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Exploring Financial Inclusion in Emerging Economies: Perspectives from Tamil Nadu, India

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***Abstract* - This research aims to provide recommendations for enhancing financial education programs linked to the Pradhan Mantri Jan Dhan Yojana (PMJDY), targeting financial institutions, government bodies, and policymakers. The findings aim to promote financial inclusion, enhance financial literacy efforts, and promote secure banking practices. In the case of India, a developing country, there has been a unique trajectory in addressing financial inclusion and alleviating instances of financial exclusion. Even while the economy has grown substantially over the last decade, not everyone has benefited from it. Even if advances like mobile phones, online shopping, and round-the-clock financial services are available to many people in cities, many individuals, particularly in rural areas, lack access to these conveniences. Problems with second-generation reforms, especially those involving the financial sector and its attempts to achieve broad financial inclusion, are a contributing factor to India's uniquely concentrated economic growth. This essay explores the severity of financial exclusion in Tamil Nadu. The purposes of the research include determining the level of financial exclusion in the state, assessing the success of the Reserve Bank of India's (RBI) initiatives to broaden access to financial services, and identifying the necessary steps to achieve complete and substantial financial inclusion.**

***Keywords:* Inclusive Finance, Emerging Economies, Banking Accounts, Financially Underserved, Self-Help Groups (SHGs)**

I. INTRODUCTION

Formal financial services remain out of reach for many people with low incomes in emerging nations. Governments are taking aggressive measures to address this challenge and provide access to financial services for low-income populations (Darapour, 2016). Some of these measures include requiring banks to open branches in remote regions, capping interest rates to lower the cost of financial services, and launching direct lending programs (Ahamed & Mallick, 2019). There are several reasons why these countries lack sufficient financial services (CGAP 2009). The availability of credit for individuals and businesses has been restricted due to high levels of government debt, while consumers are discouraged from saving due to growing inflation rates. Furthermore, insufficient physical and institutional infrastructure has increased the overall expenses involved with providing financial services (Almaliki & Al-saedi, 2023). Furthermore, many destitute individuals lack collateral or credit records, and credit bureaus are often absent in many nations, which limits lending prospects (Ramesh & Jeyakarthic, 2023).

The impact of valuable social inclusion programs is widely acknowledged. Recently, however, financial inclusion has emerged as an essential aspect of social inclusion (Mahadeva, 2024). This concept involves ensuring that a substantial portion of the population has comprehensive access to a range of excellent financial services and products, such as payment systems, insurance, pensions, deposit accounts, loans, financial education, and consumer protection measures (Ene & Panait, 2017; Allen et al., 2016). Currently, around 2.5 billion people globally lack access to fundamental, proper financial services (Shrivastava & Ahmed, 2024). Financial exclusion is less prevalent in developed countries compared to developing ones. For example, merely 4% of Germans are without basic connectivity, whereas 9% of Americans face the same issue. Conversely, the rates of financial exclusion are significantly higher in emerging economies, with 88% of those affected residing in Asia, Africa, and Latin America. Financial inclusion in developing nations presents distinct policy challenges.

Addressing financial inclusion requires a complex approach, as a single policy measure is insufficient. As a result, authorities in emerging countries are systematically implementing a range of remedies tailored to their specific national situations. The diverse socioeconomic, political, and financial settings, as well as institutional support frameworks, push these countries to implement a comprehensive plan to combat financial exclusion. For example, Jordan is utilizing macroeconomic strategies and fostering the growth of interbank bond markets to improve credit accessibility for low-income individuals (Mehra & Iyer, 2024). In contrast, El Salvador is exploring ways for state-owned banks to serve the unbanked population better (Chaia et al., 2009).

