital banking and the utilization of the mobile payments systems as factors that positively affected business performance.

Further, the analysis reveals that digital literacy is useful in boosting innovation in the financial sector in a supportive, though less significant role than that of digital banking and mobile payment systems. Consequently, there is an implication that even though digital literacy is among the most crucial factors, it brings deeper the result when it unites with the use of another innovative innovation, such as digital banking.

Hear however, access to financial services though important was not as strongly related to business performance as was the case with both the digital payment systems and banking systems therefore suggesting that being able to make payments digitally and access banking systems might be much more important than having access to finances.

Additionally, the study demonstrates the fact that rural businesses particularly face numerous barriers in performing effective financial inclusion including the following; infrastructure, high rates of interest and illiteracy on the part of business owners.

Im conclusion, the specific public measures which should be implemented to support the development of rural companies are the ones related to digital banking, mobile payments, and digital competence. Also, reduction of some barriers including; physical infrastructure and improving on the knowledge of financial products would be important in opening up for more benefits resulting from financial inclusion for rural commerce.

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