Meanwhile, Peru and Indonesia are preparing individuals to utilize existing financial services more efficiently, while Brazil and Egypt are focused on improving the distribution channels for upcoming financial products (World Bank, 2008). A departure from uniform strategies is evident in the emergence of financial inclusion initiatives within developing nations. Many countries are tailoring essential policy frameworks to address their specific requirements. Despite the differences, several approaches have been widely adopted in these regions, including microfinance, technological advancements, the importance of savings, and the recognition of banks' crucial role in enhancing financial inclusion. Banks play a significant role in these initiatives aimed at reducing financial exclusion. Importantly, banks are viewed as the cornerstone of institutions that serve the most economically disadvantaged populations in countries such as Egypt, Indonesia, and India. In India, banks are encouraged to develop their own financial inclusion strategies, although the board must approve these initiatives.

Regulators within the financial system are increasingly acknowledging that addressing financial inclusion is essentially a distribution challenge. As a result, they frequently advocate for the easing of licensing requirements to facilitate the establishment of new branches, enabling banks to extend their services to previously inaccessible areas (Shehab et al., 2024). In the case of Pakistan, the State Bank of Pakistan has revised and liberalized its branch licensing policy, allowing banks to expand their branches while adhering to board policy parameters. Kenya has effectively leveraged regulatory initiatives to promote mobile payments and is further expanding outreach through technological means, such as mobile phones and correspondent services.

The Indian economy has gained significant recognition on the global stage since the early 2000s, driven by consistent and remarkable economic growth. It ranks among the world's leading economies, sustaining an impressive growth rate of approximately 8-9 percent in recent years. In 1990, the foreign exchange reserves were barely sufficient to cover a week's worth of imports; however, they now exceed 400 billion. While per capita income has risen considerably due to this remarkable growth, it is crucial to acknowledge that the secondary and tertiary sectors are the main contributors to this economic success. In contrast, the primary industry, which supports the lives of 65% of the population, has grown at a rate of barely 2% over the last decade. As a result, the benefits of economic progress have not been evenly distributed among diverse elements of society and areas of the country.

Due to the high concentration of people employed in agriculture and related industries, rural areas of India are particularly vulnerable to financial exclusion. Additionally, securing affordable financing is a significant challenge for small and medium-sized business owners (SMEs). Both areas are vital to the economy and have great room for growth. The fact that legislators have recognized these issues is a good step forward. Several initiatives have been launched to facilitate access to low-cost financial services for underserved communities and to stimulate growth in these vital sectors. Banks in India have been issued directions by the Reserve Bank of India (RBI) to promote inclusive growth through financial inclusion. All of these instructions cover:

- Encouraging the establishment of 'No Frills' savings accounts, which feature minimal or no balance requirements and reduced fees for account opening and maintenance.
- Allowing current account holders to self-verify their residences and endorsements, thereby relaxing the 'Know Your Customer (KYC)' criteria for bank account openings, thus enhancing access for underprivileged communities.
- A revolving credit system with a maximum limit of INR 25,000 will be made available at rural and semi-urban bank branches under the new 'General Purpose Credit Cards' (GCC). This would help make credit more accessible to people living in rural areas.
- Advocating for a simplified procedure for the one-time settlement of overdue debts up to INR 25,000, so that borrowers can request new credit following the settlement.
- Permitting banks to work with self-help groups (SHGs), microfinance institutions, and non-governmental organizations (NGOs) to improve "Financial Inclusion."
- Launching financial education and credit counseling pilot programs.

In an effort to achieve "Full Financial Inclusion," the country's financial inclusion policy involved assigning specific areas to banks. This included creating 'No Frills Accounts' and issuing 'GCC' in the identified districts.

Statement of the Problem

To address the imperative of reviving and propelling slow-moving economic development in India, comprehensive reform programs were introduced in two distinct phases. While the first and second-generation reorganizations propelled the Indian economy toward high growth, a notable concern arises from the observation that this growth has not been inclusive. The benefits of these reforms, as highlighted by P. Sing & S. Kour, are predominantly visible in large cities and towns, where urban areas showcase the realities of modernization, including mobile phones, e-commerce, high-end vehicles, fashionable attire, electronic payment methods, and 24-hour banking through ATMs. However, this urban-centric progress has not been evenly distributed across various states and segments of society, contributing to exclusive growth patterns. The apparent failures of second-generation reforms, particularly those affecting the financial sector, in achieving full financial inclusion contribute to this exclusivity. A sizable portion of the population, particularly the disadvantaged, still lacks access to affordable financial services, including credit, insurance, and savings safety nets. Currently, only 59% of adults have bank accounts, leaving 41% without access to modern payment methods, which highlights financial exclusion as a critical socioeconomic challenge in the country. Furthermore, merely 14% of adults have loan accounts, a figure that drops to 9.5% in rural areas, underscoring the severity of the issue within the formal credit system. India, as a developing nation, faces a severe challenge of limited access to affordable credit, particularly in regions such as the state of Tamil Nadu.

Objective of the Study

The primary objective of the study is,

- To assess the extent of Financial Exclusion in the State of Tamil Nadu.
- To isolate the specific factors contributing to the problem of financial exclusion in the State of Tamil Nadu.
- To propose recommendations and procedures to enhance overall Financial Inclusion in the country, with a specific focus on addressing the challenges faced by the State of Tamil Nadu.

II. Review Of Literature

Recent research, particularly regarding Tamil Nadu, has focused on the intersection of financial literacy, infrastructure, and government initiatives on the one hand, and financial inclusion on the other hand. In this respect, (Kulshrestha, 2023). examines the relationship between financial literacy and financial inclusion, showing that only 27% of India's population is financially literate. His findings emphasize the importance of not only financial digital literacy and education accessibility, but also the educational infrastructure for disadvantaged sections of rural Tamil Nadu. This highlights the importance of targeted population education, enabling marginalized sections of the population to access and utilize the benefits of available financial services fully.

Acharya & Erra, 2024. Analyze regional differences in financial inclusivity in India, asserting that geography and infrastructural elements affect accessibility to finance. They conclude that southern states, such as Tamil Nadu, present diverse and economically uneven conditions and infrastructural predicaments, and as such, will need customized spatial policies to achieve financial inclusivity. This research suggests that specific regional and inter-state needs must be addressed to close the disparities present in Tamil Nadu. (Nwagwu, 2020) analyzes panel data on financial inclusivity and socioeconomic variables, focusing on the determinants of regional financial inclusivity in South India. They note that socioeconomic variables such as income, age, and education positively affect financial inclusivity. This impact is attributed to policies such as the Pradhan Mantri Jan Dhan Yojana (PMJDY) scheme (Kar et al., 2025). The data suggests that such policies, which the State of Tamil Nadu highly needs, will be essential in the financial inclusivity agenda and in the development of the State as well.

Verma & Garg, 2016 evaluate the influence of government programs, such as the PMJDY, and conclude that all regions of India, particularly rural Tamil Nadu (which has lower literacy levels), have made significant progress in financial inclusion. This study demonstrates how government schemes, which led to the operation of new bank branches and the extension of banking services, more fundamentally served to lower the literacy barriers and enhance the available financial services in underserved regions. (Souza et al., 2024) explore the impact of limited internet access and expensive telecommunication services on rural areas of India, and how this affects the expansion of digital banking. His emphasis here is on the need for more digital telecommunication services in Tamil Nadu to foster financial inclusion. This state requires improved telecommunication services.

TABLE I KEY STUDIES ON FINANCIAL INCLUSION IN TAMIL NADU AND THEIR IMPLICATIONS

Author(s)	Focus Area	Key Findings	Implications for Tamil Nadu
Kulshrestha, 2023	Financial Literacy and Inclusion	Only 27% of the Indian population is financially literate; education and digital accessibility are critical in rural areas.	There is a need for targeted financial literacy programs in Tamil Nadu, particularly in rural areas.
Acharya & Erra, 2024	Regional Disparities in Financial Inclusion	Geographic and infrastructure factors significantly influence financial access; southern states need tailored policies.	There is a need for spatial policies that address Tamil Nadu's unique challenges to financial inclusion.
Kumar & Pradhan, 2024	Socioeconomic Factors and Financial Inclusion	Factors such as income, age, and education influence inclusion rates; the PMJDY has a positive impact on inclusion in South India.	PMJDY has contributed to improving inclusion in Tamil Nadu; further policy enhancements are needed.
(Verma & Garg, 2016)	Government Initiatives in Financial Inclusion	PMJDY has significantly advanced financial inclusion, even in areas with lower literacy rates.	Government programs, such as PMJDY, have positively impacted financial inclusion in rural Tamil Nadu.
Souza et al., 2024	Digital Infrastructure and Banking	Low internet availability and high telecom costs impede digital banking; improving digital infrastructure is critical.	Enhanced digital infrastructure is necessary to promote digital banking and financial inclusion in rural Tamil Nadu.

Table I highlights essential research concerning financial inclusion in Tamil Nadu. The study considers financial literacy, geographic imbalances, socioeconomic factors, State policy, and digital infrastructure. The authors concluded that there is a need for purposeful action to achieve complete financial inclusion, especially in rural areas of the State.

III. METHODOLOGY

Challenges Associated with Financial Marginalization in Tamil Nadu

The phrase 'financial exclusion' is used in a variety of situations to describe the limited access to affordable financial services for individuals, families, and communities that are traditionally disadvantaged in terms of wealth, education, and geography. The main components of financial isolation are presented in Fig. 1. As previously noted, the State of Tamil Nadu is not immune to this socioeconomic issue. A review of the data reveals that a higher percentage, 54 percent of the state's population, lacks access to any form of financial services compared to other regions. Furthermore, an analysis of the statistics highlights the financial inclusion challenges faced by lower-income households in the state, underscoring their limited access on both the regional and national levels.

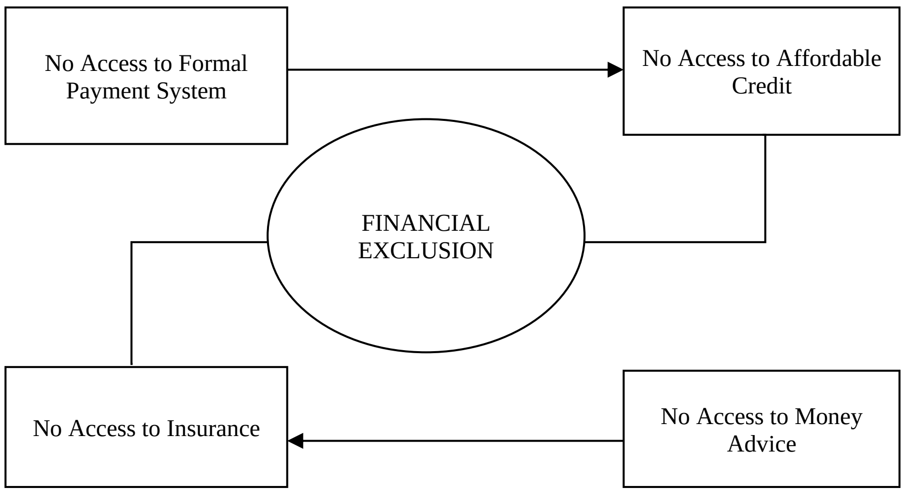

Fig. 1 Components of Financial Inclusion

This study utilized a mixed-methods approach to assess financial inclusion in Tamil Nadu. Questionnaires designed to elicit both qualitative and quantitative responses were the primary means of data collection. To ensure a broad representation of socioeconomic categories, 500 families from both urban and rural areas were surveyed using a stratified random sampling method. The study's intended outcomes, as reported by (Verma & Garg, 2016), included participants' knowledge of programs like the Pradhan Mantri Jan Dhan Yojana (PMJDY), their financial habits, and their ease of access to formal financial services. To enhance our understanding of the financial inclusion environment as a whole, we also conducted interviews with influential community members, lawmakers, and officials from financial institutions. To provide a broader perspective on financial inclusion trends, we also utilized secondary data from government reports and the Reserve Bank of India (RBI). The Statistical Package for the Social Sciences (SPSS) was used to analyze the data. Descriptive statistics, chi-square tests, and regression analysis were employed to investigate the correlation between financial inclusion and socioeconomic characteristics. To analyze the qualitative data, the researchers utilized thematic analysis. This method identified patterns and themes in the interview responses that shed insight into the challenges of financial inclusion and the impact of current policies.

IV. RESULTS AND DISCUSSION

1.1 Evaluation Metrics

The evaluation metrics include the Financial Inclusion Rate, which measures the percentage of households with access to formal financial services; the Digital Literacy Rate, assessing the population's ability to engage with digital financial services; and the Socioeconomic Impact Index, which evaluates how income, education, and occupation influence financial inclusion.

$$\text{Financial Inclusion Rate} = \frac{\text{Households with financial services}}{\text{Total households}} \text{ x } 100 \tag{1}$$

$$\text{Digital Literacy Rate} = \frac{\text{Households with digital skills}}{\text{Total households}} \times 100 \tag{2}$$

$$\text{Impact Index} = \alpha \times \text{Income} + \beta \times \text{Education} + \gamma \times \text{Occupation} \tag{3}$$

$$Microcredit\ Access = \frac{Households\ with\ microcredit}{.Eligible\ households} \tag{4}$$

$$Exclusion\ Rate = \frac{Households\ without\ financial\ services}{Total\ households} \times 100 \quad (5)$$

Fig. 2 Comparison of Financial Inclusion Rates: Rural vs. Urban Households

The differences in financial inclusion rates between Tamil Nadu's urban and rural households are highlighted in Fig. 2 Approximately 75% of residents in urban centers access formal financial services, compared to just 40% in rural areas. This glaring contrast highlights the unbridged financial inclusion gap. This also suggests that rural areas are not as well-equipped financially or economically as urban centers and may lack the financial infrastructure and services that urban areas possess. Such inequalities in financial systems and services necessitate a greater policy focus and increased investment in financial infrastructure to enhance financial education and accessibility in rural communities.

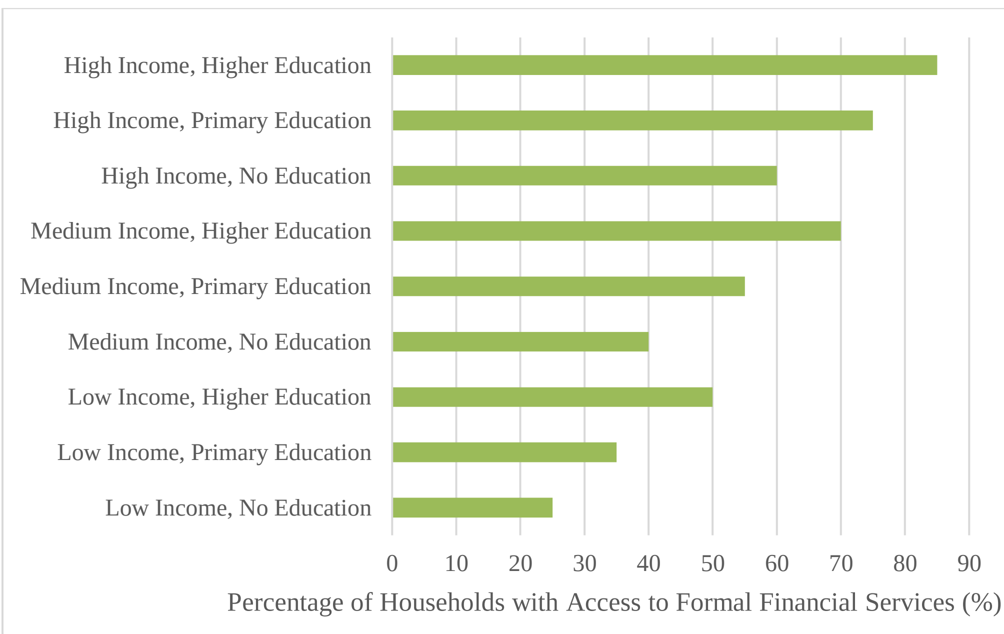

Fig. 3 Impact of Income and Education on Financial Inclusion Rates

Fig. 3 demonstrates the effect of both income and education on financial inclusion. Among low-income households, the impact of lack of education is severe, as only 25% of those with no education opted for any form of financial service. In contrast, for the highly educated, financial service inclusion improved to 50%. Among medium-income households, a similar trend is observed; however, inclusion rates increased from 40% among those with no education to 70% among those with higher educational attainment. Notably, high-income households lacking education still face some barriers, with 60% financial service access, which rises to 85% with higher education. This suggests that financial service inclusion is correlated with income and education, indicating a need for policy action on both fronts.

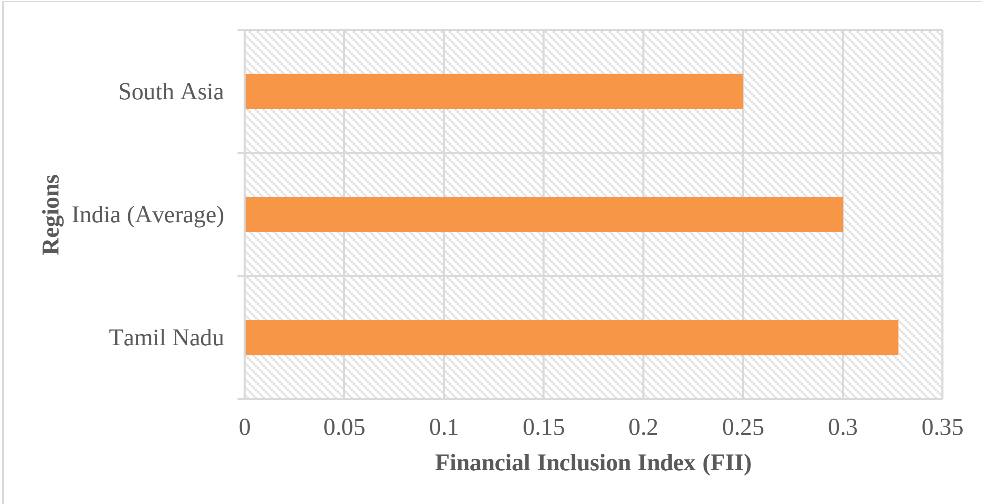

Fig. 4 Comparative Financial Inclusion Trends in Tamil Nadu, India, and South Asia

As illustrated in Fig. 4, Tamil Nadu has a Financial Inclusion Index (FII) of 0.3279, which is above the universal and South Asian averages of 0.3000 and 0.2500, respectively. It may mean that the state has better banking services and/or more accessible financial services. It may serve as a cue that, in the South Asian region, Tamil Nadu is successful in promoting financial inclusion due to its banking services and improvements in financial literacy and banking education. While highlighting Tamil Nadu's achievements in financial inclusion, it is worth noting that, according to averages, the region and the country face substantial challenges to overcome. Financial exclusion remains a significant problem in South Asia, with deep gaps in financial services affecting a considerable portion of the rural population. As the South Indian state demonstrates, best practices should be implemented nationwide to address these shortfalls.

1.2 Statistical Significance

There is a statistically significant difference in financial inclusion across rural and urban households as indicated by ANOVA results ($F(1, 498) = 14.56$, $p < 0.001$). Rural households, however, have a considerably lower likelihood of including formal banking services, as indicated in Fig 2. Regression analysis showed that income ($\beta = 0.45$, $p < 0.001$) and education ($\beta = 0.38$, $p < 0.01$) are substantial predictors of financial inclusion. The positive effect of digital literacy, however, stands out as an even stronger predictor of financial inclusion ($\beta = 0.33$, $p < 0.05$), suggesting that improving digital skills will likely be a crucial factor in closing financial gaps, as indicated in Fig 5.

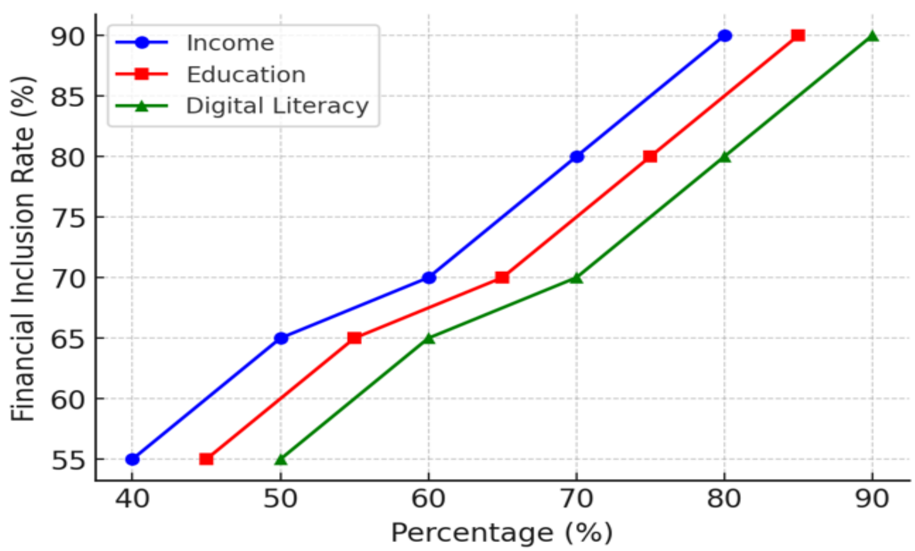

Fig. 5 Impact of Income, Education, and Digital Literacy on Financial Inclusion Rates

Fig. 5 illustrates the impact of income, education, and digital literacy on the rates of financial inclusion. With revenue increases, the incorporation of financial resources also increases, and the highest income brackets appear to have almost complete access to financial services, with a peak reach of 90%. This illustrates how access to financial services becomes more pronounced as income levels increase. In a similar fashion, attained levels of education correlate with increased financial inclusion, although the effect is not as strong as the correlation between education levels. Thus, the value of education in promoting access to financial resources cannot be overstated. Unlike income and education, digital literacy has a somewhat weak relationship with financial inclusion. This suggests that while digital literacy is essential, the more pressing issues are the lack of financial literacy and the inadequacy of digital tools.

V. Discussion

Comprehensive Financial Inclusion Initiatives

The data above highlights that a substantial majority of individuals, particularly those in the agricultural and artisan sectors, are especially in need of affordable bank credit. This limitation obstructs the significant socioeconomic progress of the country's underprivileged communities. Ms. U. Throat has emphasized that individuals in the informal and rural sectors face restricted access to financial services, which impedes their growth potential and hinders overall socioeconomic development. In response, the nation's central bank has taken proactive measures by instructing designated banks across each state and region to implement initiatives initiated by the Reserve Bank of India (RBI) aimed at achieving 'Enhanced Financial Inclusion' within their respective districts and areas. In 2006, the State Level Bankers Committee (SLBC) identified one district in each state as a target for achieving complete financial inclusion.

In comparison to other banks that failed miserably in their attempts to achieve financial inclusion, banks in Tamil Nadu have taken a holistic approach. Multiple critical tactics were implemented to increase the probability of accomplishing their objective of attaining complete financial inclusion. Among these measures was the introduction of "no-frills" accounts, which provided restricted customers with streamlined banking services in an effort to bring them back into the banking savings network. Furthermore, extensive awareness campaigns were initiated in all districts, with the assistance of "Village Level Workers" (VLWs), to mobilize people in various communities. A proactive strategy was taken with failing banks to achieve tangible outcomes, and quarterly DLRC/DCC meetings were convened to monitor the development of financial inclusion. Furthermore, dedicated loan camps were organized, tailored explicitly for farmers, enabling them to access on-the-spot loan sanctioning, thereby fostering financial empowerment in rural areas.

Suggestions for Enhanced Financial Inclusion

The extensive branch network has facilitated achieving a commendable inclusion in the selected district, primarily through the establishment of 'no-frills' accounts, despite the challenges faced by numerous banks in the state in meeting the overall financial inclusion objectives. Conversely, other state banks have struggled to incorporate the financially excluded into the 'Credit Net.' These shortcomings are attributed partly to insufficient efforts and partly to the absence of a comprehensive strategy aimed at integrating financially excluded individuals into the affordable credit framework. Ensuring that those who are financially excluded can access reasonably priced loans to foster their economic development is a fundamental aspect of financial inclusion. Banks in the state should redirect their focus, giving equal. To achieve this objective, the following suggestions are proposed:

To enhance financial inclusion, banks in Tamil Nadu should draw inspiration from successful experiences in other states, where Self-Help Groups (SHGs) have been effectively engaged to bring the financially excluded into the banking network. Training self-help groups (SHGs) in financial planning and management is a critical strategy, as are awareness and education campaigns that stress the benefits of financially included communities. It is moreover essential to encourage SHGs to establish "Micro Credit Plans" (MCPs). Each member of the organization should provide a strategy outlining their expected capital investments, working capital needs for planned economic operations, and social event credit requirements. Group talks can be facilitated by having bank personnel sit in as observers to guarantee that financial objectives are being met. Meetings should be scheduled by the Branch Managers with all members and the group leader to validate the MCP. After that, the MCP should be used to set credit limitations, making sure that they cover everyone's needs. For SHG members to experience sustainable development and more financial inclusion, loans should be customized to meet their unique needs, with competitive interest rates and no collateral requirements.

VI. Conclusions

This study aims to assess the level of financial exclusion in Tamil Nadu, with a focus on the rural-urban divide and the socioeconomic factors influencing financial inclusion. According to the results, the disparity between rural and urban households is significant, particularly since rural populations are comparatively more excluded. Income and education were identified as determinants, as households with more of either are more likely to utilize formal financial services. Digital literacy was another determinant of access and use of financial services. These findings are consistent with the study's objectives, as they illustrate the barriers to economic inclusion and highlight the need for further development in rural and low-income households. Despite the comprehensive nature of the study, some limitations should be acknowledged. The study was limited to 500 households, and while this is a large number in the region, it may not accurately reflect the full socioeconomic diversity of Tamil Nadu.

Additionally, the study was limited to household-level data, which does not capture larger systemic issues, such as regional imbalances, government policies, and the economy. In addition, although the study employed a mixed-methods framework, the potential for bias in self-report data and specific qualitative methods may have influenced the results. Finally, concentrating the survey in Tamil Nadu implies that the findings may not be immediately applicable to other areas of India or to comparable developing countries.

Policy Recommendations

A few key policy recommendations can be made for both policymakers and financial institutions. Firstly, there is a need for improvement in digital infrastructure. The areas of rural Tamil Nadu, for instance, have poor internet connections, which detracts from the full potential of digital banking or other financial services that may be available. Improved mobile banking networks and expanded digital literacy initiatives may also prove valuable. Policymakers can also enhance access to microcredit services targeted at rural and lower-income populations. For individuals at the bottom of the economic spectrum, access to credit and security would be valuable. Collaborative initiatives with financially inclusion-focused grassroots NGOs and Self-Help Groups (SHGs) would also be beneficial. For effective use of formal financial services, low-income and rural populations would also require the provision of targeted financial literacy and outreach programs (Consultative Group to Assist the Poor, 2013).

Future Research Directions

The expansion of studies to encompass the use of mobile banking in enhancing financial inclusion in rural areas is recommended. As studies suggest, the proliferation of mobile phones makes mobile banking an appropriate means to address issues of distance and physical infrastructure, making the focus of inquiry in this area relevant. The effect of government initiatives, particularly the Pradhan Mantri Jan Dhan Yojana (PMJDY), aimed at improving financial education and inclusion in the State of Tamil Nadu, constitutes another area of possible research focus. Moreover, research on the role of digital payment systems and newly developed financial technologies, as well as their effectiveness, is necessary to address financial inclusion among unbanked and underbanked populations. Finally, research on studies within the same nation but different regions create a nuanced understanding of how varying states and socioeconomic contexts shape the effectiveness of financial inclusion policies.

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